

Garrison Capital Inc.  
Form 10-Q  
May 09, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2016

**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 814-00878

**Garrison Capital Inc.**

(Exact name of registrant as specified in its charter)

**Delaware** **90-0900145**  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

**1290 Avenue of the Americas, Suite 914**

**New York, New York 10104**

(Address of principal executive offices)

**(212) 372-9590**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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 ☐

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

As of April 29, 2016 the Registrant had 16,193,592 shares of common stock, \$0.001 par value, outstanding.

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**Garrison Capital Inc. and Subsidiaries****Consolidated Statements of Financial Condition**

(\$ in thousands, except share and per share amounts)

**Part I. Financial Information****Item 1. Financial Statements**

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Cash	\$23,624	\$24,985
Restricted cash	11,874	11,833
Due from counterparties	11,907	1,564
Investments, at fair value		
Non-control/non-affiliate investments (amortized cost of \$436,069 and \$437,053, respectively)	405,554	415,001
Accrued interest receivable	6,175	5,919
Deferred offering costs	503	503
Other assets	348	496
Total assets	\$459,985	\$460,301
Liabilities		
Due to counterparties	\$1,552	\$368
Incentive fee payable	-	-
Management fee payable	1,812	1,828
Administrator fee payable	239	-
GLC Trust 2013-2 Class A note (Note 7)	12,681	15,664
Senior secured revolving note (Note 7)	40,500	35,000
Senior secured term notes (Note 7)	156,565	156,439
SBIC borrowings (Note 7)	25,748	18,546
Interest payable	714	807
Accrued expenses and other payables	987	939

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Total liabilities	\$240,798	\$229,591
Commitments and contingencies (Note 12)		
Net assets		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 16,758,779 shares issued and 16,234,814 shares outstanding as of March 31, 2016 and 100,000,000 shares authorized, 16,758,779 shares issued and 16,507,594 shares outstanding as of December 31, 2015)	\$16	\$17
Paid-in-capital in excess of par	251,098	254,239
Underdistributed net investment income	8,958	8,782
Accumulated net realized (loss) from investments	(10,370 )	(10,275 )
Net unrealized (loss) from investments	(30,515 )	(22,053 )
Total net assets	219,187	230,710
Total liabilities and net assets	\$459,985	\$460,301
Shares of common stock outstanding	16,234,814	16,507,594
Net asset value per share	\$13.50	\$13.98

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****March 31, 2016 (unaudited)****(\$ in thousands, except share amounts)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments				
Investments - United States				
Common Equity				
Apparel Products				
Everyware Global, Inc., Common*	242,035	\$ 2,714	\$ 1,815	0.83 %
Total Apparel Products		2,714	1,815	0.83
Health Services				
Juniper TGX Investment Partners, LLC, Common	3,146	671	1,023	0.46
Total Health Services		671	1,023	0.46
Miscellaneous Manufacturing				
Valterra Products Holdings, LLC, Class A	185,847	186	456	0.21
Valterra Products Holdings, LLC, Class B	20,650	21	51	0.02
Total Miscellaneous Manufacturing		207	507	0.23
Miscellaneous Retail				
Faraday Holdings, LLC, Common	2,265	110	123	0.06
Provo Craft Holdings, LLC, Common	2,436,157	-	-	-
Total Miscellaneous Retail		110	123	0.06
Transportation Services				
EZE Trucking, LLC, Common	2,898	268	-	-
Total Transportation Services		268	-	-
Total Common Equity		\$ 3,970	\$ 3,468	1.58 %
Preferred Equity				
Consumer Finance Services				

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Prosper Marketplace Series B Preferred Stock <sup>(1)(2)</sup>	912,865	\$ 551	\$ 4,236	1.93 %
Total Consumer Finance Services		551	4,236	1.93
Miscellaneous Services				
SC Academy Holdings, Inc., Preferred Equity	25,000	1,250	1,250	0.57
Total Miscellaneous Services		1,250	1,250	0.57
Total Preferred Equity		\$ 1,801	\$ 5,486	2.50 %
Debt Investments				
Agricultural Services				
BFN Operations LLC, Term Loan <sup>*(3)(4)</sup>				
LIBOR ("L") + 10.00% PIK, 1.00% L Floor, 8/31/2016	10,693	\$ 10,339	\$ 4,824	2.20 %
BFN Operations LLC, Term Loan <sup>*(3)</sup>				
L + 8.00% Cash, 4.00% PIK, 1.00% L Floor, 8/31/2016	841	841	841	0.38
Total Agricultural Services		11,180	5,665	2.58
Automotive				
Penda Corporation, Term Loan <sup>(3)</sup>				
14.00% Cash, 2.75% PIK, 1/26/2019	7,561	7,487	7,561	3.45
Total Automotive		7,487	7,561	3.45

*See accompanying notes to consolidated financial statements.*



**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****March 31, 2016 (unaudited)****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Debt Investments (continued)				
Broadcasting & Entertainment				
CF Entertainment Inc. (Entertainment Studios), Term Loan*				
L + 11.00%, 1.00% L Floor, 6/26/2020	10,109	\$ 10,041	\$ 10,042	4.58 %
Sesac Holdco II, LLC, Term Loan (First Lien)*				
L+ 4.25%, 1.00% L Floor, 2/8/2019	1,098	1,095	1,078	0.49
Total Broadcasting & Entertainment		11,136	11,120	5.07
Building & Real Estate				
ShelterLogic Corp., Term Loan*				
L+ 9.50%, 1.00% L Floor, 7/30/2019	10,043	9,909	9,841	4.49
Total Building & Real Estate		9,909	9,841	4.49
Business Services				
Connexity, Inc., Term Loan*				
L+ 10.00%, 1.00% L Floor, 2/13/2020	10,043	9,873	9,873	4.50
Total Business Services		9,873	9,873	4.50
Chemicals				
Aristech Surfaces LLC, Term Loan B*				
L+ 8.00%, 1.00% L Floor, 10/17/2019	10,172	10,046	10,045	4.58
Total Chemicals		10,046	10,045	4.58
Communications				
HC Cable OpCo, LLC, Term Loan*				
L+ 8.50%, 1.00% L Floor, 7/17/2018	10,732	10,646	10,732	4.90
Sirva Worldwide, Loan*				
L+ 6.25%, 1.25% L Floor, 3/27/2019	8,090	8,071	7,645	3.49
TableTop Media, LLC, Lease**				

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10.00%, 10/15/2019	5,398	5,385	5,388	2.46
U.S. Telepacific Corp., Term Loan*				
L+ 5.00%,1.00% L Floor, 11/25/2020	1,990	1,979	1,885	0.86
Total Communications		26,081	25,650	11.71
Computer Programming, Data Processing, & Other Computer Related Services				
Emtec Global Services Holdings, LLC, Term Loan**				
L+ 8.25%, 0.43%, 11/30/2020	2,817	2,781	2,781	1.27
Emtec Global Services Holdings, LLC, Revolver				
L+ 8.25%, 0.44%, 11/30/2020	98	98	97	0.04
Total Computer Programming, Data Processing, & Other Computer Related Services		2,879	2,878	1.31
Consumer Finance Services				
Affiliated Wealth Partners Holdings LLC, Term Loan <sup>(1)</sup>				
L+ 8.00%,1.00% L Floor, 9/15/2020	4,054	4,000	4,000	1.83
PlanMember Financial Corporation, Term Loan <sup>(1)</sup>				
L+ 6.50%,1.50% L Floor, 12/31/2020	1,226	1,207	1,226	0.56
Project Sunshine IV Pty Ltd (Sensis), New Term Loans <sup>(1)</sup>				
L+ 7.00%,1.00% L Floor, 9/23/2019	2,963	2,827	2,785	1.27
Project Sunshine IV Pty Ltd (Sensis), New Term Loans <sup>(1)</sup>				
L+ 7.00%,1.00% L Floor, 9/23/2019	5,489	5,456	5,159	2.35
Total Consumer Finance Services		13,490	13,170	6.01
Cosmetics/Toiletries				
ActivStyle, Inc., Term Loan**				
L+ 9.00%, 0.50% L Floor, 7/9/2020	10,043	9,892	9,892	4.51
Total Cosmetics/Toiletries		9,892	9,892	4.51
Electrical Equipment				
AbelConn, LLC (Atrenne Computing), Term Loan*				
L+ 8.50%,1.00% L Floor, 7/17/2019	10,328	10,192	10,192	4.65
Otter Products, LLC (OtterBox Holdings, Inc.), Term B Loan*				
L+ 4.75%,1.00% L Floor, 6/3/2020	2,000	1,959	1,720	0.78
Total Electrical Equipment		12,151	11,912	5.43
Equipment Rental & Leasing				
University Furnishings, L.P., Term Loan B**				
L+ 6.75%, 0.50% L Floor, 12/17/2020	7,102	6,987	6,968	3.18
Total Equipment Rental & Leasing		6,987	6,968	3.18
Food Stores - Retail				
Specialty Bakers LLC, Term Loan*				
L+ 7.50%,1.00% L Floor, 8/7/2019	9,985	9,840	9,863	4.50
Total Food Stores - Retail		9,840	9,863	4.50

See accompanying notes to consolidated financial statements.



**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****March 31, 2016 (unaudited)****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Debt Investments (continued)				
Health Services				
Aurora Diagnostics, LLC, Delayed Draw Term Loan*				
L+ 7.13%, 1.25% L Floor, 7/31/2019	850	\$846	\$846	0.39 %
Aurora Diagnostics, LLC, Delayed Draw Term Loan B*				
L+ 7.13%, 1.25% L Floor, 7/31/2019	598	598	594	0.27
Aurora Diagnostics, LLC, Term Loan*				
L+ 7.13%, 1.25% L Floor, 7/31/2019	5,557	5,518	5,518	2.51
Forest Park Medical Center at Fort Worth, LLC, Lease <sup>(4)</sup>				
13.00%, 2/11/2020	9,246	9,114	3,986	1.82
Forest Park Medical Center at Fort Worth, LLC, Term Loan <sup>(4)</sup>				
14.00%, on Demand	344	337	148	0.07
Forest Park Medical Center at San Antonio, LLC, Lease <sup>(4)</sup>				
13.00%, 2/11/2020	8,982	8,832	4,268	1.95
Forest Park Medical Center at San Antonio, LLC, Term Loan <sup>(4)</sup>				
14.00%, on Demand	1,951	1,914	927	0.42
SCG Capital Corporation (Radiation Therapy), Term Note				
12.00%, 5/1/2017	2,979	2,979	2,979	1.36
Theragenics Corporation, Term Loan**				
L+ 12.00%, 1.00% L Floor, 12/23/2020	6,241	6,139	6,116	2.78
Walnut Hill Physicians' Hospital, LLC, Lease				
12.50%, 4/30/2019	7,231	7,231	7,231	3.31
Total Health Services		43,508	32,613	14.88
Insurance Agents				
Worley Claims Services, LLC, Term Loan*				
L+ 8.00%, 1.00% L Floor, 10/31/2020	10,369	10,303	10,290	4.69

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Total Insurance Agents	10,303	10,290	4.69
Metal Mining			
Metal Services LLC (Phoenix), New Term Loans*			
L+ 5.00%, 1.00% L Floor, 6/30/2017	1,990	1,949	1,888 0.86
Total Metal Mining		1,949	1,888 0.86
Miscellaneous Manufacturing			
AP Gaming I, LLC, Term B Loan*			
L+ 8.25%, 1.00% L Floor, 12/21/2020	10,196	10,053	9,360 4.27
A.S.V., Inc., Term Loan*			
L+ 11.00%, 0.50% L Floor, 12/19/2019	8,070	7,950	7,950 3.63
CR Brands, Inc., Term Loan*			
L+ 9.25%, 1.00% L Floor, 8/23/2017	10,231	10,147	10,137 4.62
Gardner Denver, Inc., Initial Dollar Term Loan*			
L+ 3.25%, 1.00% L Floor, 7/30/2020	1,990	1,881	1,811 0.83
Kranos Acquisition Corp., Term Loan*			
L+ 11.00%, 1.00% L Floor, 6/15/2017	9,081	9,035	9,046 4.13
Lexmark Carpet Mills, Inc., Term Loan*			
L+ 10.00%, 1.00% L Floor, 12/19/2019	9,971	9,786	9,786 4.45
PCCR USA, Inc., Term Loan A*			
L+ 8.00%, 1.00% L Floor, 12/1/2019	6,781	6,682	6,682 3.05
PCCR USA, Inc., Term Loan B*			
L+ 8.00%, 1.00% L Floor, 12/1/2019	3,391	3,329	3,329 1.52
Pelican Products, Inc., Term Loan*			
L+ 4.25%, 1.00% L Floor, 4/10/2020	1,950	1,933	1,739 0.79
Profusion Industries, LLC, Term Loan*			
L+ 9.00%, 0.50% L Floor, 6/19/2020	10,171	10,000	10,000 4.56
Texas Hydraulics Holding, Inc., Term Loan**			
Prime Rate ("P") + 5.50%, 3.50% P, 2/17/2021	8,200	8,040	8,040 3.67
Total Miscellaneous Manufacturing		78,836	77,880 35.52

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****March 31, 2016 (unaudited)****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Debt Investments (continued)				
Miscellaneous Retail				
360 Holdings III Corp., Term Loan*				
L+ 9.00%, 1.00% L Floor, 10/1/2021	7,363	\$7,083	\$7,082	3.23 %
Confluence Outdoor, LLC, Term Loan*				
L+ 7.00%, 1.00% L Floor, 4/18/2019	6,657	6,586	6,586	3.00
Confluence Outdoor, LLC, Delayed Draw Term Loan				
L+ 7.00%, 1.00% L Floor, 4/18/2019	999	988	988	0.45
HRI Holding Corp. (Houlihan's Restaurants), Term Loan*				
L+ 6.25%, 1.00% L Floor, 12/17/2020	6,800	6,666	6,667	3.04
Interior Specialists, Inc., Term Loan*				
L+ 8.00%, 1.00% L Floor, 6/30/2020	10,196	10,023	10,023	4.58
PD Products, LLC, Term Loan*				
L+ 10.50%, 1.50% L Floor, 10/4/2018	9,511	9,418	9,511	4.34
PD Products, LLC, Revolver				
L+ 10.50%, 1.50% L Floor, 10/4/2018	344	344	344	0.16
Sears Holdings Corporation, Term Loan*				
L+ 7.50%, 1.00% L Floor, 7/20/2020	1,600	1,552	1,552	0.71
Total Miscellaneous Retail		42,660	42,753	19.51
Miscellaneous Services				
Simmons Research LLC, Term Loan*				
L+ 10.50%, 0.69% L, 12/11/2020	3,909	3,836	3,836	1.75
Speed Commerce, Inc., Term Loan <sup>(4)</sup>				
P+ 13.00%, 3.50% P, 11/21/2019	13,226	13,074	1,985	0.91
Speed Commerce, Inc., Protective Advance				
P+ 13.00%, 3.50% P, 11/21/2019	389	389	389	0.18
Sprint Industrial Holdings, LLC, Term Loan (First Lien)*				

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L+ 5.75%,1.25% L Floor, 5/14/2019	4,811	4,792	3,536	1.61
YourMembership Holding Company, Term Loan A**				
L+ 7.00%,1.00% L Floor, 9/12/2019	10,029	9,970	9,957	4.54
Total Miscellaneous Services		32,061	19,703	8.99
Nonferrous Metal/Minerals				
NN, Inc., Initial Term Loan*				
L+ 4.75%,1.00% L Floor, 10/19/2022	1,990	1,972	1,960	0.89
Total Nonferrous Metal/Minerals		1,972	1,960	0.89
Oil & Gas				
Badlands Production Company (fka Gasco) , Term Loan*				
L+ 17.50%,1.00% L Floor, 5/14/2018	10,500	10,350	9,975	4.55
Iracore International Holdings, Inc., Term Loan*				
L+ 9.00%,1.00% L Floor, 7/10/2020	8,878	8,764	8,211	3.75
Rooster Energy Ltd., Term Loan*(3)				
L+ 13.00% Cash, 8.00% PIK,1.50%, L Floor, 6/25/2018	5,563	5,500	5,285	2.41
Total Oil & Gas		24,614	23,471	10.71
Printing & Publishing				
Dodge Data & Analytics LLC, Term Loan*				
L+ 8.75%,1.00% L Floor, 10/31/2019	9,220	9,088	9,088	4.15
Total Printing & Publishing		9,088	9,088	4.15

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****March 31, 2016 (unaudited)****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets	
Non-Control/Non-Affiliate Investments (continued)					
Investments - United States (continued)					
Debt Investments (continued)					
Specialty Services					
Vistronix, LLC, Term Loan*					
L+ 8.50%, 0.50% L Floor, 12/4/2018	9,383	\$9,332	\$9,332	4.25	%
Vistronix, LLC, Revolver					
L+ 8.50%, 0.50% L Floor, 12/4/2018	875	875	870	0.40	
Total Specialty Services		10,207	10,202	4.65	
Transportation Services					
Fleetgistics Holdings, Inc., Term Loan*					
L+ 6.13%, 2.00% L Floor, 12/31/2018	983	983	884	0.40	
Gruden Acquisition, Inc., Term Loan (First Lien)*					
L+ 4.75%, 1.00% L Floor, 8/18/2022	1,995	1,958	1,724	0.80	
MXD Group, Inc. (fka Exel Direct Inc.), Term Loan*(3)					
L+ 5.00% Cash, 8.00% PIK, 1.00% L Floor, 5/31/2018	14,614	14,498	13,884	6.35	
Raymond Express International, LLC, Term Loan*					
L+ 7.75%, 1.75% L Floor, 2/28/2018	1,695	1,688	1,610	0.73	
Total Transportation Services		19,127	18,102	8.28	
Total Debt Investments		\$ 415,276	\$ 382,388	174.45	%
Financial Assets					
Consumer Finance Services					
GLC Trust 2013-2 Consumer Loan Pool <sup>(1)(5)</sup>	15,089	\$ 15,089	\$ 14,245	6.50	%
Total Consumer Finance Services		15,089	14,245	6.50	
Total Financial Assets		\$ 15,089	14,245	6.50	%



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Unfunded Commitments

Communications

HC Cable OpCo, LLC, Revolver

0.50%, 7/17/2018

955 \$ (8 ) \$ - - %

Total Communications

(8 ) - -

Computer Programming, Data Processing, & Other Computer Related Services

Emtec Global Services Holdings, LLC, Revolver<sup>(6)</sup>

0.00%, 11/30/2020

360 (6 ) (6 ) -

Emtec Global Services Holdings, LLC, Delayed Draw Term

Loan<sup>(6)</sup>

0.00%, 11/30/2020

271 (3 ) (3 ) -

Total Computer Programming, Data Processing, & Other

Computer Related Services

(9 ) (9 ) -

Health Services

Aurora Diagnostics, LLC, Delayed Draw Term Loan B<sup>(6)</sup>

2.25%, 7/31/2019

1,795 (18 ) (14 ) (0.01 )

Aurora Diagnostics, LLC, Revolver<sup>(6)</sup>

0.38%, 7/31/2019

1,020 (7 ) (7 ) -

Total Health Services

(25 ) (21 ) (0.01 )

Miscellaneous Retail

PD Products, LLC, Revolver

0.50%, 10/4/2018

1,296 (16 ) - -

Total Miscellaneous Retail

(16 ) - -

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****March 31, 2016 (unaudited)****(in thousands)**

Security Description	Par / Shares	Cost	% of Net		
			Fair Value	Assets	
Non-Control/Non-Affiliate Investments (continued)					
Investments - United States (continued)					
Unfunded Commitments (continued)					
Miscellaneous Services					
YourMembership Holding Company, Revolver <sup>(6)</sup>					
L + 0.00%, 9/12/2019	441	\$(3	) \$(3	) -	%
Total Miscellaneous Services		(3	) (3	) -	
Specialty Services					
Vistronix, LLC, Revolver					
0.50%, 12/4/2018	-	(5	) -	-	
Total Specialty Services		(5	) -	-	
Transportation Services					
Raymond Express International, LLC, Revolver					
0.50%, 2/28/2018	215	(1	) -	-	
Total Transportation Services		(1	) -	-	
Total Unfunded Commitments		\$(67	) \$(33	) (0.01	)%
Total Non-Control/Non-Affiliate Investments		\$436,069	\$405,554	185.02	%

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\* Denotes that all or a portion of the investment is held as collateral by the CLO (see Note 7).

\*\* Denotes that all or a portion of the loan is held by Garrison SBIC.

L = London Interbank Offered Rate.

P = Prime Rate

Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire

- (1) any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

Net of incentive fee payable to a third party equal to 20% of any distribution after the Company has received its

- (2) full net capital investment plus a 12% preferred return in GLC Trust 2013-2 and Prosper Marketplace Series B Preferred Stock.

- (3) Coupon is payable in cash, and/or payment-in-kind ("PIK"), or a combination thereof.

- (4) Investment is currently not income producing and placed on non-accrual status.

GLC Trust 2013-2 includes 2,373 small balance consumer loans with an average par of \$6,359, a weighted average rate of 15.6% and a weighted average maturity of June 15, 2018. See Note 4 for additional information.

- (5) See Exhibit 99.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 for detail on underlying loans.

- (6) The negative fair value is the result of the unfunded commitments being valued below par. These amounts may or may not be funded to the borrowing party currently or in the future.

All debt investments were income producing as of March 31, 2016, unless otherwise noted. Common and preferred equity investments are non income-producing unless otherwise noted.

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2015****(in thousands, except share amounts)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments				
Investments - United States				
Common Equity				
Apparel Products				
Everyware Global, Inc., Common	242,035	\$2,714	\$1,815	0.78 %
Total Apparel Products		2,714	1,815	0.78
Health Services				
Juniper TGX Investment Partners, LLC, Common	3,146	671	1,023	0.44
Total Health Services		671	1,023	0.44
Miscellaneous Manufacturing				
Valterra Products Holdings, LLC, Class A	185,847	186	456	0.21
Valterra Products Holdings, LLC, Class B	20,650	21	51	0.02
Total Miscellaneous Manufacturing		207	507	0.23
Miscellaneous Retail				
Faraday Holdings, LLC, Common	2,265	110	123	0.05
Provo Craft Holdings, LLC, Common	2,436,157	-	-	-
Total Miscellaneous Retail		110	123	0.05
Transportation Services				
EZE Trucking, LLC, Common	2,898	268	-	-
Total Transportation Services		268	-	-
Total Common Equity		\$3,970	\$3,468	1.50 %
Preferred Equity				
Consumer Finance Services				
Prosper Marketplace Series B Preferred Stock <sup>(1)(2)</sup>	182,573	\$551	\$4,236	1.84 %

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Total Consumer Finance Services		551	4,236	1.84
Miscellaneous Services				
SC Academy Holdings, Inc., Preferred Equity	25,000	1,250	1,250	0.54
Total Miscellaneous Services		1,250	1,250	0.54
Total Preferred Equity		\$ 1,801	\$ 5,486	2.38 %
Debt Investments				
Agricultural Services				
BFN Operations LLC , Term Loan <sup>(4)</sup>				
LIBOR ("L") + 10.00%, 1.00% Floor, 12/29/2017	10,500	\$ 10,339	\$ 5,040	2.18 %
Total Agricultural Services		10,339	5,040	2.18
Automotive				
Penda Corporation, Term Loan <sup>(3)</sup>				
14.00% Cash, 2.00% PIK, 1/26/2019	7,512	7,431	7,512	3.26
Total Automotive		7,431	7,512	3.26

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2015****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Debt Investments (continued)				
Broadcasting & Entertainment				
CF Entertainment Inc. (Entertainment Studios), Term Loan*				
L + 11.00%, 1.00% L Floor, 6/26/2020	10,135	\$10,063	\$10,063	4.36 %
Sesac Holdco II, LLC, Term Loan (First Lien)*				
L+ 4.25%, 1.00% L Floor, 2/8/2019	1,100	1,098	1,082	0.47
Total Broadcasting & Entertainment		11,161	11,145	4.83
Building & Real Estate				
ShelterLogic Corp., Term Loan*				
L+ 9.50%, 1.00% L Floor, 7/30/2019	10,106	9,962	9,961	4.32
Total Building & Real Estate		9,962	9,961	4.32
Business Services				
Connexity, Inc., Term Loan*				
L+ 10.00%, 1.00% L Floor, 2/13/2020	10,171	9,989	9,988	4.33
Total Business Services		9,989	9,988	4.33
Chemicals				
Aristech Surfaces LLC, Term Loan B*				
L+ 8.00%, 1.00% L Floor, 10/17/2019	10,238	10,102	10,101	4.38
Total Chemicals		10,102	10,101	4.38
Communications				
HC Cable OpCo, LLC, Term Loan*				
L+ 8.50%, 1.00% L Floor, 7/17/2018	10,760	10,665	10,760	4.66
Sirva Worldwide, Loan*				

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L+ 6.25%,1.25% L Floor, 3/27/2019	8,090	8,069	7,807	3.38
TableTop Media, LLC, Lease**				
10.00%, 10/15/2019	5,729	5,716	5,718	2.48
U.S. Telepacific Corp., Term Loan*				
L+ 5.00%,1.00% L Floor, 11/25/2020	1,995	1,983	1,898	0.83
Total Communications		26,433	26,183	11.35
Consumer Finance Services				
Affiliated Wealth Partners Holdings LLC, Term Loan*				
L+ 8.00%,1.00% L Floor, 9/15/2020	4,236	4,177	4,177	1.81
PlanMember Financial Corporation, Term Loan*(1)				
L+ 6.50%,1.50% L Floor, 12/31/2020	1,245	1,231	1,245	0.54
Project Sunshine IV Pty Ltd (Sensis), New Term Loans*(1)				
L+ 7.00%,1.00% L Floor, 9/23/2019	3,000	2,853	2,850	1.24
Project Sunshine IV Pty Ltd (Sensis), New Term Loans*(1)				
L+ 7.00%,1.00% L Floor, 9/23/2019	6,627	6,584	6,296	2.73
Total Consumer Finance Services		14,845	14,568	6.32
Computer Programming, Data Processing, & Other Computer Related Services				
Emtec Global Services Holdings, LLC, Term Loan**				
L+ 8.25%, 0.25% L Floor 11/30/2020	2,834	2,797	2,797	1.21
Emtec Global Services Holdings, LLC, Revolver				
L+ 8.25%, 0.25% L Floor 11/30/2020	131	131	129	0.06
Total Computer Programming, Data Processing, & Other Computer Related Services		2,928	2,926	1.27
Cosmetics/Toiletries				
ActivStyle, Inc., Term Loan**				
L+ 9.00%, 0.50% L Floor, 7/9/2020	10,171	10,010	10,010	4.34
Total Cosmetics/Toiletries		10,010	10,010	4.34
Electrical Equipment				
AbelConn, LLC (Atrenne Computing), Term Loan*				
L+ 8.50%,1.00% L Floor, 7/17/2019	10,375	10,228	10,228	4.43
Otter Products, LLC (OtterBox Holdings, Inc.), Term B Loan*				
L+ 4.75%,1.00% L Floor, 6/3/2020	2,000	1,957	1,908	0.83
Total Electrical Equipment		12,185	12,136	5.26
Equipment Rental & Leasing, Not Elsewhere Classified				
University Furnishings, L.P., Term Loan B**				
L+ 6.75%, 0.50% L Floor, 12/17/2020	7,102	6,985	6,961	3.02
Total Equipment Rental & Leasing, Not Elsewhere Classified		6,985	6,961	3.02
Food Stores - Retail				
Specialty Bakers LLC, Term Loan*				
L+ 7.25%,1.00% L Floor, 8/7/2019	9,435	9,290	9,290	4.03
Total Food Stores - Retail		9,290	9,290	4.03

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2015****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Debt Investments (continued)				
Health Services				
Aurora Diagnostics, LLC, Delayed Draw Term Loan L+ 7.13%, 1.25% L Floor, 7/31/2019	850	\$846	\$846	0.37 %
Aurora Diagnostics, LLC, Term Loan* L+ 7.13%, 1.25% L Floor, 7/31/2019	5,574	5,532	5,532	2.40
eResearchTechnology, Inc., Term Loan* L+ 4.50%, 1.00% L Floor, 5/8/2022	1,995	1,980	1,952	0.85
Forest Park Medical Center at Fort Worth, LLC, Lease <sup>(4)</sup> 13.00%, 2/11/2020	9,246	9,114	7,397	3.21
Forest Park Medical Center at Fort Worth, LLC, Term Loan <sup>(4)</sup> 14.00%, on Demand	344	337	276	0.12
Forest Park Medical Center at San Antonio, LLC, Lease <sup>(4)</sup> 13.00%, 2/11/2020	8,982	8,832	5,636	2.44
Forest Park Medical Center at San Antonio, LLC, Term Loan <sup>(4)</sup> 14.00%, on Demand	1,951	1,914	1,224	0.53
SCG Capital Corporation (Radiation Therapy), Term Note 12.00%, 5/1/2017	3,656	3,656	3,656	1.58
Theragenics Corporation, Term Loan** L+ 12.00%, 1.00% L Floor, 12/23/2020	6,324	6,216	6,233	2.70
Walnut Hill Physicians' Hospital, LLC, Lease 12.50%, 4/30/2019	7,725	7,725	7,725	3.35
Total Health Services		46,152	40,477	17.55
Insurance Agents				
Worley Claims Services, LLC, Term Loan* L+ 8.00%, 1.00% L Floor, 10/31/2020	10,395	10,325	10,311	4.47



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Total Insurance Agents	10,325	10,311	4.47
<b>Metal Mining</b>			
Metal Services LLC (Phoenix), New Term Loans*			
L+ 5.00%,1.00% L Floor, 6/30/2017	1,995	1,946	1,761 0.76
Total Metal Mining		1,946	1,761 0.76
<b>Miscellaneous Manufacturing</b>			
AP Gaming I, LLC, Term B Loan*			
L+ 8.25%,1.00% L Floor, 12/21/2020	10,222	10,071	9,826 4.26
A.S.V., Inc., Term Loan*			
L+ 9.50%,1.00% L Floor, 12/19/2019	9,138	8,993	8,993 3.90
CR Brands, Inc., Term Loan*			
L+ 9.25%,1.00% L Floor, 8/23/2017	10,500	10,398	10,386 4.50
Gardner Denver, Inc., Initial Dollar Term Loan*			
L+ 3.25%,1.00% L Floor, 7/30/2020	1,995	1,879	1,797 0.78
Kranos Acquisition Corp., Term Loan <sup>(3)</sup>			
L+ 10.00% Cash,1.00% L Floor, 6/15/2017	9,338	9,282	9,295 4.03
Lexmark Carpet Mills, Inc., Term Loan*			
L+ 10.00%,1.00% L Floor, 12/19/2019	10,500	10,292	10,292 4.46
Pelican Products, Inc., Term Loan*			
L+ 4.25%,1.00% L Floor, 4/10/2020	1,995	1,976	1,955 0.85
PCCR USA, Inc., Term Loan A*			
L+ 8.00%,1.00% L Floor, 12/1/2019	6,825	6,718	6,718 2.91
PCCR USA, Inc., Term Loan B*			
L+ 8.00%,1.00% L Floor, 12/1/2019	3,413	3,346	3,346 1.45
Profusion Industries, LLC, Term Loan*			
L+ 9.00%,0.50% L Floor, 6/19/2020	10,300	10,116	10,116 4.38
Total Miscellaneous Manufacturing		73,071	72,724 31.52

See accompanying notes to consolidated financial statements.

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2015****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Debt Investments (continued)				
Miscellaneous Retail				
360 Holdings III Corp., Term Loan*				
Prime Rate ("P") + 8.00%, 3.50% P, 10/1/2021	7,382	\$7,088	\$7,087	3.07 %
Confluence Outdoor, LLC, Term Loan*				
L+ 7.00%, 1.00% L Floor, 4/18/2019	6,657	6,580	6,580	2.85
Confluence Outdoor, LLC, Delayed Draw Term Loan				
L+ 7.00%, 1.00% L Floor, 4/18/2019	999	987	987	0.43
Interior Specialists, Inc., Term Loan*				
L+ 8.00%, 1.00% L Floor, 6/30/2020	10,248	10,064	10,064	4.37
PD Products, LLC, Term Loan <sup>(3)</sup>				
L+ 10.50%, 1.50% L Floor, 10/4/2018	9,644	9,540	9,644	4.18
PD Products, LLC, Revolver				
L+ 10.50%, 1.50% L Floor, 10/4/2018	673	673	673	0.29
Total Miscellaneous Retail		34,932	35,035	15.19
Miscellaneous Services				
Simmons Research LLC, Term Loan*				
L+ 10.50%, 0.56% L, 12/11/2020	3,959	3,880	3,880	1.68
Speed Commerce, Inc., Term Loan <sup>(4)</sup>				
P+ 13.00%, 3.50% P, 11/21/2019	13,226	13,063	3,254	1.41
Sprint Industrial Holdings, LLC, Term Loan (First Lien)*				
L+ 5.75%, 1.25% L Floor, 5/14/2019	4,824	4,802	4,028	1.75
YourMembership Holding Company, Term Loan A**				
L+ 7.00%, 1.00% L Floor, 9/12/2019	10,056	9,992	9,978	4.32
Total Miscellaneous Services		31,737	21,140	9.16

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Nonferrous Metal/Minerals

NN, Inc., Initial Term Loan\*

L+ 4.75%,1.00% L Floor, 10/19/2022

1,995 1,976 1,968 0.85

Total Nonferrous Metal/Minerals

1,976 1,968 0.85

Oil & Gas

Badlands Production Company (fka Gasco) , Term Loan\*

L+ 12.50%,1.00% L Floor, 5/14/2018

10,500 10,332 9,975 4.32

Rooster Energy Ltd., Term Loan\*

L+ 11.50%,1.50% L Floor, 6/25/2018

5,938 5,863 5,641 2.44

Iracore International Holdings, Inc., Term Loan\*

L+ 9.00%,1.00% L Floor, 7/10/2020

8,878 8,757 8,433 3.66

Total Oil & Gas

24,952 24,049 10.42

Printing & Publishing

Dodge Data & Analytics LLC, Term Loan\*

L+ 8.75%,1.00% L Floor, 10/31/2019

9,286 9,143 9,143 3.96

Total Printing & Publishing

9,143 9,143 3.96

Retail-Building Materials, Hardware, Garden Supply & Mobile Home Dealers

Builders FirstSource, Inc., Initial Term Loan\*

L+ 5.00%,1.00% L Floor, 7/31/2022

1,995 1,986 1,967 0.85

Total Retail-Building Materials, Hardware, Garden Supply & Mobile

1,986 1,967 0.85

Home Dealers

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2015****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Debt Investments (continued)				
Specialty Services				
Vencore, Inc. (fka The SI Organization, Inc.), Initial Term Loan (First Lien)*				
L+ 4.75%, 1.00% L Floor, 11/23/2019	1,995	\$1,995	\$1,982	0.86 %
Vistronix, LLC, Term Loan*				
L+ 8.50%, 0.50% L Floor, 12/4/2018	9,510	9,453	9,453	4.09
Vistronix, LLC, Revolver				
L+ 8.50%, 0.50% L Floor, 12/4/2018	560	560	557	0.24
USAGM Holdco, LLC, Initial Term Loan (First Lien)*				
L+ 3.75%, 1.00% L Floor, 7/28/2022	2,000	1,951	1,908	0.83
Total Specialty Services		13,959	13,900	6.02
Stone, Clay, Glass, & Concrete Products				
Stardust Finance Holdings, Inc., Term Loan*				
L+ 5.50%, 1.00% L Floor, 3/13/2022	1,995	1,973	1,928	0.84
Total Stone, Clay, Glass, & Concrete Products		1,973	1,928	0.84
Transportation Services				
Gruden Acquisition, Inc., Term Loan (First Lien)*				
L+ 4.75%, 1.00% L Floor, 8/18/2022	2,000	1,961	1,908	0.83
Fleetgistics Holdings, Inc., Term Loan*				
L+ 6.13%, 2.00% L Floor, 12/31/2018	1,002	1,002	902	0.39
MXD Group, Inc. (fka Exel Direct Inc.), Term Loan*(3)				
L+ 3.00% Cash, 10.00% PIK, 1.00% L Floor, 5/31/2018	14,322	14,205	13,606	5.89
Raymond Express International, LLC, Term Loan*				
L+ 7.75%, 1.75% L Floor, 2/28/2018	1,695	1,687	1,695	0.73
Total Transportation Services		18,855	18,111	7.84

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Total Debt Investments		\$412,667	\$388,335	168.32	%
Financial Assets					
Consumer Finance Services					
GLC Trust 2013-2 Consumer Loan Pool <sup>(1)(5)</sup>	18,688	\$18,688	\$17,754	7.70	%
Total Consumer Finance Services		18,688	17,754	7.70	
Total Financial Assets		\$18,688	\$17,754	7.70	%
Unfunded Commitments					
Communications					
HC Cable OpCo, LLC, Revolver <sup>(6)</sup>					
0.50%, 7/17/2018	955	\$(8	) \$-	-	%
Total Communications		(8	) -	-	
Computer Programming, Data Processing, & Other Computer Related Services					
Emtec Global Services Holdings, LLC, Revolver <sup>(6)</sup>					
0.00%, 11/30/2020	327	(6	) (5	) -	
Emtec Global Services Holdings, LLC, Delayed Draw Term Loan <sup>(6)</sup>					
0.00%, 11/30/2020	271	(4	) (4	) -	
Total Computer Programming, Data Processing, & Other Computer Related Services		(10	) (9	) -	
Health Services					
Aurora Diagnostics, LLC, Delayed Draw Term Loan B <sup>(6)</sup>					
2.25%, 7/31/2019	2,393	(20	) (20	) (0.01	)
Aurora Diagnostics, LLC, Revolver <sup>(6)</sup>					
0.38%, 7/31/2019	1,020	(8	) (8	) -	
Total Health Services		(28	) (28	) (0.01	)
Miscellaneous Retail					
PD Products, LLC, Revolver <sup>(6)</sup>					
0.50%, 10/4/2018	968	(18	) -	(0.01	)
Total Miscellaneous Retail		(18	) -	(0.01	)

See accompanying notes to consolidated financial statements.

**Garrison Capital Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2015****(in thousands)**

Security Description	Par / Shares	Cost	Fair Value	% of Net Assets
Non-Control/Non-Affiliate Investments (continued)				
Investments - United States (continued)				
Unfunded Commitments (continued)				
Miscellaneous Services				
YourMembership Holding Company, Revolver <sup>(6)</sup>				
L + 0.00%, 9/12/2019	441	\$(3	) \$(3	) - %
Total Miscellaneous Services		(3	) (3	) -
Specialty Services				
Vistrionix, LLC, Revolver <sup>(6)</sup>				
0.50%, 12/4/2018	315	(5	) (2	) -
Total Specialty Services		(5	) (2	) -
Transportation Services				
Raymond Express International, LLC, Revolver				
0.50%, 2/28/2018	215	(1	) -	-
Total Transportation Services		(1	) -	-
Total Unfunded Commitments		\$(73	) \$(42	) (0.02 )%
Total Non-Control/Non-Affiliate Investments		\$437,053	\$415,001	179.88%

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\* Denotes that all or a portion of the investment is held as collateral by the CLO (see Note 7).

\*\* Denotes that all or a portion of the loan is held by Garrison SBIC.

L = London Interbank Offered Rate.

P = Prime Rate

Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire

- (1) any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

Net of incentive fee payable to a third party equal to 20% of any distribution after the Company has received its

- (2) full net capital investment plus a 12% preferred return in GLC Trust 2013-2 and Prosper Marketplace Series B Preferred Stock.

- (3) Coupon is payable in cash, and/or payment-in-kind ("PIK"), or a combination thereof.

- (4) Investment is currently not income producing and placed on non-accrual status.

GLC Trust 2013-2 includes 2,637 small balance consumer loans with an average par of \$7,087, a weighted average rate of 15.6% and a weighted average maturity of May 8, 2018. See Note 4 for additional information.

- (5) See Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for detail on underlying loans.
- (6) The negative fair value is the result of the unfunded commitments being valued below par. These amounts may or may not be funded to the borrowing party currently or in the future.

All debt investments were income producing as of December 31, 2015, unless otherwise noted. Common and preferred equity investments are non-income producing unless otherwise noted.

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Statements of Operations (unaudited)**

(\$ in thousands, except share and per share amounts)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Investment income		
Interest income		
Non-control/non-affiliate investments	\$10,875	\$12,958
Other income	181	521
Total investment income	11,056	13,479
Expenses		
Interest expense	2,008	1,850
Management fee	1,850	1,990
Incentive fee	-	695
Professional fees	386	316
Directors' fees	107	106
Administrator expenses	269	242
Other expenses	527	552
Total expenses	5,147	5,751
Net investment income before excise taxes	5,909	7,728
Excise tax expense	(50)	(46)
Net investment income	5,859	7,682
Realized and unrealized (loss)/gain on investments		
Net realized (loss)/gain from investments		
Non-control/non-affiliate investments	(95)	(490)
Net change in unrealized (loss)/gain from investments		
Non-control/non-affiliate investments	(8,462)	(4,220)
Net realized and unrealized (loss)/gain on investments	(8,557)	(4,710)
Net (decrease)/increase in net assets resulting from operations	\$(2,698)	\$2,972
Net investment income per common share	\$0.36	\$0.46
Net (decrease)/increase in net assets resulting from operations per common share	\$(0.17)	\$0.18
Basic weighted average common shares outstanding <sup>(1)</sup>	16,319,453	16,758,779



Dividends and distributions declared per common share	\$0.35	\$0.35
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(1) Calculated using basic weighted average common shares outstanding.

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Statements of Changes in Net Assets (unaudited)**

(\$ in thousands, except share and per share amounts)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
(Decrease)/increase in net assets from operations:		
Net investment income	\$5,859	\$7,682
Net realized (loss) from investments	(95	) (490
Net change in unrealized (loss) on investments	(8,462	) (4,220
Net (decrease)/increase in net assets from operations	(2,698	) 2,972
Dividends and distributions to stockholders:		
From net investment income	(5,685	) (5,866
Total dividends and distributions to stockholders <sup>(1)</sup>	(5,685	) (5,866
Common share transactions		
Repurchase of common stock (see Note 13)	(3,140	) -
Net (decrease)/increase in net assets from common share transaction	(3,140	) -
Total (decrease)/increase in net assets	(11,523	) (2,894
Net assets at beginning of period	230,710	261,103
Net assets at end of period	\$219,187	\$258,209
Net asset value per common share	\$13.50	\$15.41
Common shares outstanding at end of period	16,234,814	16,758,779
Underdistributed net investment income included in net assets	\$8,958	\$1,816

Dividends from net investment income and distributions from net realized capital gains are determined in (1) accordance with U.S. federal income tax regulations, which may differ from those amounts determined in accordance with U.S. GAAP.

*See accompanying notes to consolidated financial statements.*

**Garrison Capital Inc. and Subsidiaries****Consolidated Statements of Cash Flows (unaudited)**

(\$ in thousands, except share and per share amounts)

	<b>Three Months Ended March 31, 2016</b>	<b>Three Months Ended March 31, 2015</b>
<b>Cash flows from operating activities</b>		
Net (decrease)/increase in net assets resulting from operations	\$(2,698 )	\$2,972
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by/(used in) operating activities:		
Net accretion of discounts on investments	(360 )	(437 )
Net realized loss/(gain) from investments	95	490
Amortization of discount on senior secured notes payable	50	79
Amortization of deferred debt issuance costs	206	195
Net change in unrealized loss/(gain) on investments	8,462	4,220
Payment-in-kind interest	(466 )	(432 )
Purchases of investments	(34,875)	(35,756)
Paydowns of investments	11,598	47,673
Sales of investments	24,993	-
Changes in operating assets and liabilities:		
(Increase)/decrease in cash, restricted	(41 )	5,777
(Increase)/decrease in due from counterparties	(10,343)	(291 )
(Increase)/decrease in accrued interest receivable	(257 )	(215 )
(Increase)/decrease in deferred offering costs	-	(21 )
Decrease/(increase) in prepaid administrator fee	-	74
Decrease/(increase) in other assets	102	71
Increase/(decrease) in due to counterparties	1,184	(109 )
Increase/(decrease) in payables to affiliates	223	1,538
(Decrease)/increase in interest payable on notes payable	(93 )	(53 )
Increase/(decrease) in accrued expenses and other payables	48	56
Net cash (used in)/provided by operating activities	(2,172 )	25,831
<b>Cash flows from financing activities</b>		
Repurchase of common stock	(3,140 )	-
Distributions paid to stockholders	(5,685 )	(5,866 )
Payments for financing costs	(178 )	-
Proceeds/(repayment) of senior secured revolving notes	5,500	(9,500 )
Repayment of GLC Trust 2013-2 Class A notes	(3,046 )	(3,761 )
Proceeds from Garrison SBIC borrowings	7,360	-

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Net cash provided by/(used in) financing activities	811	(19,127)
Net (decrease)/increase in cash	(1,361 )	6,704
Cash at beginning of period	24,985	13,651
Cash at end of period	\$23,624	\$20,355

**Supplemental disclosure of cash flow information**

Cash paid for interest expense	\$2,018	\$1,630
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*See accompanying notes to consolidated financial statements.*

## **Garrison Capital Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

#### **1. Organization**

Garrison Capital Inc. ("GARS" and, collectively with its subsidiaries, the "Company", "we" or "our") is a Delaware corporation and is an externally managed, closed-end, non-diversified management investment company that has filed an election to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, for tax purposes, GARS has elected to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), for the period beginning October 9, 2012 and intends to qualify annually thereafter.

Garrison Capital LLC, a Delaware limited liability company, commenced operations on December 17, 2010. On October 9, 2012, Garrison Capital LLC converted from a Delaware limited liability company to a Delaware corporation (the "Conversion"). In this Conversion, Garrison Capital Inc. succeeded to the business of Garrison Capital LLC and its subsidiaries, and the members of Garrison Capital LLC became stockholders of GARS receiving shares of common stock, par value \$0.001 per share, in accordance with their respective pro-rata membership interests in Garrison Capital LLC. As a result of a Reverse Stock Split on February 25, 2013, which resulted in the conversion of one share of common stock into 0.9805106 shares of common stock (the "Reverse Stock Split"), all amounts related to shares, share prices, earnings per share and distributions per share have been retroactively restated for all periods prior to the Reverse Stock Split.

GARS priced its initial public offering ("IPO") on March 26, 2013, which closed on April 2, 2013, selling 6,133,334 shares, including 800,000 shares issued pursuant to the underwriters' exercise of the over-allotment option, at a public offering price of \$15.00 per share. Concurrent with the closing of the IPO, the Company's directors, officers, employees and an affiliate of Garrison Capital Advisers LLC, a Delaware limited liability company (the "Investment Adviser"), purchased an additional 126,901 shares through a private placement transaction (the "Concurrent Private Placement") exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), at a price of \$15.00 per share. GARS' shares trade on the NASDAQ Global Select Market, or NASDAQ, under the symbol "GARS".

Our investment objective is to generate current income and capital appreciation by making investments generally in the range of \$5.0 million to \$25.0 million primarily in debt securities and loans of U.S. based middle-market companies, which we define as those having annual earnings before interest, taxes, depreciation and amortization

(“EBITDA”) of between \$5.0 million and \$30.0 million. Our goal is to generate attractive risk-adjusted returns by assembling a broad portfolio of investments.

We invest or provide direct lending primarily in (1) first lien senior secured loans, (2) second lien senior secured loans, (3) “one-stop” senior secured or “unitranche” loans, (4) subordinated or mezzanine loans, (5) unsecured consumer loans and (6) to a lesser extent, selected equity co-investments in middle-market companies. We use the term “one-stop” or “unitranche” to refer to a loan that combines characteristics of traditional first lien senior secured loans and second lien or subordinated loans. We use the term “mezzanine” to refer to a loan that ranks senior only to a borrower’s equity securities and ranks junior in right of payment to all of such borrower’s other indebtedness.

The Company’s business and affairs are managed and controlled by the Company’s board of directors (the “Board”), of which a majority of the members are independent of the Company and the Investment Adviser and its affiliates.

On April 19, 2012, GARS formed Garrison Funding 2012-1 Manager LLC, a Delaware limited liability company (“GF 2012-1 Manager”). This entity is a wholly owned consolidated subsidiary of GARS created for the purpose of acquiring and holding an investment in Garrison Funding 2012-1 LLC, a Delaware limited liability company (“GF 2012-1”). GARS formed GF 2012-1 for the purpose of acquiring or participating in U.S. dollar-denominated senior secured or second lien corporate loans and to acquire up to \$150.0 million in financing. On September 23, 2013, in anticipation of refinancing the credit facility of GF 2012-1, GF 2012-1 Manager effectuated a name change to Garrison Funding 2013-2 Manager LLC (“GF 2013-2 Manager”).

## **Garrison Capital Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

#### **1. Organization – (continued)**

On May 21, 2012, GF 2012-1 entered into a \$150.0 million credit facility (the “Credit Facility”), consisting of \$125.0 million of term loans (“Class A-T Loans”) and \$25.0 million of revolving loans (“Class A-R Loans”), which was utilized to refinance the GF 2010-1 Notes (as defined in Note 7).

On May 17, 2013, GARS formed GLC Trust 2013-2, a Delaware statutory trust (“GLC Trust 2013-2”). This entity is a wholly owned subsidiary of GARS created for the purpose of investing in a portfolio of small balance consumer loans. GLC Trust 2013-2 is 100% owned by GARS. GLC Trust 2013-2 closed on a \$10.0 million revolving facility with Capital One Bank, N.A. on December 6, 2013 (“GLC Trust 2013-2 Revolver”). The GLC Trust 2013-2 Revolver included an accordion feature, such that GLC Trust 2013-2 was permitted to increase the total commitment up to \$15.0 million under the terms of the loan agreement. GARS exercised this option on December 20, 2013.

On July 24, 2013, GARS formed Garrison Funding 2013-2 Ltd. (“GF 2013-2”), a Cayman Islands exempted company, for the purpose of refinancing the Credit Facility. On September 25, 2013 (the “Refinancing Date”), under Part XVI of the Cayman Islands Companies Law (2012 Revision), GF 2013-2 and GF 2012-1 merged with GF 2013-2 remaining as the surviving entity (the “Merger”). On the effective date of the Merger, all of the rights, the property, and the business, undertaking, goodwill, benefits, immunities and privileges of each individual company immediately vested in the surviving company.

On the Refinancing Date, GF 2013-2 completed a \$350.0 million collateralized loan obligation (the “CLO”) through a private placement, the proceeds of which were utilized, along with cash on hand, to refinance the existing Credit Facility (see Note 7). Immediately following the completion of the CLO, GF 2013-2 Manager owned 100% of the Subordinated Notes (as defined below). GF 2013-2 Manager serves as collateral manager to GF 2013-2 and has entered into a sub-collateral management agreement with the Investment Adviser.

On July 11, 2014, GARS increased the GLC Trust 2013-2 Revolver total commitment by \$15.0 million, for a total commitment of \$30.0 million. On July 18, 2014, GARS completed a \$39.2 million term debt securitization (“GLC



Trust 2013-2 Notes”) collateralized by the GLC Trust 2013-2 consumer loan portfolio, to refinance the GLC Trust 2013-2 Revolver (see Note 7).

On August 15, 2013, Walnut Hill II LLC was formed for the purpose of holding a first lien equipment loan. Walnut Hill II LLC is 100% owned by GARS.

On May 29, 2014, Garrison Capital SBIC LP (“Garrison SBIC”), which has an investment objective substantially similar to GARS, was formed in accordance with small business investment company (“SBIC”) regulations to acquire up to \$150.0 million in financing. Garrison SBIC received a license from the U.S Small Business Administration (the “SBA”) on May 26, 2015. Garrison SBIC is 100% owned by GARS.

On July 7, 2014, Forest Park II LLC was formed for the purpose of holding first lien equipment loans. Forest Park II LLC is 100% owned by GARS.

GARS will periodically form limited liability companies for the purpose of holding minority equity investments (the “GARS Equity Holdings Entities”). GARS intends to form a new GARS Equity Holding Entity for each minority equity investment in order to provide specific tax treatment for individual investments. The GARS Equity Holdings Entities are 100% owned by GARS.

American Stock Transfer & Trust Company, LLC (“AST”) serves as the transfer and dividend paying agent and registrar to GARS.

## **Garrison Capital Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

#### **1. Organization – (continued)**

GARS entered into a custody agreement, which was effective as of October 9, 2012 (the “Custody Agreement”), with Deutsche Bank Trust Company Americas (the “Custodian”) to act as custodian for GARS. The Custodian is also the trustee of GF 2013-2 and the custodian for Garrison SBIC.

GARS entered into an administration agreement, which was effective as of October 9, 2012 (the “Administration Agreement”), with Garrison Capital Administrator LLC, a Delaware limited liability company (the “GARS Administrator”).

GARS entered into an investment advisory agreement with the Investment Adviser, which was effective as of October 9, 2012 and subsequently amended and restated on May 6, 2014 (the “Investment Advisory Agreement”). A new Investment Advisory Agreement was approved by the Company’s stockholders on May 1, 2015.

The Investment Adviser is responsible for sourcing potential investments, conducting research and diligence on prospective investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis subject to the supervision of the Board. The Investment Adviser was organized in November 2010 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Investment Adviser is an affiliate of Garrison Investment Group LP (the “Investment Manager”), which is also the investment manager of various stockholders of the Company.

GLC Trust 2013-2 has entered into agreements with Prosper Funding LLC, GARS Administrator, U.S. Bank National Association, Wilmington Trust, National Association and Manufacturers and Traders Trust Company to act as servicer, securities administrator, indenture trustee and custodian, respectively, for GLC Trust 2013-2.

#### **2. Significant Accounting Policies and Recent Updates**

## **Basis of Presentation**

The Company is an investment company as defined in the accounting and reporting guidance under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946 — *Financial Services — Investment Companies* (“ASC Topic 946”).

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications consisting solely of normal accruals that are necessary for the fair presentation of financial results as of and for the periods presented. Certain prior period amounts have been reclassified to conform to the current period presentation including the retrospective reclassification of deferred debt issuance costs to be presented as a liability, netted against the carrying amount of the corresponding debt liability. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related management’s discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the Securities and Exchange Commission (the “SEC”).

## **Basis for Consolidation**

The consolidated financial statements include the accounts of GARS and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The accounts of the subsidiaries are prepared for the same reporting period as GARS using consistent accounting policies. Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, codified in ASC Topic 946, the Company is precluded from consolidating any entity other than another investment company.

The Company generally consolidates any investment company when it owns 100% of its partners’ or members’ capital or equity units. ASC Topic 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

GF 2013-2 Manager owns a 100% interest in GF 2013-2, which is an investment company for accounting purposes, and also provides collateral management services solely to GF 2013-2. As such, GARS has consolidated the accounts of these entities into these consolidated financial statements. As a result of this consolidation, the amounts outstanding

under the CLO are treated as the Company's indebtedness.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**2. Significant Accounting Policies and Recent Updates – (continued)**

The GARS Equity Holdings Entities, Walnut Hill II LLC, Forest Park II LLC, Garrison SBIC and GLC Trust 2013-2 are 100% owned investment companies for accounting purposes. As such, GARS has consolidated the accounts of these entities into these consolidated financial statements. As a result of this consolidation, indebtedness of Garrison SBIC and the amounts outstanding under the GLC Trust 2013-2 Notes are treated as the Company's indebtedness.

**Investment Classification**

As required by the 1940 Act, investments are classified by level of control. "Control Investments" are investments in those companies that the Company is deemed to control as defined in the 1940 Act. "Affiliate Investments" are investments in those companies that are affiliated companies, as defined in the 1940 Act, other than Control Investments. "Non-Control/Non-Affiliate Investments" are those that are neither Control Investments nor Affiliate Investments.

Generally, under the 1940 Act, the Company is deemed to control a company in which it has invested if it owns more than 25% of the voting securities of such company. The Company is deemed to be an affiliate of a company in which it has invested if it owns 5% or more of the voting securities of such company.

As of March 31, 2016 and December 31, 2015, all of the Company's investments were Non-Control/Non-Affiliate Investments.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures in the consolidated financial statements, including the estimated fair values of investments and the amount of income and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

As of March 31, 2016 and December 31, 2015, cash held in designated bank accounts with the Custodian was \$22.4 million and \$23.4 million, respectively. As of March 31, 2016 and December 31, 2015, cash held in designated bank accounts with other major financial institutions was \$1.2 million and \$1.6 million, respectively. At times, these balances may exceed federally insured limits and this potentially subjects the Company to a concentration of credit risk. The Company believes it is not exposed to any significant credit risk associated with its cash custodian.

The Company defines cash equivalents as highly liquid financial instruments with original maturities of three months or less, including those held in overnight sweep bank deposit accounts. As of March 31, 2016 and December 31, 2015, the Company held no cash equivalents.

### **Cash and Cash Equivalents, Restricted**

Restricted cash as of March 31, 2016 and December 31, 2015 included cash of \$10.6 million and \$10.4 million, respectively, held by GF 2013-2 in designated bank accounts with the Custodian. GF 2013-2 is required to use a portion of these amounts to pay interest expense, reduce borrowings at the end of the investment period and to pay other amounts in accordance with the terms of the indenture of the CLO. Funds held by GF 2013-2 are not available for general use by the Company. Restricted cash as of March 31, 2016 and December 31, 2015 also included cash of \$1.3 million and \$1.4 million, respectively, held by GLC Trust 2013-2 in designated restricted bank accounts.

GLC Trust 2013-2 is required to use a portion of these amounts to make principal payments and pay interest expense in accordance with the terms of the indenture governing the GLC Trust 2013-2 Notes.

As of both March 31, 2016 and December 31, 2015, the Company held no restricted cash equivalents.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**2. Significant Accounting Policies and Recent Updates – (continued)**

**Investment Transactions and Related Investment Income and Expense**

The Company records its investment transactions on a trade date basis, which is the date when management has determined that all material legal terms have been contractually defined for the transactions. These transactions could possibly settle on a subsequent date depending on the transaction type. All related revenue and expenses attributable to these transactions are reflected on the consolidated statements of operations commencing on the trade date unless otherwise specified by the transaction documents. Realized gains and losses on investment transactions are recorded using the specific identification method.

The Company accrues interest income if it expects that ultimately it will be able to collect such income. Generally, when a payment default occurs on a loan in the portfolio, or if management otherwise believes that the issuer of the loan will not be able to make contractual interest payments or principal payments, the Investment Adviser will place the loan on non-accrual status and will cease recognizing interest income on that loan until all principal and interest is current through payment or until a restructuring occurs, such that the interest income is deemed to be collectible. However, the Company remains contractually entitled to this interest.

The Company may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. Accrued interest is written off when it becomes probable that the interest will not be collected and the amount of uncollectible interest can be reasonably estimated. For consumer loans, any loan which is 120 days past due is considered defaulted and 100% of the principal is charged off with no expected recovery or sale of defaulted receivables. The Company recognized \$0.4 million and \$0.8 million in charge offs in realized losses from investments for consumer loans held by GLC Trust 2013-2 for the three months ended March 31, 2016 and March 31, 2015, respectively. The Company had four investments on non-accrual status as of both March 31, 2016 and December 31, 2015.

Any original issue discounts, as well as any other purchase discounts or premiums on debt investments, are accreted or amortized and included in interest income over the maturity periods of the investments. If a loan is placed on non-accrual status, the Company will cease recognizing amortization of original issue discount and purchase discount until all principal and interest is current through payment or until a restructuring occurs, such that the income is deemed to be collectible.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected.

### **Interest Expense**

Interest expense is recorded on an accrual basis and is adjusted for amortization of deferred debt issuance costs and any original issue discount.

### **Expenses**

Expenses related to, but not limited to, ratings fees, due diligence, valuation expenses and independent collateral appraisals may arise when the Company makes certain investments. These expenses are recognized as incurred in the consolidated statements of operations within other expenses.



## **Garrison Capital Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

#### **2. Significant Accounting Policies and Recent Updates – (continued)**

##### **Loan Origination, Facility, Commitment and Amendment Fees**

The Company may receive loan origination, prepayment, facility, commitment, forbearance and amendment fees in addition to interest income during the life of the investment. The Company may receive origination fees upon the origination of an investment.

Origination fees received by the Company are initially deferred and reduced from the cost basis of the investment and subsequently accreted into interest income over the remaining stated term of the loan.

Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and debt securities as interest income when we receive such amounts. Facility fees, sometimes referred to as asset management fees, are accrued as a percentage periodic fee on the base amount (either the funded facility amount or the committed principal amount). Commitment fees are based upon the undrawn portion committed by the Company and are accrued over the life of the loan.

Amendment and forbearance fees are paid in connection with loan amendments and waivers and are recognized upon completion of the amendments or waivers, generally when such fees are receivable. Any such fees are recorded and classified as other income and included in investment income on the consolidated statements of operations. As these fees are paid and recognized in connection with specific loan amendments or forbearance, they are typically non-recurring in nature.

##### **Valuation of Investments**

The Company values its investments in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157, “ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value.

ASC 820’s definition of fair value focuses on exit price in the principal, or most advantageous, market and prioritizes the use of market-based inputs over entity-specific inputs within a measurement of fair value.

The Company’s portfolio consists of primarily debt investments and unsecured consumer loans. The fair value of the Company’s investments is initially determined by investment professionals of the Investment Adviser and ultimately determined by the Board on a quarterly basis. In valuing the Company’s debt investments, the Investment Adviser generally uses various approaches, including proprietary models that consider the analyses of independent valuation agents as well as credit risk, liquidity, market credit spreads, other applicable factors for similar transactions, bid quotations obtained from other financial institutions that trade in similar investments or based on bid prices provided by independent third party pricing services.

The types of factors that the Board may take into account when reviewing the fair value initially derived by the Investment Adviser and determining the fair value of the Company’s debt investments generally include, as appropriate, comparison to publicly traded securities, including such factors as yield, maturity and measures of credit quality, the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company’s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business and other relevant factors.

In valuing the Company’s unsecured consumer loans, the Investment Adviser generally uses a discounted cash flow methodology based upon a set of assumptions. The primary assumptions used to value the unsecured consumer loans include prepayment and default rates derived from historical performance, actual performance as compared to historical projections and discount rate.

The types of factors that the Board may take into account when reviewing the fair value initially derived by the Investment Adviser and determining the fair value of the Company’s consumer loan investments generally include, as appropriate, prepayment and default rates derived from historical performance, actual performance as compared to historical projections and discount rates.

The Board has retained several independent valuation firms to review the valuation of each portfolio investment that does not have a readily available market quotation at least once during each 12-month period. To the extent a security is reviewed in a particular quarter, it is reviewed and valued by only one service provider.

However, the Board does not intend to have de minimis investments of less than 0.5% of the Company's total assets (up to an aggregate of 10.0% of the Company's total assets) independently reviewed.

The Board is responsible for determining the fair value of the Company's assets in good faith using a documented valuation policy and consistently applied valuation process.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**2. Significant Accounting Policies and Recent Updates – (continued)**

Due to the nature of the Company's strategy, the Company's portfolio is primarily comprised of relatively illiquid investments that are privately held. Inputs into the determination of fair value of the Company's portfolio investments require significant management judgment or estimation. This means that the Company's portfolio valuations are based on unobservable inputs and the Investment Adviser's own assumptions about how market participants would price the asset or liability in question. Valuations of privately held investments are inherently uncertain and they may fluctuate over short periods of time and may be based on estimates. The determination of fair value by the Board may differ materially from the values that would have been used if a ready market for these investments existed.

The valuation process is conducted at the end of each fiscal quarter, with a portion of the Company's valuations of portfolio companies without market quotations subject to review by the independent valuation firms each quarter. When an external event with respect to one of the Company's portfolio companies, such as a purchase transaction, public offering or subsequent equity sale occurs, we expect to use the pricing indicated by the external event to corroborate our valuation.

With respect to investments for which market quotations are not readily available, our Board will undertake a multi-step valuation process each quarter, as described below:

• The Company's valuation process begins with each portfolio company or investment being initially valued by investment professionals of the Investment Adviser responsible for credit monitoring.

• Preliminary valuation conclusions are then documented and discussed with our senior management and the Investment Adviser.

• The valuation committee of the Board reviews these preliminary valuations.

At least once annually, the valuation for each portfolio investment that does not have a readily available quotation is reviewed by an independent valuation firm, subject to the de minimis exception described above.

The Board discusses valuations and determines the fair value of each investment in the Company's portfolio in good faith.

Net assets could be materially affected if the determinations regarding the fair value of the investments were materially higher or lower than the values that are ultimately realized upon the disposal of such investments.

### **Deferred Financing Costs**

Financing costs incurred in connection with the execution of the CLO, SBIC borrowings and GLC Trust Securitization are included as a reduction in the net book value of the related liability on our consolidated statement of financial condition. These costs are amortized as interest expense over the life of the related obligations.

### **Offering Costs**

Deferred offering costs consist of fees paid in relation to legal, accounting, regulatory and printing work completed in preparation of equity or debt offerings and are charged against proceeds from the offerings when received. As of both March 31, 2016 and December 31, 2015, \$0.5 million of expenses associated with the shelf registration statement initially filed with the SEC on April 3, 2014 ("Registration Statement") were deferred and included in deferred offering costs. These amounts will be charged against proceeds from future offerings of securities when received.

### **Share Repurchase**

Share repurchase transactions are recorded on a trade date basis, which is the date when management has determined that all material legal terms have been contractually defined for the transactions. The aggregate cost of common stock repurchased, including any direct transaction costs, is recorded as a reduction of the par and paid-in-capital in excess of par value accounts, respectively.

### **Dividends and Distributions**

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a dividend or distribution is determined by the Board each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**2. Significant Accounting Policies and Recent Updates – (continued)**

The Company adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if the Board declares a cash dividend or other distribution, then our stockholders who have not ‘opted out’ of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, which may be newly issued shares or shares acquired by AST through open-market purchases, rather than receiving the cash distribution. As of March 31, 2016, no new shares have been issued to fulfill the dividend reinvestment plan.

No action is required on the part of a registered stockholder to have its cash dividend or other distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying AST in writing so that such notice is received by AST no later than the record date for distributions to stockholders.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends and other distributions in cash by notifying their broker or other financial intermediary of their election.

**Income Taxes**

As discussed in Note 1, for tax purposes, GARS has elected to be treated as a RIC under Subchapter M of the Code and intends to qualify each taxable year for such treatment. In addition, GF 2013-2, GF 2013-2 Manager, the GARS Equity Holdings Entities, Walnut Hill II LLC and Forest Park II LLC are disregarded entities for tax purposes. GLC Trust 2013-2 is a grantor trust for U.S. taxable income purposes, whereby the income reverts to GARS, accordingly, no provision for federal income tax was made in the consolidated financial statements for the three months ended March 31, 2016 or the year ended December 31, 2015.

Each taxable year, GARS intends to comply with all RIC qualification provisions contained in the Code including certain source-of-income and asset diversification requirements, as well as distribution requirements to our stockholders equal to at least 90% of “investment company taxable income”. “Investment company taxable income” is generally defined as net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses. As a RIC, GARS generally does not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that it distributes to its stockholders in a timely manner.



**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**2. Significant Accounting Policies and Recent Updates – (continued)**

However, GARS is subject to U.S. federal income taxes at regular corporate tax rates on any net ordinary income or net capital gain not distributed to its stockholders assuming at least 90% of its investment company taxable income is distributed timely.

Depending on the level of taxable income earned in a tax year, the Company may choose to retain taxable income in excess of current year dividend distributions, and distribute such taxable income in the next tax year. The Company would then pay a 4% excise tax on such taxable income, as required. To the extent that the Company determines that its estimated current year annual taxable income, determined on a calendar basis, could exceed estimated current calendar year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned.

For the three months ended March 31, 2016 there was \$50,000 of U.S. federal excise tax expense recorded. For the three months ended March 31, 2015, there was \$45,000 of U.S. federal excise tax expense recorded. In addition, GARS has certain wholly owned taxable subsidiaries (the “Taxable Subsidiaries”), each of which holds a portion of one or more of our portfolio investments that are listed on the consolidated schedule of investments. The Taxable Subsidiaries are consolidated for financial reporting purposes in accordance with U.S. GAAP, so that our consolidated financial statements reflect our investments in the portfolio companies owned by the Taxable Subsidiaries. The purpose of the Taxable Subsidiaries is, among other things, to permit GARS to hold certain interests in portfolio companies that are organized as limited liability companies (“LLCs”) (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90.0% of the RIC’s gross income for federal income tax purposes must consist of qualifying investment income. Absent the Taxable Subsidiaries, a proportionate amount of any gross income of an LLC (or other pass-through entity) portfolio investment would flow through directly to the RIC. To the extent that such income did not consist of investment income, it could jeopardize GARS ability to qualify as a RIC and therefore cause GARS to incur significant amounts of corporate-level U.S. federal income taxes. Where interests in LLCs (or other pass-through entities) are owned by the Taxable Subsidiaries, however, the income from such interests is taxed to the Taxable Subsidiaries and does not flow through to the RIC, thereby helping GARS preserve its RIC status and resultant tax advantages. The Taxable Subsidiaries are not consolidated for U.S. federal income tax purposes and may generate income tax expense as a result of their ownership of the portfolio companies.

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Dividends from net investment income and distributions from net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ from amounts determined in accordance with U.S. GAAP and those differences could be material. These book-to-tax differences are either temporary or permanent in nature. Reclassifications due to permanent differences have no impact on net assets. The below were reclassifications made due to permanent differences for the tax year ended December 31, 2015:

(\$ in thousands)	December 31, 2015
Accumulated net investment (loss)	\$ 2,259
Accumulated net realized gain on investments	(2,069 )
Paid - in capital	(190 )

The permanent book-to-tax differences arose primarily due to the tax classification of dividend distributions, tax basis differences on realized investments, tax characterization of certain realized losses and the accrual of nondeductible U.S. federal excise tax.

Taxable income differs from the net increase (decrease) in net assets resulting from operations primarily due to the exclusion of unrealized gain (loss) on investments from taxable income until they are realized, book-to-tax temporary differences related to the deductibility of accrued Incentive Fees payable to the Investment Adviser attributable to unrealized gain (loss) on investments, book-to-tax temporary differences on taxable income inclusions of investment income earned on certain securities that was accrued for tax but not for U.S. GAAP, and book-to-tax temporary differences related to net capital loss carryforwards and utilization of net capital gain loss carryforwards from prior years.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**2. Significant Accounting Policies and Recent Updates – (continued)**

The following table reconciles net increase in net assets resulting from operations to taxable income for tax year ended December 31, 2015:

(\$ in thousands)	December 31, 2015
Net (decrease)/increase in net assets resulting from operations	\$ (3,660 )
Net change in unrealized loss from investments	21,919
Net capital loss carryforward	10,275
Permanent book-to-tax differences	190
Temporary book-to-tax differences	(2,169 )
Taxable income before deductions for distribution	\$ 26,555

As of December 31, 2015, the accumulated earnings/(deficit) on a tax basis was:

(\$ in thousands)	December 31, 2015
Undistributed ordinary income	\$8,782
Accumulated capital gain and other gains/(losses)	(10,275)
Unrealized (losses) on investments	(22,053)
Total accumulated earnings/(deficit)	\$(23,546)

The tax character of all distributions paid for the year ended December 31, 2015 was classified as ordinary income.

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As of December 31, 2015 the components of accumulated losses on a tax basis, as detailed below, differ from the amounts reflected per GARS' consolidated statement of assets and liabilities by temporary book-to-tax differences arising from book-to-tax differences related to the deductibility of accrued Incentive Fees payable to the Investment Adviser attributable to unrealized gains (losses) on investments and book-to-tax differences on taxable income inclusions of investment income earned on certain securities that was accrued for tax but not for U.S. GAAP.

(\$ in thousands)	December 31, 2015
Other temporary differences	\$-
Unrealized (loss)	(22,053)
Total components of unrealized income	\$(22,053)

As of December 31, 2015, the federal income tax basis of investments was \$437.1 million resulting in net unrealized loss of \$(22.1) million

The Company is required to determine whether a tax position of the Company is more likely-than-not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that could negatively impact the Company's net assets.

U.S. GAAP provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.

The Company has concluded that it was not necessary to record a liability for any such tax positions as of March 31, 2016 and December 31, 2015. However, the Company's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including ongoing analyses of, and changes to, tax laws, regulations and interpretations thereof.

## **Garrison Capital Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

#### **2. Significant Accounting Policies and Recent Updates – (continued)**

The Company's activities from commencement of operations remain subject to examination by U.S. federal, state, and local tax authorities. No interest expense or penalties have been assessed as of March 31, 2016 and December 31, 2015.

If the Company were required to recognize interest and penalties, if any, related to unrecognized tax benefits this would be recognized as income tax expense in the consolidated statement of operations.

As of December 31, 2015, the Company had net long term capital loss carryforwards of \$10.3 million.

#### **Recent Accounting Pronouncements**

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 changes how entities account for and measure the fair value of certain equity investments and updates the presentation and disclosure of certain financial assets and liabilities. This new guidance is effective for annual and interim periods beginning on or after December 15, 2017, and for interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact ASU 2016-01 will have on the Company's consolidated financial position and disclosures.

#### **3. Investments**

The Company's investments include debt investments (both funded and unfunded, "Debt Investments"), preferred and minority equity investments ("Equity") of diversified companies and a portfolio of unsecured small balance consumer

loans (“Financial Assets”). These financial instruments may be purchased indirectly through an interest in a limited partnership or a limited liability company.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**3. Investments – (continued)**

Certain of the risks of investing in the financial instruments of a borrower or a company experiencing various forms of financial, operational, legal, and/or other distress or impairment, including companies involved in bankruptcy or other reorganization or liquidation proceedings, and those which might become involved in such proceedings, are discussed herein. Through investing in these assets, the Company is exposed to credit risk relating to whether the borrower will meet its obligation to pay when it comes due until the investments are sold or mature. Any investment in a distressed company may involve special risks.

The Company's transactions in Debt Investments are normally secured financings that are collateralized by physical assets and/or the enterprise value of the borrower. This collateral, and the Company's rights to this collateral, are different depending on the specific transaction and are defined by the legal documents agreed to in the transaction.

The terms of the Debt Investments may provide for the Company to extend to a borrower additional credit or provide funding for any unfunded portion of such Debt Investments at the request of the borrower. This exposes the Company to potential liabilities that are not reflected on the consolidated statements of financial condition. As of March 31, 2016 and December 31, 2015, the Company had \$6.4 million and \$6.9 million of unfunded commitments with a fair value of \$(0.1) million and \$(0.1) million, respectively. The negative fair value is the result of the unfunded commitments being valued below par. These amounts may or may not be funded to the borrowing party now or in the future.

There is no central clearinghouse for the Company's Debt Investments, Equity or Financial Assets, nor is there a central depository for custody of any such interests. The processes by which these interests are cleared, settled and held in custody are individually negotiated between the parties to the transaction. This subjects the Company to operational risk to the extent that there are delays and failures in these processes. The Custodian maintains records of the investments owned by the Company.

**4. Fair Value of Financial Instruments**

The fair value of the Company's assets and liabilities which qualify as financial instruments approximate the carrying amounts presented in the consolidated statements of financial condition.

U.S. GAAP requires enhanced disclosures about investments that are measured and reported on a fair value basis. Under U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Further, the guidance distinguishes between inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs). Various inputs are used in determining the values of the Company's investments and these inputs are categorized as of each valuation date.

The inputs are summarized in three broad levels listed below:

Level 1 — quoted unadjusted prices in active markets for identical investments as of the reporting date.

Level 2 — other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.).

Level 3 — significant unobservable inputs (including the reporting entity's own assumptions about the assumptions market participants would use in determining the fair values of investments or indicative bid prices from unaffiliated market makers or independent third party pricing services).



**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**4. Fair Value of Financial Instruments – (continued)**

Fair value of publicly traded instruments is generally based on quoted market prices. Fair value of non-publicly traded instruments, and of publicly traded instruments for which quoted market prices are not readily available, may be determined based on other relevant factors, including bid quotations from unaffiliated market makers or independent third-party pricing services, the price activity of comparable instruments and valuation pricing models.

For those investments valued using quotations, the bid price is generally used, unless the Company determines that it is not representative of an exit price. To the extent observable market data is available, such information may be the result of consensus pricing information or broker quotes. Due to the fact that the significant inputs used by the contributors of the consensus pricing source or the broker are unobservable and evidence with respect to trading levels is not available, any investments valued using indicative bid prices from unaffiliated market makers and independent third-party pricing services have been classified within Level 3.

Investments classified as Level 3 may be fair valued using the income and market approaches, using a market yield valuation methodology or enterprise value methodology.

Factors that could affect fair value measurements of debt investments using the above referenced approaches include assumed growth rates, capitalization rates, discount rates, loan-to-value ratios, liquidation value, relative capital structure priority, market comparables, compliance with applicable loan, covenant and interest coverage performance, book value, market derived multiples, reserve valuation, assessment of credit ratings of an underlying borrower, review of ongoing performance, review of financial projections as compared to actual performance, review of interest rate and yield risk.

Factors that could affect fair value measurements of consumer loans using the above referenced approaches include prepayment rates, default rates, review of financial projections as compared to actual performance and discount rates.

Such factors may be given different weighting depending on management's assessment of the underlying investment, and management may analyze apparently comparable investments in different ways. The Company has used, and intends to continue to use, independent valuation firms to provide additional corroboration for estimating the fair values of investments. Valuations performed by the independent valuation firms may utilize proprietary models and inputs. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

All of the Company's investments (other than cash and cash equivalents) are classified as Level 3 under ASC 820.

**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016****4. Fair Value of Financial Instruments – (continued)**

The following tables summarize the valuation of the Company's investments measured at fair value based on the fair value hierarchy detailed above as of March 31, 2016 and December 31, 2015:

(in thousands)	As of March 31, 2016			
	Level 1	Level 2	Level 3	Total
Senior Secured <sup>(1)(2)</sup>	\$-	\$ -	\$374,794	\$374,794
Mezzanine	-	-	7,561	7,561
Preferred Equity Investments	-	-	5,487	5,487
Common Equity Investments	-	-	3,468	3,468
Financial Assets	-	-	14,244	14,244
	\$-	\$ -	\$405,554	\$405,554

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(1) Includes unfunded commitments with a fair value of \$(0.1) million.

(2) Included in senior secured loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders.

(in thousands)	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Senior Secured <sup>(1)(2)</sup>	\$-	\$ -	\$380,780	\$380,780
Mezzanine	-	-	7,512	7,512
Preferred Equity Investments	-	-	5,487	5,487
Common Equity Investments	-	-	3,468	3,468
Financial Assets	-	-	17,754	17,754
	\$-	\$ -	\$415,001	\$415,001

- 
- (1) Includes unfunded commitments with a fair value of \$(0.1) million.
  - (2) Included in senior secured loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders.

The net change in unrealized (loss) attributable to the Company's Level 3 assets for the three months ended March 31, 2016 and March 31, 2015 included in the net change in unrealized (loss) on investments in the Company's consolidated statement of operations was \$(8.5) million and \$(4.2) million, respectively.

**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016****4. Fair Value of Financial Instruments – (continued)**

The following table is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value for the three months ended March 31, 2016:

	Three Months Ended March 31, 2016							
	Senior Secured Investments	Second Lien Investments	Mezzanine Investments	Subordinated Investments	Preferred Equity Investments	Common Equity Investments	Financial Assets	Total
(\$ in thousands)								
Fair value, beginning of period	\$380,780	\$ -	\$ 7,512	\$ -	\$ 5,487	\$ 3,468	\$17,754	\$415,001
Total net realized and unrealized (loss)/gain on investments	(8,441 )	-	(7 )	-	-	-	(307 )	(8,755 )
Total net accretion of discounts on investments	353	-	7	-	-	-	-	360
Purchases/issuances <sup>(1)</sup>	35,292	-	49	-	-	-	-	35,341
Sales	(24,993 )	-	-	-	-	-	-	(24,993 )
Paydowns <sup>(1)</sup>	(8,197 )	-	-	-	-	-	(3,203 )	(11,400 )
Fair value, end of period	\$374,794	\$ -	\$ 7,561	\$ -	\$ 5,487	\$ 3,468	\$14,244	\$405,554
Net change in unrealized gain/(loss) on investments in our Consolidated Statement of Operations attributable to our Level 3 assets <sup>(2)</sup>	\$(8,693 )	\$ -	\$(6 )	\$ -	\$ -	\$ -	\$90	\$(8,609 )

(1) There were no non-cash restructuring of portfolio investments or transfers of investments between levels by the Company for the three months ended March 31, 2016.

(2) Net change in unrealized (loss)/gain included in earnings related to investments still held at reporting date.

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The following table is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value for the three months ended March 31, 2015:

	Three Months Ended March 31, 2015							
	Senior Secured Investments	Second Lien Investments	Mezzanine Investments	Subordinated Investments	Preferred Equity Investments	Common Equity Investments	Financial Assets	Total
(\$ in thousands)								
Fair value, beginning of period	\$399,188	\$13,652	\$7,361	\$4,067	\$5,791	\$1,380	\$36,330	\$467,769
Total net realized and unrealized (loss)/gain on investments	(4,626 )	(11 )	(6 )	-	721	-	(788 )	(4,710 )
Total net accretion of discounts on investments	410	21	6	-	-	-	-	437
Purchases/issuances <sup>(1)</sup>	36,151	-	37	-	-	-	-	36,188
Sales	-	-	-	-	-	-	-	-
Paydowns <sup>(1)</sup>	(43,355 )	(21 )	-	-	-	-	(4,296 )	(47,672 )
Fair value, end of period	\$387,768	\$13,641	\$7,398	\$4,067	\$6,512	\$1,380	\$31,246	\$452,012
Net change in unrealized gain/(loss) on investments in our Consolidated Statement of Operations attributable to our Level 3 assets <sup>(2)</sup>	\$(4,511 )	\$(11 )	\$(6 )	\$ -	\$ 722	\$ -	\$(19 )	\$(3,825 )

(1) There were no non-cash restructuring of portfolio investments or transfers of investments between levels by the Company for the three months ended March 31, 2015.

(2) Net change in unrealized gain/(loss) included in earnings related to investments still held at reporting date.

**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016****4. Fair Value of Financial Instruments – (continued)**

The following table is a quantitative disclosure about significant unobservable inputs (Level 3) that were used in determining fair value at March 31, 2016:

(\$ in thousands)	Fair Value at March 31, 2016	Quantitative Information about Level 3 Fair Value Measurements					
		Valuation Technique	Unobservable Input	Range		Weighted Average	
				Low	High		
Senior Secured Investments <sup>(1)</sup>	\$374,794	Comparable yield approach	Market rate <sup>(2)</sup>	5.9 %	26.0 %	10.1 %	
		Market comparable companies	EBITDA multiple <sup>(5)</sup>	2.5 x	11.0x	5.5 x	
Mezzanine Investments	7,561	Comparable yield approach	Market rate <sup>(2)</sup>	16.7 %	16.7 %	16.7 %	
		Market comparable companies	EBITDA multiple <sup>(5)</sup>	6.0 x	6.0 x	6.0 x	
Equity Investments <sup>(3)</sup>	8,955	Market comparable companies	EBITDA multiple <sup>(5)</sup>	4.3 x	8.0 x	4.8 x	
		Market comparable companies	Origination fees multiple	5.5 x	5.5 x	5.5 x	
Financial Assets <sup>(4)</sup>	14,244	Discounted cash flows	Interest rate	6.3 %	31.3 %	15.6 %	
			Conditional prepayment rate ("CPR")	18.5 %	83.6 %	36.9 %	

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		Constant default rate ("CDR")	8.4 %	40.8 %	18.1 %
		Default rate multiplier	1.3 x	1.3 x	1.3 x
		Discount rate	7.3 %	7.3 %	7.3 %
Total	\$405,554				

(1) Includes total unfunded commitments of \$(0.1) million.

Market rate is calculated based on the fair value of the investments and interest expected to be received using the  
(2) current rate of interest at the balance sheet date to maturity, excluding the effects of future scheduled principal amortizations.

(3) Includes preferred and common equity.

Financial Assets are valued by the level of risk associated with the underlying loan measured by the estimated loss rate. The estimated loss rate is based on the historical performance of loans with similar characteristics, the borrowers credit score obtained from an official credit reporting agency at origination, debt-to-income ratios at origination, information from the borrower's credit report at origination, as well as the borrower's self-reported  
(4) income range, occupation and employment status at origination. Financial Asset risk ratings are assigned on a scale from A through F, with A having the lowest level of risk and F having the highest level of risk. As of March 31, 2016, 23.1%, 33.6%, 32.6%, 7.6%, 2.9%, and 0.2%, of the total fair value of Financial Assets was comprised of A, B, C, D, E and F risk rated loans, respectively. See Exhibit 99.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 for detail on the underlying loans.

Excludes non-operating portfolio companies, which we define as those loans collateralized by proved developed  
(5) producing, or PDP, value or other hard assets. PDPs are proven revenues that can be produced with existing wells. As of March 31, 2016, \$31.7 million of par value and \$30.9 million of market value was excluded.



**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016**

The following table is a quantitative disclosure about significant unobservable inputs (Level 3) that were used in determining fair value at December 31, 2015:

		Quantitative Information about Level 3 Fair Value Measurements						
		Fair Value at December 31, 2015	Valuation Technique	Unobservable Input	Range		Weighted Average	
					Low	High		
(\$ in thousands) Senior Secured Investments <sup>(1)</sup>	\$380,780	Comparable yield approach	Market rate <sup>(2)</sup>	5.6 %	21.2 %	9.7 %		
		Market comparable companies	EBITDA multiple <sup>(5)</sup>	1.9 x	11.3x	5.5 x		
Mezzanine Investments	7,512	Comparable yield approach	Market rate <sup>(2)</sup>	16.0%	16.0%	16.0 %		
Equity Investments <sup>(3)</sup>	8,955	Market comparable companies	EBITDA multiple <sup>(5)</sup>	5.0 x	5.0 x	5.0 x		
		Market comparable companies	EBITDA multiple <sup>(5)</sup>	4.3 x	8.0 x	6.0 x		
		Market comparable companies	Origination fees multiple	8.8 x	8.8 x	8.8 x		
Financial Assets <sup>(4)</sup>	17,754	Discounted cash flows	Interest rate	6.3 %	31.3 %	15.6 %		
	CPR		18.5 %	83.6 %	36.9 %			
	CDR		8.4 %	40.8 %	18.1 %			
	Default rate multiplier		1.3 x	1.3 x	1.3 x			
	Discount rate		7.3 %	7.3 %	7.3 %			
Total	\$415,001							

- (1) Includes total unfunded commitments of \$(0.1) million.

Market rate is calculated based on the fair value of the investments and interest expected to be received using the

- (2) current rate of interest at the balance sheet date to maturity, excluding the effects of future scheduled principal amortizations.

- (3) Includes preferred and common equity.

Financial Assets are valued by the level of risk associated with the underlying loan measured by the estimated loss rate. The estimated loss rate is based on the historical performance of loans with similar characteristics, the borrowers credit score obtained from an official credit reporting agency at origination, debt-to-income ratios at origination, information from the borrower's credit report at origination, as well as the borrower's self-reported

- (4) income range, occupation and employment status at origination. Financial Asset risk ratings are assigned on a scale from A through F, with A having the lowest level of risk and F having the highest level of risk. As of December 31, 2015, 24.2%, 33.1%, 31.9%, 7.5%, 3.1%, and 0.2%, of the total fair value of Financial Assets was comprised of A, B, C, D, E and F risk rated loans, respectively. See Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for detail on the underlying loans.

- Excludes non-operating portfolio companies, which we define as those loans collateralized by proved developed
- (5) producing, or PDP, value or other hard assets. PDPs are proven revenues that can be produced with existing wells. As of December 31, 2015, \$33.5 million of par value and \$32.7 million of market value was excluded.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**4. Fair Value of Financial Instruments – (continued)**

Significant unobservable inputs used in the fair value measurement of the Company's Debt Investments include indicative bid quotations obtained from independent third party pricing services ("consensus pricing"), multiples of market comparable companies, and relative comparable yields.

Significant decreases (increases) in consensus pricing or market comparables could result in significantly lower (higher) fair value measurements. Significant increases (decreases) in comparable yields could result in significantly lower (higher) fair value measurements. Generally, a change in the assumption used for relative comparable yields is accompanied by a directionally opposite change in the assumptions used for pricing.

Significant unobservable inputs used in the fair value measurement of the Company's Equity Investments include market comparables. Significant decreases (increases) in market comparables could result in significantly lower (higher) fair value measurements.

Significant unobservable inputs used in the fair value measurement of the Company Financial Assets include interest rate, prepayment rate, unit loss rate, default rate multiplier and discount rate.

Significant decreases (increases) in interest rates or prepayment rates could result in significantly lower (higher) fair value measurements. Significant increases (decreases) in unit loss rates, default rate multiplier or discount rates could result in significantly lower (higher) fair value measurements.

The composition of the Company's portfolio by industry at cost and fair value as of March 31, 2016 was as follows:

Industry	Cost of Investments		Fair Value of Investments	
(\$ in thousands)				
Miscellaneous Manufacturing	\$79,042	18.0 %	\$78,384	19.5 %
Health Services	44,153	10.1	33,615	8.3
Miscellaneous Retail	42,754	9.8	42,877	10.6
Miscellaneous Services	33,307	7.6	20,948	5.2
Consumer Finance Services	29,129	6.7	31,651	7.8
Communications	26,073	6.0	25,650	6.3
Oil & Gas	24,615	5.6	23,472	5.8
Transportation Services	19,396	4.4	18,103	4.5
Electrical Equipment	12,151	2.8	11,912	2.9
Agricultural Services	11,180	2.6	5,664	1.4
Broadcasting & Entertainment	11,136	2.6	11,120	2.7
Insurance Agents	10,303	2.4	10,290	2.5
Specialty Services	10,203	2.3	10,203	2.5
Chemicals	10,046	2.3	10,046	2.5
Building & Real Estate	9,909	2.3	9,842	2.4
Cosmetics/Toiletries	9,892	2.3	9,892	2.4
Business Services	9,873	2.3	9,873	2.4
Food Stores - Retail	9,840	2.3	9,863	2.4
Printing & Publishing	9,088	2.1	9,087	2.2
Automotive	7,487	1.7	7,561	1.9
Equipment Rental & Leasing, Not Elsewhere Classified	6,987	1.6	6,968	1.7
Computer Programming, Data Processing, & Other Computer Related Services	2,870	0.7	2,870	0.7
Apparel Products	2,714	0.6	1,815	0.4
Nonferrous metal/minerals	1,972	0.5	1,960	0.5
Metal Mining	1,949	0.4	1,888	0.5
	\$436,069	100.0 %	\$405,554	100.0 %

Refer to the consolidated schedule of investments for detailed disaggregation of the Company's investments.

**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016****4. Fair Value of Financial Instruments – (continued)**

The composition of the Company's portfolio by industry at cost and fair value as of December 31, 2015 was as follows:

Industry	Cost of Investments			Fair Value of Investments	
(\$ in thousands)					
Miscellaneous Manufacturing	\$73,278	16.6 %	\$73,229	17.7 %	
Health Services	46,794	10.7	41,472	10.0	
Miscellaneous Retail	35,024	8.0	35,158	8.5	
Consumer Finance Services	34,083	7.8	36,558	8.8	
Miscellaneous Services	32,985	7.5	22,386	5.4	
Communications	26,424	6.0	26,182	6.3	
Oil & Gas	24,952	5.7	24,049	5.8	
Transportation Services	19,125	4.4	18,111	4.4	
Specialty Services	13,954	3.2	13,898	3.3	
Electrical Equipment	12,185	2.8	12,136	2.9	
Broadcasting & Entertainment	11,160	2.6	11,146	2.7	
Agricultural Services	10,339	2.4	5,040	1.2	
Insurance Agents	10,325	2.4	10,311	2.5	
Chemicals	10,102	2.3	10,102	2.4	
Cosmetics/Toiletries	10,010	2.3	10,010	2.4	
Business Services	9,989	2.3	9,988	2.4	
Building & Real Estate	9,962	2.3	9,962	2.4	
Food Stores - Retail	9,290	2.1	9,290	2.2	
Printing & Publishing	9,143	2.1	9,143	2.2	
Automotive	7,431	1.7	7,512	1.8	
Equipment Rental & Leasing, Not Elsewhere Classified	6,985	1.6	6,961	1.7	
Computer Programming, Data Processing, & Other Computer Related Services	2,918	0.7	2,918	0.7	
Apparel Products	2,714	0.6	1,815	0.4	

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Retail-Building Materials, Hardware, Garden Supply & Mobile Home Dealers	1,986	0.5	1,967	0.5
Nonferrous metal/minerals	1,976	0.5	1,968	0.5
Stone, Clay, Glass, & Concrete Products	1,973	0.5	1,928	0.5
Metal Mining	1,946	0.4	1,761	0.4
	\$437,053	100.0%	\$415,001	100.0%

Refer to the consolidated schedule of investments for detailed disaggregation of the Company's investments.

### 5. Indemnifications

In the normal course of business, the Company enters into certain contracts that provide a variety of indemnifications. The Company's maximum exposure under these indemnifications is unknown. However, no liabilities have arisen under these indemnifications in the past and, while there can be no assurances in this regard, there is no expectation that any will occur in the future. Therefore, the Company does not consider it necessary to record a liability for any indemnifications under U.S. GAAP.

### 6. Due To and Due From Counterparties

The Company executes investment transactions with agents, brokers, investment companies, agent banks and other financial institutions. Due to and due from counterparties include amounts related to unsettled purchase and sale transactions of investments, and principal paydowns receivable from the borrowers.

Amounts due to counterparties were \$1.6 million and \$0.4 million as of March 31, 2016 and December 31, 2015, respectively. Amounts due from counterparties were \$11.9 million and \$1.6 million as of March 31, 2016 and December 31, 2015, respectively.

### 7. Financing

As of March 31, 2016, the total carrying value of the Company's aggregate debt outstanding was \$235.5 million with a weighted average effective interest rate of 3.40%. The Company's debt outstanding as of March 31, 2016 was comprised of notes issued by GF 2013-2 and GLC Trust 2013-2 as well as Garrison SBIC borrowings.



**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016****7. Financing – (continued)**

The table below provides details of our outstanding debt as of March 31, 2016:

March 31, 2016	Amortized Carrying Value	Outstanding Principal at Par	Interest Rate	Rating <sup>(2)</sup>	Stated Maturity
(\$ in thousands)					
Senior Secured Notes:					
Class A-1R Notes	\$40,500	\$40,500	LIBOR + 1.90% <sup>(1)</sup>	AAA(sf)	9/25/2023
Class A-1T Notes	108,342	111,175	LIBOR + 1.80%	AAA(sf)	9/25/2023
Class A-2 Notes	23,683	24,150	LIBOR + 3.40%	AA(sf)	9/25/2023
Class B Notes	24,540	25,025	LIBOR + 4.65%	A (sf)	9/25/2023
Garrison SBIC Borrowings:					
SBIC 2016-10 A	12,275	12,700	3.25% <sup>(3)</sup>	N/A	3/1/2026
SBIC 2015-10 B	13,473	14,000	3.57% <sup>(3)</sup>	N/A	9/1/2025
GLC Trust 2013-2 Notes:					
Class A Notes	12,681	12,932	3.00%	N/A	7/15/2021
	<b>\$235,494</b>	<b>\$240,482</b>			

(1) May bear interest at either the CP Rate (as defined in the indenture governing the CLO) or the London Interbank Offered Rate ("LIBOR").

(2) Represents an S&P rating as of the closing of the CLO.

(3) Represents the stated interest rate and annual charge of our SBA-guaranteed debentures.



The table below provides details of our outstanding debt as of December 31, 2015:

December 31, 2015	Amortized Carrying Value	Outstanding Principal at Par	Interest Rate	Rating <sup>(2)</sup>	Stated Maturity
(\$ in thousands)					
Senior Secured Notes:					
Class A-1R Notes	\$ 35,000	\$ 35,000	LIBOR + 1.90% <sup>(1)</sup>	AAA(sf)	9/25/2023
Class A-1T Notes	108,248	111,175	LIBOR + 1.80%	AAA(sf)	9/25/2023
Class A-2 Notes	23,667	24,150	LIBOR + 3.40%	AA(sf)	9/25/2023
Class B Notes	24,524	25,025	LIBOR + 4.65%	A (sf)	9/25/2023
Garrison SBIC Borrowings:					
SBIC Borrowings	18,546	19,340	3.57% <sup>(3)</sup>	N/A	9/1/2025 <sup>(4)</sup>
GLC Trust 2013-2 Notes:					
Class A Notes	15,664	15,978	3.00%	N/A	7/15/2021
	<b>\$ 225,649</b>	<b>\$ 230,668</b>			

(1) May bear interest at either the CP Rate (as defined in the indenture governing the CLO) or LIBOR.

(2) Represents an S&P rating as of the closing of the CLO.

(3) Represents the stated interest rate and annual charge of our SBA-guaranteed debentures. The current balance includes interim financings of \$5.3 million outstanding as of December 31, 2015. These interim financings have an interest rate of LIBOR + 1.04% and a maturity date of March 23, 2016, upon which they were pooled into the SBA-guaranteed debentures.

(4) Represents maturity date of our SBA-guaranteed debentures.

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing (other than the SBA debentures of Garrison SBIC, as permitted by exemptive relief the Company has been granted by the SEC). As of March 31, 2016 and December 31, 2015, the Company's asset coverage for borrowed amounts was 202.2% and 208.8%, respectively.

In accordance with the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Topic 835)*, deferred debt issuance costs were retrospectively adjusted for December 31, 2015 to be reflected as a liability, net of the carrying amount of the debt liabilities. As of December 31, 2015, these deferred debt issuance costs were reflected as an asset. As a result, total assets and total liabilities as of December 31, 2015 have both decreased by \$4.3 million.

**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016****7. Financing – (continued)**

The table below shows the weighted average interest rates and weighted average effective interest rates, inclusive of deferred debt issuance costs, of our debt as of March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
Senior Secured Revolving Notes:				
Weighted average interest rate	2.52	%	2.40	%
Weighted average effective interest rate <sup>(1)</sup>	2.57		2.48	
Senior Secured Term Notes:				
Weighted average interest rate	3.10		2.86	
Weighted average effective interest rate <sup>(1)</sup>	3.52		3.26	
GLC Trust 2013-2 Class A Notes:				
Weighted average interest rate	3.00		3.00	
Weighted average effective interest rate <sup>(1)</sup>	3.56		3.09	
SBIC Borrowing:				
Weighted average interest rate	3.42		3.02	
Weighted average effective interest rate <sup>(1)</sup>	3.82		3.97	
Total				
Total weighted average interest rate	3.03		2.81	
Total weighted average effective interest rate <sup>(1)</sup>	3.40		3.20	

<sup>(1)</sup> Includes the effects of deferred debt issuance costs

***Senior Secured Notes***

On November 5, 2010, GF 2010-1 completed a \$300.0 million collateralized loan securitization. GF 2010-1 was the borrower under a CLO facility which consisted of senior secured notes (collectively, the “GF 2010-1 Notes”).

On May 21, 2012, GF 2012-1, the Company's wholly owned indirect subsidiary, entered into the Credit Facility in an aggregate principal amount of \$150.0 million which was utilized, along with cash on hand of GF 2010-1 and Garrison Capital LLC, to redeem the existing GF 2010-1 Notes. On June 5, 2013, GF 2012-1 entered into an agreement to increase the size of the Credit Facility from \$150.0 million to \$175.0 million, which consisted of \$125.0 million of Class A-T Loans and \$50.0 million of Class A-R Loans. All other terms of the Credit Facility remained unchanged.

In connection with the execution of the Credit Facility and the redemption of the GF 2010-1 Notes in accordance with the indenture governing such notes, a majority of the loans and other assets owned or financed under such indenture were sold or contributed to GF 2012-1 as collateral for the Credit Facility.

On September 25, 2013, GF 2013-2 completed the CLO through a private placement of (1) \$50.0 million of Class A-1R revolving notes ("Class A-1R Notes"); (2) \$111.2 million of Class A-1T notes ("Class A-1T Notes"); (3) \$24.2 million of Class A-2 notes ("Class A-2 Notes" and collectively with the Class A-1R Notes and the Class A-1T Notes, the "Class A Notes"); (4) \$25.0 million of Class B notes ("Class B Notes"); (5) \$13.7 million of Class C notes ("Class C Notes"), which bear interest at three-month LIBOR plus 5.50% (collectively, the Class A Notes, Class B Notes and Class C Notes are referred to as the "Secured Notes"); and (6) \$126.0 million of subordinated notes ("Subordinated Notes"), which do not have a stated interest rate (collectively, the Secured Notes and the Subordinated Notes are referred to as the "GF 2013-2 Notes"). We utilized the proceeds of the GF 2013-2 Notes, along with cash on hand, to refinance the existing Credit Facility. All of the GF 2013-2 Notes are scheduled to mature on September 25, 2023. As of March 31, 2016, GARS had retained 100% of the Class C Notes, which are eliminated in consolidation. The Subordinated Notes represent the residual interest in GF 2013-2. Immediately following the completion of the CLO, GF 2013-2 Manager owned 100% of the Subordinated Notes, which are eliminated in consolidation.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**7. Financing – (continued)**

At March 31, 2016, \$9.5 million of the Class A-1R Notes were undrawn. As of December 31, 2015, \$15.0 million of the Class A-1R Notes undrawn. The Class A-1R Notes bear a 1.00% annual fee on undrawn amounts. The fair value of the GF 2013-2 Notes approximated its carrying value on the consolidated statements of financial condition as of March 31, 2016 and December 31, 2015, respectively.

The ability of GF 2013-2 to draw under the Class A-1R Notes terminates on September 25, 2016, which is also the end of the extended reinvestment period. The Secured Notes are secured by all of the assets held by GF 2013-2.

The indenture governing the notes issued as part of the CLO provides that, to the extent cash is available from cash collections, the holders of the GF 2013-2 Notes are to receive quarterly interest payments on the 20th day or, if not a business day, the next succeeding business day of February, May, August and November of each year until the stated maturity.

Under the documents governing the CLO, there are two coverage tests applicable to the Secured Notes. The first test compares the amount of interest received on the collateral loans held by GF 2013-2 to the amount of interest payable on the Secured Notes under the CLO in respect of the amounts drawn and certain expenses. To meet this first test, at any time, the aggregate amount of interest received on the collateral loans must equal, after the payment of certain fees and expenses, at least 135.0% of the aggregate amount of interest payable on the Class A Notes, 125.0% of the interest payable on the Class A Notes and Class B Notes, taken together, and 115% of the interest payable on the Class A Notes, Class B Notes and Class C Notes, taken together.

The second test compares the aggregate principal amount of the collateral loans, as calculated in accordance with the indenture, to the aggregate outstanding principal amount of the Secured Notes in respect of the amounts drawn. To meet this second test at any time, the aggregate principal amount of the collateral loans must equal at least 173.4% of

the aggregate outstanding principal amount of the Class A Notes, 156.1% of the aggregate principal amount of the Class A Notes and Class B Notes, taken together, and 148.1% of the aggregate outstanding principal amount of the Class A Notes, Class B Notes and Class C Notes, taken together.

If the coverage tests are not satisfied with respect to a quarterly payment date, GF 2013-2 will be required to apply available amounts to the repayment of interest on and principal of the GF 2013-2 Notes to the extent necessary to satisfy the applicable coverage tests and, as a result, there may be reduced funds available for GF 2013-2 to make additional investments or to make distributions on the Company's equity interests in GF 2013-2. Additionally, compliance is measured on each day collateral loans are purchased, originated or sold and in connection with monthly reporting to the note holders.

Furthermore, if under the second coverage test the aggregate principal amount of the collateral loans equals 125.0% or less of the aggregate outstanding principal amount on the Class A-1T Notes and Class A-1R Notes, taken together, and remains so for ten business days, an event of default will be deemed to have occurred. As of March 31, 2016 and December 31, 2015, the trustee for the CLO has asserted that all of the coverage tests were met.

#### ***Garrison SBIC Borrowings***

As discussed in Note 1, Garrison SBIC received a license to operate as an SBIC from the SBA on May 26, 2015. The SBIC license allows Garrison SBIC to obtain SBA-guaranteed debentures in an amount equal to twice its equity capitalization up to \$150.0 million of leverage, subject to the issuance of a capital commitment by the SBA and other customary procedures. On June 16, 2015, the SBA issued Garrison SBIC a commitment to provide \$35.0 million of leverage.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**7. Financing – (continued)**

The SBA issues SBA-guaranteed debentures bi-annually on pooling dates in March and September of each year. These debentures are non-recourse, interest only debentures with a 10 year stated maturity, but may be prepaid at any time without penalty. The interest rate of the debentures is fixed at the time of issuance and is based on a coupon rate over the ten year treasury rate at the time of issuance. Interest on the debentures is payable on a semi-annual basis. The SBA issues interim financings to SBICs on non-pooling dates that carry a lower interest rate than the debentures and mature on the next pooling date.

The SBA, as a creditor, will have a superior claim to Garrison SBIC's assets over the Company's stockholders if Garrison SBIC were to be liquidated, or if the SBA exercises its remedies under the SBA-guaranteed debentures issued by Garrison SBIC upon an event of default.

As of March 31, 2016, Garrison SBIC had regulatory capital of \$35.0 million and total SBIC borrowings outstanding of \$26.7 million. The SBIC borrowings were comprised of \$14.0 million and \$12.7 million of SBA guaranteed debentures that mature on September 1, 2025 and March 1, 2026, respectively. The fair value of the SBIC borrowings approximated its carrying value on the consolidated statement of financial condition as of March 31, 2016. As of March 31, 2016, the Company had \$8.3 million of available SBIC leverage capacity.

***GLC Trust 2013-2 Notes***

GLC Trust 2013-2 entered into a \$10.0 million revolving facility with Capital One Bank, NA on December 6, 2013. The revolving facility included an accordion feature, such that GLC Trust 2013-2 was permitted to increase the total commitment up to \$15.0 million under the terms of the loan agreement. GLC Trust 2013-2 exercised this option on December 20, 2013.

On July 11, 2014, GARS increased the GLC Trust 2013-2 Revolver commitment by \$15.0 million, for a total commitment of \$30.0 million. On July 18, 2014, GARS completed a \$39.2 million term debt securitization collateralized by the GLC Trust 2013-2 consumer loan portfolio ("GLC Trust 2013-2 Securitization").

The notes offered in the GLC Trust 2013-2 Securitization were issued by GLC Trust 2013-2 and consisted of \$36.9 million of Class A Notes ("GLC Trust 2013-2 Class A Notes") and \$2.3 million of Class B Notes ("GLC Trust 2013-2 Class B Notes", and collectively with the GLC Trust 2013-2 Class A Notes, the "GLC Trust 2013-2 Notes"). As of March 31, 2016, GARS has retained all of the Class B Notes, which are eliminated in consolidation.

The GLC Trust 2013-2 Class A Notes bear interest at 3.00% per annum and are scheduled to mature on July 15, 2021. The proceeds of the GLC Trust 2013-2 Notes were used to refinance the GLC Trust 2013-2 Revolver, which was fully paid down and terminated concurrent with the issuance of the GLC Trust 2013-2 Notes.

The fair value of the GLC Trust 2013-2 Notes approximated the carrying value on the consolidated statements of financial condition as of March 31, 2016 and December 31, 2015, respectively.

The indenture governing the GLC Trust 2013-2 Notes provides that, to the extent cash is available from cash collections, the holders of the GLC Trust 2013-2 Notes are to receive monthly interest and principal payments on the 15th day or, if not a business day, the next succeeding business day, commencing in August 2014, until the stated maturity.

Under the indenture governing the GLC Trust 2013-2 Notes, there are two applicable monthly tests. The first test compares the principal balance of the underlying loans to the principal balance of the GLC Trust 2013-2 Notes. To meet this first test, the aggregate principal balance of the underlying loans less the aggregate principal balance of the GLC Trust 2013-2 Notes must equal, at least, the greater of (1) 13.00% of the aggregate principal balance of the underlying loans as of the end of the prior month and (2) 5.25% of the loan pool balance as of July 11, 2014.

The second test compares the ratio of the dollar amount of cumulative defaults to the original principal balance of the underlying loans as of July 11, 2014 ("Cumulative Default Ratio") to the Cumulative Default Ratio trigger level, as stated in the indenture. To meet this second test, the Cumulative Default Ratio must not exceed the Cumulative Default Ratio trigger level.

If these tests are not satisfied with respect to a monthly payment date and are not cured within 45 days, an event of default will be deemed to have occurred and the GLC Trust 2013-2 Notes will become immediately due and payable, in accordance with the terms of the indenture. As of March 31, 2016, all of the coverage tests were met.





**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**7. Financing – (continued)**

***Deferred Debt Issuance Costs and other Fees***

Fees paid as part of the execution of the Credit Facility, the refinance of the Credit Facility and the execution of the CLO in the amount of \$6.2 million consisted of facility fees of \$4.3 million and other costs of \$1.9 million, which included rating agency fees and legal fees. Fees paid as part of the execution of the GLC Trust 2013-2 Securitization in the amount of \$0.4 million consisted of legal and other fees. For the three months ended March 31, 2016, we paid total fees of \$0.2 million on our SBIC borrowings. Fees paid as part of the execution of our SBIC borrowings include a 1.00% commitment fee on our \$35.0 million commitment, 2.00% leverage fees and 0.43% of other fees on amounts drawn. These costs are included in deferred debt issuance costs on the consolidated statements of financial condition and will be amortized over the stated maturity of the respective loans, with \$4.4 million and \$4.4 million of deferred debt issuance costs remaining as of March 31, 2016 and December 31, 2015, respectively.

**8. Related Party Transactions**

**Investment Advisory Agreement**

GARS entered into the Investment Advisory Agreement with the Investment Adviser, which was effective as of October 9, 2012 and subsequently amended and restated on May 6, 2014. A new Investment Advisory Agreement was approved by the Company's stockholders on May 1, 2015. Under the Investment Advisory Agreement, the Investment Adviser is entitled to a base management fee for its services calculated at an annual rate of 1.75% of gross assets, excluding cash and cash equivalents, and cash and cash equivalents, restricted, but including assets purchased with borrowed funds. For purposes of the Investment Advisory Agreement, cash equivalents means U.S. government securities and commercial paper maturing within 270 days of purchase.

### *Management Fees*

The following table details our management fee expenses for the three months ended March 31, 2016, and March 31, 2015:

(\$ in thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Management fees		
Management fees	\$ 1,850	\$ 1,990
Total management fees	\$ 1,850	\$ 1,990

Management fees of \$1.8 million were payable as of both March 31, 2016 and December 31, 2015, and are included in management fee payable on the consolidated statements of financial condition.

### *Incentive Fee Overview*

Under the Investment Advisory Agreement, the Investment Adviser is entitled to an incentive fee consisting of two components and a cap and deferral mechanism. The two components are independent of each other, and may result in one component being payable even if the other is not.

The first component, which is income-based and payable quarterly in arrears, equals 20% of the amount, if any, that the Company's pre-incentive fee net investment income exceeds a 2.00% quarterly (8.00% annualized) hurdle rate (the "Hurdle Rate"), subject to a "catch-up" provision measured at the end of each calendar quarter.

The operation of the first component of the incentive fee for each quarter is as follows:

- no incentive fee is payable to the Investment Adviser in any calendar quarter in which the Company's pre-incentive fee net investment income does not exceed the Hurdle Rate;

100% of the Company's pre-incentive fee net investment income with respect to that portion of the Company's pre-incentive fee net investment income, if any, that exceeds the Hurdle Rate but is less than 2.50% in any calendar quarter (10.00% annualized). We refer to this portion of the Company's pre-incentive fee net investment income (which exceeds the Hurdle Rate but is less than 2.50%) as the "catch-up". The effect of the "catch-up" provision is that, if the Company's pre-incentive fee net investment income exceeds 2.50% in any calendar quarter, the Investment Adviser will receive 20% of such pre-incentive fee net investment income as if the Hurdle Rate did not apply; and

20% of the amount of the Company's pre-incentive fee net investment income, if any, that exceeds 2.50% in any calendar quarter (10.00% annualized) (once the Hurdle Rate is reached and the catch-up is achieved).

The portion of such incentive fee that is attributable to deferred interest (such as PIK interest or original issue discount) will be paid to the Investment Adviser, together with any other interest accrued on the loan from the date of deferral to the date of payment, only if and to the extent the Company actually receives such interest in cash, and any accrual thereof will be reversed if and to the extent such interest is reversed in connection with any write-off or similar treatment of the investment giving rise to any deferred interest accrual. Any reversal of such amounts would reduce net income for the quarter by the net amount of the reversal (after taking into account the reversal of incentive fees payable) and would result in a reduction and possible elimination of the incentive fees for such quarter. For the avoidance of doubt, no incentive fee will be paid to the Investment Adviser on amounts accrued and not paid in respect of deferred interest.

The second component, which is capital gains-based, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and equals 20% of the Company's cumulative aggregate realized capital gains through the end of such year, computed net of the Company's aggregate cumulative realized capital losses and aggregate cumulative unrealized capital loss through the end of such year, less the aggregate amount of any previously paid capital gains incentive fees and subject to the Incentive Fee Cap and Deferral Mechanism described below. The capital-gains component of the incentive fee excludes any portion of realized gains (losses) that are associated with the reversal of any portion of unrealized gain/(loss) attributable to periods prior to April 1, 2013. The capital gains component of the incentive fee is not subject to any minimum return to stockholders.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**8. Related Party Transactions – (continued)**

Under U.S. GAAP, we are required to accrue a capital gains incentive fee based upon the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital gain and loss on investments held at the end of each period. If such amount is positive at the end of a period, then the Company will record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such period.

The Investment Advisory Agreement does not permit unrealized capital gains for purposes of calculating the amount payable to the Investment Adviser. Amounts due related to unrealized capital gains, if any, will not be paid to the Investment Adviser until realized under the terms of the Investment Advisory Agreement (as described above).

*Incentive Fee Cap and Deferral Mechanism*

We have structured the calculation of these incentive fees to include a fee limitation such that no incentive fee will be paid to our Investment Adviser for any fiscal quarter if, after such payment, the cumulative incentive fees paid to our Investment Adviser for the period that includes such fiscal quarter and the 11 full preceding fiscal quarters (the “Incentive Fee Look-back Period”), would exceed 20.0% of our cumulative pre-incentive fee net return during the applicable Incentive Fee Look-back Period. The Incentive Fee Look-back Period commenced on April 1, 2013. Prior to April 1, 2016, the Incentive Fee Look-back Period consisted of fewer than 12 full fiscal quarters.

The following table provides a breakdown of our incentive fees for the three months ended March 31, 2016 and March 31, 2015:

	Three Months	Three Months
--	-----------------	-----------------

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(\$ in thousands)	Ended March 31, 2016	Ended March 31, 2015
<b>Incentive fees</b>		
Income-based incentive fees	\$1,172	\$1,675
Capital gains-based incentive fees <sup>(1)</sup>	-	(980 )
Incentive fees subject to cap and deferral mechanism <sup>(2)</sup>	(1,172)	-
Total incentive fees	\$-	\$695

Capital Gains-Based Incentive Fee included the reversal of \$(0.8) million of incentive fees on unrealized capital gains/(losses) as calculated under U.S. GAAP for the three months March 31, 2015.

(1) As of March 31, 2016, the Investment Adviser had calculated an aggregate of \$14.4 million (net of \$0.3 million waiver) of income-based incentive fees since the Company's IPO, of which \$10.6 million had been paid as of March 31, 2016. Due to aggregate cumulative realized and unrealized capital gains and losses, as calculated under U.S. GAAP, experienced through March 31, 2016, our Cumulative Pre-Incentive Fee Net Return decreased. As a result, as of March 31, 2016, aggregate incentive fees payable to the Investment Adviser since the Company's IPO were capped by the Incentive Fee Cap and Deferral Mechanism at \$8.4 million (i.e., 20% of our Cumulative Pre-Incentive Fee Net Return since completion of the IPO).

Due to the fact that there is no clawback of amounts previously paid to the Investment Adviser in accordance with the Investment Advisory Agreement, the Company has not recorded a receivable for the \$2.2 million difference between amounts paid under the Investment Advisory Agreement in prior quarters and the Incentive Fee Cap based on the Company's Cumulative Pre-Incentive Fee Net Return as of March 31, 2016.

The \$2.2 million difference may be used to reduce future amounts earned by the Investment Adviser. However, as noted above, no incentive fee will be paid to the Investment Adviser for any fiscal quarter if, after such payment, the cumulative incentive fees paid to our Investment Adviser for the Incentive Fee Look-back Period would exceed 20% of our Cumulative Pre-Incentive Fee Net Return during the applicable Incentive Fee Look-back Period. To the extent unrealized capital losses incurred as of March 31, 2016 are reversed within the applicable Incentive Fee Look-back Period, the corresponding increase in our Cumulative Pre-Incentive Fee Net Return may result in the Investment Adviser earning and being paid up to \$4.1 million of income based incentive fees which are currently subject to the Incentive Fee Cap.

As of March 31, 2016, the Incentive Fee Look-back Period is in effect through December 31, 2018 and realized and unrealized capital gains and losses and pre-incentive net investment income earned through March 31, 2016 will cease to impact the Incentive Fee Cap and Deferral after this date.

The Investment Adviser did not earn any aggregate incentive fees for the three months ended March 31, 2016. The Investment Adviser earned aggregate incentive fees of \$0.7 million for the three months ended March 31, 2015. No incentive fees were payable on the consolidated statements of financial condition as of March 31, 2016 and December 31, 2015, respectively.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**8. Related Party Transactions – (continued)**

**Administration Agreement**

As discussed in Note 1, GARS entered into the Administration Agreement with GARS Administrator. Under the Administration Agreement, the GARS Administrator provides the Company with office facilities, equipment, clerical, bookkeeping and record keeping services at such facilities and such other services as the GARS Administrator, subject to review by the Board, from time to time determines to be necessary or useful to perform its obligations under the Administration Agreement. The GARS Administrator is responsible for the financial and other records that the Company is required to maintain and prepares reports to stockholders, and reports and other materials filed with the SEC. The GARS Administrator provides on the Company's behalf significant managerial assistance to those portfolio companies to which the Company is required to provide such assistance. No managerial assistance was provided to any portfolio companies for the three months ended March 31, 2016 and March 31, 2015.

In addition, the GARS Administrator assists the Company in determining and publishing the Company's net asset value, overseeing the preparation and filing of the Company's tax returns, and the printing and dissemination of reports to stockholders of the Company, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. The Company reimburses the GARS Administrator for the costs and expenses incurred by the GARS Administrator in performing its obligations and providing personnel and facilities as described.

GLC Trust 2013-2 entered into the GLC Trust 2013-2 Administration Agreement with GARS Administrator. Fees incurred under this agreement are included in total administrator expenses presented on the consolidated statement of operations.

Administrator charges were \$0.2 million for both the three months ended March 31, 2016 and March 31, 2015, respectively. No charges were waived by the GARS Administrator for the three months ended March 31, 2016 and March 31, 2015. Administration fees of \$0.2 million were payable to the GARS Administrator as of March 31, 2016. No administration fees were payable to the GARS Administrator as of December 31, 2015.



## **Garrison Capital Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

#### **8. Related Party Transactions – (continued)**

##### **Directors' Fees**

The Company's independent directors each receive an annual fee of \$75,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each in-person Board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting.

In addition, the chairman of the audit committee receives an annual fee of \$10,000, the chairman of the valuation committee receives an annual fee of \$10,000 and each chairman of any other committee receives an annual fee of \$5,000 for their additional services in these capacities (all such fees and reimbursements collectively, "Directors' Fees"). No compensation is paid to directors who are not independent of the Company and the Investment Adviser.

For the three months ended March 31, 2016 and March 31, 2015, independent directors earned Directors' Fees of \$0.1 million and \$0.1 million, respectively. No Directors' Fees were payable as of March 31, 2016 and December 31, 2015.

##### **Affiliated Stockholders**

GSOFF LLC, GSOFF 2014 LLC, GSOFF-SP LLC, GSOFF-SP 2014 LLC, GSOFF-SP II LLC, GSOFF-SP 2014 II LLC, GSOFF-SP DB LLC (subsidiaries of Garrison Special Opportunities Fund LP), GSOIF Corporate Loan Pools Ltd. (a subsidiary of Garrison Special Opportunities Institutional Fund LP), GCOH SubCo 2014-1 LLC (a subsidiary of Garrison Credit Opportunities Holdings L.P.), GCOH SubCo 2014-2 LLC (a subsidiary of Garrison Credit Opportunities Holdings L.P.), Garrison Capital Fairchild I Ltd. (a subsidiary of Fairchild Offshore Fund L.P.),

Garrison Capital Fairchild II Ltd. (a subsidiary of Fairchild Offshore Fund II L.P.) and Garrison Capital Adviser Holdings MM LLC (collectively, the “Garrison Funds”) are all entities that are owned by funds that are managed by the Investment Manager.

As of December 31, 2014, the Garrison Funds owned an aggregate of 2,024,372, or 12.1%, of the total outstanding common shares of GARS, and the officers and directors of the Company directly owned an aggregate of 73,032, or 0.4%, of the total outstanding common shares of GARS. On March 19, 2015, GSOF LLC, GSOF-SP LLC, GSOF-SP II LLC, GSOF-SP DB LLC, GSOIF Corporate Loan Pools Ltd., and GCOH SubCo 2014-1 LLC. (collectively, the “Garrison Offering Funds”) sold an aggregate 884,990 shares of GARS common stock in a secondary offering. In connection with this sale, the Garrison Offering Funds agreed to reimburse the Company for certain fees and expenses in the amount of \$18,654 incurred in connection with the filing of the Company’s Registration Statement. On March 23, 2015, the Garrison Offering Funds sold an aggregate of 125,000 shares of GARS common stock in a private offering. On May 8, 2015, Garrison Capital Fairchild I Ltd. and Garrison Capital Fairchild II Ltd sold an aggregate 200,000 shares of GARS common stock in a secondary offering.

On August 10, 2015 GSOF 2014 LLC, GSOF-SP 2014 LLC, GSOF-SP 2014 II LLC and GCOH SubCo 2014-2 LLC distributed an aggregate of 24,472 shares to certain officers and members of senior management of the Company. As of December 31, 2015, Garrison Capital Fairchild I Ltd., Garrison Capital Fairchild II Ltd. and Garrison Capital Adviser Holdings MM LLC owned an aggregate of 789,910, or 4.8%, of the total outstanding shares of GARS common stock. The officers and directors of the Company owned an aggregate of 119,921, or 0.7%, of the total outstanding shares of GARS common stock.

As of March 31, 2016, Garrison Capital Fairchild I Ltd., Garrison Capital Fairchild II Ltd. and Garrison Capital Adviser Holdings MM LLC owned an aggregate of 789,910, or 4.9%, of the total outstanding shares of GARS common stock, the officers and directors of the Company directly owned an aggregate of 159,860, or 1.0%, of the total outstanding shares of GARS common stock, and the Garrison Offering Funds held zero shares of common stock.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**8. Related Party Transactions – (continued)**

**Other**

Garrison Loan Agency Services LLC acts as the administrative and collateral agent for certain loans held by the Company. No fees were paid by the Company to Garrison Loan Agency Services LLC during the three months ended March 31, 2016 and March 31, 2015.

The Company may invest alongside other clients of the Investment Manager and their affiliates in certain circumstances where doing so is consistent with applicable law, SEC staff interpretations and the terms of our exemptive relief.

For certain other expenses, the GARS Administrator facilitates payments by GARS to third parties through the Investment Adviser or other affiliate. Other than the amount of expenses paid to third parties no additional charges or fees are assessed by the GARS Administrator, Investment Advisor or other affiliate.

**9. Financial Highlights**

The following table represents financial highlights for the Company for the three months ended March 31, 2016 and March 31, 2015:

Per share data

March 31, 2016

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		March 31, 2015	
(\$ in thousands, except share and per share amounts)			
Net asset value per common share at beginning of period	\$ 13.98	\$ 15.58	
Increase in net assets from operations:			
Net investment income	0.36	0.46	
Net realized (loss) on investments	(0.01 )	(0.03 )	
Net unrealized (loss) on investments	(0.52 )	(0.25 )	
Net increase in net assets from operations	(0.17 )	0.18	
Stockholder transactions			
Repurchase of common stock	0.04	-	
Distributions from net investment income	(0.35 )	(0.35 )	
Total stockholder transactions	(0.31 )	(0.35 )	
Net asset value per common share at end of period	\$ 13.50	\$ 15.41	
Per share market value at beginning of period	\$ 12.17	\$ 14.44	
Per share market value at end of period	10.73	14.90	
Total book return <sup>(1)</sup>	(0.93 )%	1.16 %	
Total market return <sup>(2)</sup>	(8.94 )%	5.61 %	
Common shares outstanding at beginning of period	16,507,594	16,758,779	
Common shares outstanding at end of period	16,234,814	16,758,779	
Weighted average common shares outstanding	16,319,453	16,758,779	
Net assets at beginning of period	\$ 230,710	\$ 261,103	
Net assets at end of period	\$ 219,188	\$ 258,209	
Average net assets <sup>(3)</sup>	\$ 227,256	\$ 262,283	
Ratio of net investment income to average net assets <sup>(4)</sup>	10.38 %	10.65 %	
Ratio of net expenses to average net assets <sup>(4)</sup>	9.08 %	9.91 %	
Ratio of portfolio turnover to average investments at fair value <sup>(5)</sup>	8.29 %	7.77 %	
Asset coverage ratio <sup>(6)</sup>	202.22 %	212.85 %	
Average outstanding debt <sup>(7)</sup>	\$ 234,679	\$ 236,045	
Average debt per common share	\$ 14.46	\$ 14.08	

(1) Total book return equals the net increase of ending net asset value from operations plus the effect of repurchases of common stock over the net asset value per common share at the beginning of the period.

(2) Based upon the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.

(3) Calculated utilizing monthly net assets.

(4) During the three months ended March 31, 2016, \$1.2 million of Income-based incentive fees were capped as a result of the Incentive Fee Cap and Deferral Mechanism. Had these incentive fees been earned, the ratio of net investment income to average net assets and the ratio of net expenses to average net assets would have been 8.32% and 10.62%, respectively.

(5) Calculated based on monthly average investments at fair value.

(6) In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. Based on the exemptive relief received from the SEC, our SBIC Borrowings are excluded from the Company's asset coverage test calculation.

(7) Calculated based on monthly debt outstanding.

**Garrison Capital Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****March 31, 2016****10. Earnings per Share**

The following table sets forth the computation of the net increase in net assets per share resulting from operations, pursuant to FASB ASC 260, *Earnings per Share*, for the three months ended March 31, 2016 and March 31, 2015:

(\$ in thousands, except share and per share amounts)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net (decrease)/increase in net asset resulting from operations	\$(2,695 )	\$2,972
Basic weighted average shares outstanding	16,319,453	16,758,779
Basic earnings per share/unit	\$(0.17 )	\$0.18

**11. Dividends and Distributions**

The Company's dividends and distributions are recorded on the ex-dividend date. The following table reflects the cash distributions, including dividends and returns of capital per share, declared on common stock for the three months ended March 31, 2016 and March 31, 2015:

Record Dates	Board Approval Date	Payment Date	Distribution Declared	Distribution Declared per Share
Three months ended March 31, 2016 (1)			(\$ in thousands)	
March 8, 2016	February 24, 2016	March 28, 2016	\$ 5,685	\$ 0.35
			\$ 5,685	\$ 0.35

(1) Does not include any return of capital for tax purposes.

Record Dates	Board Approval Date	Payment Date	Distribution Declared	Distribution Declared per Share
Three months ended March 31, 2015 (1)			(\$ in thousands)	
March 20, 2015	March 3, 2015	March 27, 2015	\$ 5,866	\$ 0.35
			\$ 5,866	\$ 0.35

(1) Does not include any return of capital for tax purposes.

Dividends from net investment income and distributions from net realized capital gains are determined in accordance with U.S. federal income tax regulations, which may differ from those amounts determined in accordance with U.S. GAAP.

**Garrison Capital Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (unaudited)**

**March 31, 2016**

**12. Commitments and Contingencies**

The Company had outstanding commitments to fund investments totaling \$6.4 million and \$6.9 million under various undrawn revolvers and other credit facilities as of March 31, 2016 and December 31, 2015, respectively.

In the ordinary course of business, the Company may be named as a defendant or a plaintiff in various lawsuits and other legal proceedings. Such proceedings include actions brought against the Company and others with respect to transactions to which the Company may have been a party. The outcomes of such lawsuits are uncertain and, based on these lawsuits, the values of the investments to which they relate could decrease. Management does not believe that as a result of litigation there would be any material impact on the consolidated financial condition of the Company. The Company has had no outstanding litigation proceedings brought against it since the commencement of operations on December 17, 2010.

**13. Stock Repurchase Program**

On October 5, 2015, GARS adopted a share repurchase plan that provides for repurchase of up to \$10.0 million of its common stock at prices below GARS' net asset value per share as reported in its most recent financial statements. Under the repurchase program, GARS may, but is not obligated to, repurchase shares of its outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by GARS will comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and any applicable requirements of the 1940 Act. Unless extended by the Board, the repurchase program will terminate on the earlier of October 5, 2016 or the repurchase of \$10.0 million of GARS' common stock. The Board may amend this program, solely in its discretion, at any time prior to its termination. GARS' net asset value per share was increased by approximately \$0.03 as a result of the share repurchases.

(\$ in thousands, except per share data)

Three  
Months  
Ended

Year Ended



	March 31, 2016	December 31, 2015
Dollar amount repurchased	\$3,140	\$3,314
Shares repurchased	272,780	251,185
Average price per share	\$11.51	\$13.19
Weighted average discount to net asset value	(17.73 )%	(11.67 )%

#### 14. Subsequent Events

On May 2, 2016, the Board approved a distribution in the amount of \$5.7 million, or \$0.35 a share, which will be paid on June 24, 2016 to stockholders of record as of June 10, 2016.

These consolidated financial statements were approved by the Board and were available for issuance on May 9, 2016. Subsequent events have been evaluated through this date. No material subsequent events other than as disclosed above have occurred through this date.

## Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in this section should be read in conjunction with our consolidated financial statements and related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. References to "we," "us," "our" and "Garrison Capital" refer to Garrison Capital Inc. and its consolidated subsidiaries.

### Forward-Looking Statements

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this Quarterly Report on Form 10-Q involve risks and uncertainties, including statements as to:

- our future operating results;
- changes in political, economic or industry conditions, the interest rate environment or conditions affecting the financial and capital markets, which could result in changes to the value of our assets;
- our business prospects and the prospects of our current and prospective portfolio companies;
- the impact of investments that we expect to make;
- the impact of increased competition;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy, including general economic trends, and its impact on the industries in which we invest;
- the ability of our prospective portfolio companies to achieve their objectives;
- the relative and absolute performance of Garrison Capital Advisers LLC, or the Investment Adviser, including in identifying suitable investments for us;

- our expected financings and investments;
- the adequacy of our cash resources and working capital;
- our ability to make distributions to our stockholders;
- the effects of applicable legislation and regulations and changes thereto;
- the timing of cash flows, if any, from the operations of our prospective portfolio companies; and
- the impact of future acquisitions and divestitures.

We use words such as “anticipate,” “believe,” “expect,” “intend,” “may,” “might,” “will,” “should,” “could,” “can,” “would,” “estimate,” “anticipate,” “predict,” “potential” and similar words to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth as “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q.

We have based the forward-looking statements included in this Quarterly Report on Form 10-Q on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from historical performance. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the Securities and Exchange Commission, or the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

You should understand that, under Section 27A(b)(2)(B) of the Securities Act of 1933, as amended, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with this Quarterly Report on Form 10-Q or any periodic reports we file under the Exchange Act.

## Overview

We are an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for tax purposes, we have elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code, and intend to qualify annually for such treatment. Our shares are currently listed on The NASDAQ Global Select Market under the symbol “GARS”.

Our investment objective is to generate current income and capital appreciation by making investments generally in the range of \$5.0 million to \$25.0 million primarily in debt securities and loans of U.S. based middle-market companies, which we define as those having annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of between \$5.0 million and \$30.0 million. Our goal is to generate attractive risk-adjusted returns by assembling a broad portfolio of investments.

We invest primarily in (1) first lien senior secured loans, (2) second lien senior secured loans, (3) “one-stop” senior secured or “unitranche” loans, (4) subordinated or mezzanine loans, (5) unsecured consumer loans and (6) to a lesser extent, selected equity co-investments in middle-market companies. We use the term “one-stop” or “unitranche” to refer to a loan that combines characteristics of traditional first lien senior secured loans and second lien or subordinated loans. We use the term “mezzanine” to refer to a loan that ranks senior only to a borrower’s equity securities and ranks junior in right of payment to all of such borrower’s other indebtedness.

We believe that the middle market offers attractive risk-adjusted returns for debt investors. Historically, we believe there has been a persistent scarcity of available capital relative to demand, which, from a lender’s perspective, has generally resulted in more favorable transaction structures, including enhanced covenant protection and increased pricing relative to larger companies. We further believe that the turmoil in the markets has exacerbated this scarcity of capital, as many traditional lenders to middle-market companies have exited the business or focused their attention on larger borrowers. In addition, we believe that middle-market companies traditionally have exhibited lower default rates and improved recoveries compared to larger borrowers and typically offer greater access to key senior managers, which we believe further enhances the attractiveness of lending to this market segment and facilitates due diligence investigations and regular monitoring.

Our investment activities are managed by our Investment Adviser. Our six member investment committee is comprised of Joseph Tansey, Brian Chase, Mitch Drucker, Susan George, Robert Chimenti and Joshua Brandt. Our Investment Adviser is responsible for sourcing potential investments, conducting research and diligence on prospective investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. Under an investment advisory agreement, or the Investment Advisory Agreement, with the Investment Adviser, we pay the Investment Adviser a base management fee and an incentive fee for its services. Garrison Capital Administrator LLC, or the Administrator, provides certain administrative services and facilities necessary for us to operate, including office facilities and equipment and clerical, bookkeeping and record-keeping services, pursuant to an administration agreement, or the Administration Agreement.

The Administrator oversees our financial reporting and prepares our reports to stockholders and reports required to be filed with the SEC.

The Administrator also manages the determination and publication of our net asset value and the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. The Administrator may retain third parties to assist in providing administrative services to us. To the extent that the Administrator outsources any of its functions, we pay the fees associated with such functions on a direct basis without any profit to the Administrator.

As of March 31, 2016, we held investments in 65 portfolio companies with a fair value of \$405.6 million, including investments in 47 portfolio companies held through the collateralized loan obligation, or the CLO. The investments held by the CLO as of March 31, 2016 consisted of senior secured loans fair valued at \$299.3 million and related indebtedness of \$200.3 million. The loans held by the CLO (held at fair value), together with cash and other assets held by the CLO, equaled approximately \$328.0 million as of March 31, 2016. As of March 31, 2016, our portfolio had an average investment size of approximately \$6.2 million, a weighted average yield on debt investments of 11.2% and a weighted average contractual maturity of 35 months. Weighted average yield is calculated based on the fair value of the investments and interest expected to be received using the current rate of interest at the balance sheet date to maturity, excluding the effects of future scheduled principal amortizations.

As of December 31, 2015, we held investments in 67 portfolio companies with a fair value of \$415.0 million, including investments in 50 portfolio companies held through the CLO. The investments held by the CLO as of December 31, 2015 consisted of senior secured loans fair valued at \$306.6 million and related indebtedness of \$194.8 million. As of that date, the loans held by the CLO (held at fair value), together with cash and other assets held by the CLO, equaled approximately \$323.5 million. As of December 31, 2015, our portfolio had an average investment size of approximately \$6.2 million, a weighted average yield on debt investments of 10.8% and a weighted average contractual maturity of 44 months.

### *Revenues*

We generate revenue in the form of interest earned on the debt investments that we hold and capital gains and distributions, if any, on the warrants or other equity interests that we may acquire in portfolio companies. Our debt investments, whether in the form of senior secured, unitranche or mezzanine loans, typically have a term of one to six years and bear interest at a fixed or floating rate. Interest is generally payable quarterly or semiannually, with the amortization of principal generally being deferred for several years from the date of the initial investment. In some cases, loans may have a PIK feature. The principal amount of the debt securities and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, original issue discount and market discount are recorded as a reduction of par value, and we then accrete such amounts into interest income. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and debt securities as interest income when we receive such amounts.

### *Expenses*

Our primary operating expenses include the payment of (1) the base management fee and incentive fee to the Investment Adviser under the Investment Advisory Agreement; (2) the allocable portion of overhead to the Administrator under the Administration Agreement; (3) the interest expense on our outstanding debt, if any; and (4) our other operating costs, as detailed below. We bear all other costs and expenses of our operations and transactions, including:

- our organization;
- calculating our net asset value and net asset value per share (including the cost and expenses of any independent valuation firms);
- fees and expenses, including travel expenses, incurred by the Investment Adviser or payable to third parties in performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary,

enforcing our rights;

- offerings of our common stock and other securities;

- distributions on our shares;

- transfer agent and custody fees and expenses;

- amounts payable to third parties relating to, or associated with, evaluating, making and disposing of investments;

- brokerage fees and commissions;

- registration fees;

- listing fees;
  - taxes;
  - independent director fees and expenses;
  - costs associated with our reporting and compliance obligations under the 1940 Act and applicable U.S. federal and state securities laws;
  - the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
  - costs of holding stockholder meetings;
  - our fidelity bond;
  - directors and officers/errors and omissions liability insurance and any other insurance premiums;
  - litigation, indemnification and other non-recurring or extraordinary expenses;
  - direct costs and expenses of administration and operation, including audit and legal costs;
  - fees and expenses associated with marketing efforts;
  - dues, fees and charges of any trade association of which we are a member; and
- all other expenses reasonably incurred by us or the Administrator in connection with administering our business,
- including rent and our allocable portion of the costs and expenses of our chief compliance officer, chief financial officer and their respective staffs.

During periods of asset growth, we expect our general and administrative expenses to be relatively stable or decline as a percentage of total assets and increase during periods of asset declines.

## **Recent Developments**



On May 2, 2016, our board of directors, or the Board, approved a distribution in the amount of \$5.7 million, or \$0.35 a share, which will be paid on June 24, 2016 to stockholders of record as of June 10, 2016.

## **Market Trends**

Overall loan volume in the lower middle-market decreased in Q1 2016 due primarily to a reduction in new sponsor financings. Capital markets volatility in the beginning of the quarter was a factor in the decline of sponsor volume as there was purchase price dislocation between buyers and sellers in the mergers and acquisitions market.

We believe that capital remains limited in the lower middle-market as many traditional lenders to these companies have exited the business due to continued regulatory restrictions, bank consolidation dynamics and funding constraints of BDCs.

We continue to believe that opportunities in the lower middle-market exist as many competitors have moved up-market to focus their attention on larger borrowers. Sponsor and club business volume, while recently soft, continues to represent the majority of direct lending opportunities in the lower middle-market. Lower middle-market opportunities continued to command better pricing and structures than in the broadly syndicated market and upper middle-market.

We believe that our expertise in providing non-traditional financing solutions to the lower middle-market allows us to tailor loan structures that meet borrower objectives while commanding premium pricing and maximizing the preservation of capital.

## Consolidated Results of Operations

The results of operations described below may not be indicative of the results we report in future periods. Net income can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized gains and losses. As a result, quarterly comparisons of net income may not be meaningful.

Consolidated operating results for the three months ended March 31, 2016 and March 31, 2015 are as follows:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	2016 vs 2015  Variance
(\$ in thousands, except per share data)			
Net investment income	\$5,859	\$7,682	\$(1,823)
Total investment income	11,056	13,479	(2,423)
Total expenses	5,197	5,797	(600 )
Net realized (loss)/gain on investments	(95 )	(490 )	395
Net change in unrealized (loss)/gain on investments	(8,462 )	(4,220 )	(4,242)
Net (decrease)/increase in net assets resulting from operations	(2,698 )	2,972	(5,670)
Net investment income/(loss) per share	0.36	0.46	(0.10 )
Net realized/unrealized (loss)/gain from investments per share	(0.53 )	(0.28 )	(0.25 )
Net (loss)/earnings per share	(0.17 )	0.18	(0.35 )
Net asset value per share	13.50	15.41	(1.91 )

### *Net Investment Income*

Net investment income for the three months ended March 31, 2016 and March 31, 2015 was \$5.9 million and \$7.7 million, respectively.

Net investment income decreased by \$(1.8) million for the three months ended March 31, 2016 from the three months ended March 31, 2015, as described below under “Total Investment Income” and “Expenses.”

### *Investment Income*

Investment income for the three months ended March 31, 2016 and March 31, 2015 was \$11.1 million and \$13.5 million, respectively.

Investment income decreased by (\$2.4) million for the three months ended March 31, 2016 from the three months ended March 31, 2015 due to a decrease in interest income in the amount of \$(2.1) million and a decrease in other income of \$(0.3) million. The decrease in interest income was largely driven by our non-performing assets and lower investment balances during the three months ended March 31, 2016 as compared to March 31, 2015. The decrease in other income was primarily drive by lower loan amendment and prepayment fees recognized during the three months ended March 31, 2016.

### *Expenses*

Total expenses for the three months ended March 31, 2016 and March 31, 2015 were \$5.2 million and \$5.8 million, respectively.

The following table summarizes our expenses for the three months ended March 31, 2016 and March 31, 2015:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	2016 vs. 2015  Variance
(\$ in thousands)			
Interest expense	\$2,008	\$1,850	\$ 158
Management fees	1,850	1,990	(140 )
Incentive fees	-	695	(695 )
Professional fees	386	316	70
Directors fees	107	106	1
Administrator expenses	269	242	27
Other expenses	577	598	(21 )
Total expenses	\$5,197	\$5,797	\$ (600 )

Interest expense increased \$0.2 million for the three months ended March 31, 2016 from the three months ended March 31, 2015, primarily due to an increase in the average effective interest rate on debt outstanding. As of March 31, 2016 and March 31, 2015, the weighted average effective interest rate for total outstanding debt was 3.40% and 3.00%, respectively.

Management fees decreased by (\$0.1) million for the three months ended March 31, 2016 from the three months ended March 31, 2015, primarily due to lower average gross asset balances.

Incentive fees decreased by \$(0.7) million for the three months ended March 31, 2016 from the three months ended March 31, 2015. The decrease in incentive fees during the three months ending March 31, 2016 was a result of the reversal of Income-based incentive fees that were subject to the Incentive Fee Cap and Deferral Mechanism. These reversals were driven by realized and unrealized losses on investments. Refer to Note 8 of our consolidated financial statements for additional discussion of our incentive fee.

#### *Net Realized (Loss)/Gain and Unrealized (Loss)/Gain on Investments*

For the three months ended March 31, 2016 and March 31, 2015, we realized a net loss on investments of \$(0.1) million and \$(0.5) million, respectively.

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Net realized losses for the three months ended March 31, 2016 were primarily driven by a \$(0.4) million realized loss in the GLC Trust 2013-2's consumer loan portfolio. This was offset by a \$0.3 million of realized gains from repayments and sales of portfolio investments.

Net realized losses for the three months ended March 31, 2015 were primarily driven by \$(0.8) million of realized losses in GLC Trust 2013-2's consumer loan portfolio offset by \$0.3 million of realized gains resulting from the repayment of one portfolio investment and other partial repayments.

For the three months ended March 31, 2016 and March 31, 2015, the net change in unrealized loss on investments was \$(8.5) million and \$(4.2) million, respectively.

The net change in unrealized loss for the three months ended March 31, 2016 was driven primarily by \$(6.7) million of negative credit related adjustment of four portfolio investments, a \$(1.7) million negative market-related adjustments on seven portfolio investments, and a \$(0.2) million decrease in the market value of one energy investment. This was offset by a \$0.1 million reversal of prior period unrealized losses due to the partial repayment of five portfolio investments.

The net change in unrealized loss for the three months ended March 31, 2015 was primarily driven negative credit related adjustments of three portfolio investments in the amount of \$(4.7) million and the \$(0.3) million reversal of prior period unrealized gain as a result of the repayment of one investment. This was offset by the increase in value of one portfolio investment of \$0.7 million. The remaining net change in unrealized loss on investments was due to a net increase of \$0.1 million in the market value of the portfolio.

#### *Net Increase in Net Assets from Operations*

We had a net asset value per common share outstanding on March 31, 2016 of \$13.50. We had a net asset value per common share outstanding on December 31, 2015 of \$13.98.

Based on 16,319,453 basic weighted average shares outstanding, the net decrease in net assets from operations per share for the three months ended March 31, 2016 was \$(0.17).

Based on 16,758,779 basic weighted average shares outstanding, the net increase in net assets from operations per share for the three months ended March 31, 2015 was \$0.18.

#### *Liquidity and Capital Resources*

As a business development company, we distribute substantially all of our net income to our stockholders and will have an ongoing need to raise additional capital for investment purposes. We generate cash primarily from offerings of our securities, the CLO, as described below, Garrison SBIC, other borrowings we may incur, and cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less.



As of March 31, 2016 and December 31, 2015, we had cash of \$23.6 million and \$25.0 million, respectively. Also, as of March 31, 2016 and December 31, 2015, we had restricted cash of \$11.9 million and \$11.8 million, respectively.

In addition to proceeds from public and private offerings of securities, our CLO and our GLC Trust 2013-2 Notes, as of March 31, 2016 we have identified nine portfolio companies with a total par value of \$23.1 million and a fair value of \$21.5 million which we have defined as transitory and consist of investments below the low end of our portfolio yield target of 9.0%. We view these investments as an additional source of liquidity to meet our investment objectives.

Our primary use of funds from operations includes investments in portfolio companies, cash distributions to holders of our common stock, payments of interest on our debt, and payments of fees and other operating expenses we incur. We believe that our existing cash and cash equivalents, available borrowings and our transitory portfolio as of March 31, 2016 will be sufficient to fund our anticipated funding requirements through at least March 31, 2017.

On February 24, 2016 the Board approved a distribution in the amount of \$5.8 million, or \$0.35 a share, which was paid on March 28, 2016 to stockholders of record as of March 8, 2016.

During the three months ended March 31, 2016, cash decreased by \$(1.4) million as a result of net cash used by operating activities of \$(2.2) million offset by net cash provided by financing activities in the amount of \$0.8 million.

During the three months ended March 31, 2016, cash provided by operating activities resulted mainly from net investment income in the amount of \$5.9 million, repayments and sales of investments in the amount of \$11.6 million and \$25.0 million, respectively, offset by unrealized losses in the amount of \$(8.5) million, purchases of investments of \$34.9 million, net due from counterparties of \$(9.2) million, and realized losses from investments in the amount of \$(0.1) million. Net cash used in financing activities resulted from cash distributions in the amount of \$(5.7) million, repurchases of common stock in the amount of \$(3.1) million, repayment of the GLC Trust 2013-2 Class A notes in the amount of \$(3.1) million and debt issuance costs of \$(0.2) million, offset by proceeds from the senior secured revolving notes in the amount of \$5.5 million, and proceeds from the Garrison SBIC borrowings in the amount of \$7.4 million.

During the three months ended March 31, 2015, cash increased by \$6.7 million as a result of net cash provided by operating activities of \$25.8 million offset by cash used in financing activities in the amount of \$19.1 million.

During the three months ended March 31, 2015, cash provided by operating activities resulted mainly from net investment income in the amount of \$7.7 million, repayments of investments in the amount of \$11.9 million, an increase in payables to affiliates of \$1.4 million, offset by decrease in restricted cash of \$(5.8) million. Net cash used in financing activities resulted from cash distributions in the amount of \$5.9 million, repayments of the senior secured



revolving notes in the amount of \$9.5 million, repayment of the GLC Trust 2013-2 Class A notes in the amount of \$3.8 million.

As of March 31, 2016 and December 31, 2015, we had \$6.4 million and \$6.9 million, respectively, of unfunded commitments with a fair value of \$(0.1) million and \$(0.1) million, respectively. These amounts may or may not be funded to the borrowing party now or in the future. The unfunded commitments relate to loans with various maturity dates, but the entire amount was eligible for funding to the borrowers as of March 31, 2016 and December 31, 2015, respectively, subject to the terms of each loan's respective credit agreement.

Subject to leverage and borrowing base restrictions, as of March 31, 2016, we had approximately \$9.5 million available for additional borrowings under the CLO, \$8.3 million of available small business investment company, or SBIC, leverage and no available borrowings under the GLC Trust 2013-2 Revolver. As of December 31, 2015, we had approximately \$15.0 million available for additional borrowings under the CLO, \$15.7 million of available SBIC leverage and no available borrowings under the GLC Trust 2013-2 Revolver.

*Portfolio Composition and Select Portfolio Information*

As of March 31, 2016, we held investments in 65 portfolio companies with a fair value of \$405.6 million. As of March 31, 2016, our portfolio had an average investment size of approximately \$6.2 million, a weighted average yield on debt investments of 11.2% and a weighted average contractual maturity of 35 months.

The following table shows select information of our portfolio for the periods from March 31, 2015 to March 31, 2016.

(\$ in thousands)	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total Market Value	\$405,554	\$ 415,001	\$ 407,757	\$435,072	\$452,011
Number of portfolio companies	65	67	52	54	57
Average investment size <sup>(1)</sup>	\$6,188	\$ 6,240	\$ 7,794	\$7,361	\$6,730
Weighted average yield <sup>(2)</sup>	11.2 %	10.8 %	10.9 %	11.0 %	10.8 %
Weighted average price <sup>(1)</sup>	90.9	92.9	97.3	97.1	95.9
First lien	92.4 %	91.8 %	90.6 %	88.8 %	85.8 %
Second lien & mezzanine/subordinated	1.9 %	1.8 %	1.8 %	2.6 %	5.5 %
Consumer loans	3.5 %	4.2 %	5.4 %	6.1 %	6.9 %
Equity & other	2.2 %	2.2 %	2.2 %	2.5 %	1.8 %
Core <sup>(3)</sup>	94.6 %	91.2 %	96.9 %	97.1 %	95.1 %
Transitory <sup>(3)</sup>	5.4 %	8.8 %	3.1 %	2.9 %	4.9 %
Originated <sup>(4)</sup>	57.5 %	56.4 %	61.1 %	55.3 %	50.4 %
Club <sup>(5)</sup>	27.3 %	26.1 %	27.6 %	28.7 %	27.0 %
Purchased	15.2 %	17.5 %	11.3 %	16.0 %	22.6 %
Fixed <sup>(1)</sup>	5.9 %	6.8 %	8.0 %	9.0 %	9.1 %
Floating <sup>(1)</sup>	94.1 %	93.2 %	92.0 %	91.0 %	90.9 %
Performing <sup>(1)</sup>	95.9 %	94.1 %	95.6 %	99.0 %	99.1 %
Non-accrual <sup>(1)</sup>	4.1 %	5.9 %	4.4 %	1.0 %	0.9 %
Weighted average debt/EBITDA <sup>(1) (2)</sup>	3.7 x	3.6 x	3.7 x	3.7 x	3.6 x
Weighted average risk rating <sup>(1)</sup>	2.66	2.66	2.66	2.51	2.48

(1) Excludes consumer loans and equity investments.

(2) Excludes investments with a risk rating of four, unfunded revolvers and equity investments.

(3) Q1 2016 includes the transfer of one portfolio company, total par of \$4.8 million, to core from transitory, based on the current yield.

(4) Originated positions include investments where we have sourced and led the execution of the deal.

- (5) Club positions include investments where we provided direct lending to a borrower with one or two other lenders but did not lead the deal.

- (6) Excludes non-operating portfolio companies, which we define as those investments collateralized by real estate, proved developed producing value, or PDP, or other hard assets. PDPs are proven revenues that can be produced with existing wells. As of March 31, 2016, \$31.7 million of par value and \$30.9 million of market value was excluded.

## Ongoing Monitoring

We view active portfolio monitoring as a vital part of the investment process. Our Investment Adviser monitors the financial trends of each portfolio company to determine if it is meeting its respective business plan and to assess the appropriate course of action for each company.

Our Investment Adviser uses several methods of evaluating and monitoring the performance and fair value of our investments, which may include the following:

- assessment of success in adhering to portfolio company's business plan and compliance with covenants;

- periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;

- comparisons to other portfolio companies in the industry, if any;

- attendance at and participation in board meetings; and

- review of monthly and quarterly financial statements and financial projections for portfolio companies.

Our Investment Adviser assigns an internal rating for each of our portfolio companies. The rating scale is a numeric scale of 1 to 4 based on the credit attributes and prospects of the portfolio company's business. In general, we use the ratings as follows:

- a rating of 1 denotes a high quality investment with no loss of principal expected;

- a rating of 2 denotes a moderate to high quality investment with no loss of principal expected;

- a rating of 3 denotes a moderate quality investment with market rates of expected loss of principal and potential non-compliance with financial covenants; and

- a rating of 4 denotes a low quality investment with an expected loss of principal. In the case of risk grade 4 loans, our Investment Adviser will assign a recovery value to the loan.

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The following table shows the distribution of our investments on the 1 to 4 investment risk scale at fair value, excluding our interest in GLC Trust 2013-2 and equity investments as of March 31, 2016 and December 31, 2015:

(\$ in thousands)	As of March 31, 2016			As of December 31, 2015		
	Investments	Percentage		Investments	Percentage	
	at Fair Value	of Total Investments		at Fair Value	of Total Investments	
Risk Rating 1	\$ 19,212	5.0	%	\$ 20,455	5.3	%
Risk Rating 2	142,572	37.3		139,048	35.8	
Risk Rating 3	204,434	53.5		205,995	53.0	
Risk Rating 4	16,137	4.2		22,826	5.9	
	\$ 382,355	100.0	%	\$ 388,324	100.0	%

The weighted average risk rating of the portfolio was 2.66 and 2.66 as of March 31, 2016 and December 31, 2015, respectively.

### *Inflation*

Inflation has not had a significant effect on our results of operations in any of the reporting periods presented in our financial statements. However, from time to time, inflation may impact the operating results of our portfolio companies.

*Off-Balance Sheet Arrangements*

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of March 31, 2016 and December 31, 2015, we had \$6.4 million and \$6.9 million of outstanding commitments to fund such investments, respectively.

*Contractual Obligations*

A summary of our significant contractual payment obligations as of March 31, 2016 is as follows:

(\$ in thousands)	Payments Due by Period				Total
	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years	
CLO	\$-	\$ -	\$ -	\$200,850	\$200,850
GLC Trust 2013-2 Class A Note	-	-	-	12,932	12,932
SBIC Borrowings	-	-	-	26,700	26,700
Total contractual obligations	\$-	\$ -	\$ -	\$240,482	\$240,482

We have certain contracts under which we have material future commitments. Under the Investment Advisory Agreement, the Investment Adviser provides us with investment advisory and management services. We have agreed to pay for these services (1) a base management fee equal to a percentage of the average adjusted value of our gross assets and (2) an incentive fee based on our performance.

We entered into the Administration Agreement on October 9, 2012 with the Administrator. Under the Administration Agreement, the Administrator furnishes us with office facilities and equipment, provides us clerical, bookkeeping and record keeping services and provides us with other administrative services necessary to conduct our day-to-day operations.

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that we enter into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Advisory Agreement and our Administration Agreement. Any new investment advisory agreement would also be subject to approval by our stockholders.

Both the Investment Advisory Agreement and the Administration Agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other.

### **Critical Accounting Policies**

The preparation of our financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. We have identified the following as critical accounting policies.

### *Basis for Consolidation*

Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, codified in Topic 946, Financial Services-Investment Companies, or ASC Topic 946, we are precluded from consolidating any entity other than another investment company. We generally consolidate any investment company when we own 100% of its partners' or members' capital or equity units. ASC Topic 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries. GF 2013-2 Manager owns a 100% equity interest in the CLO, which is an investment company for accounting purposes, and also provides collateral management services solely to the CLO. As such, we have consolidated the accounts of these entities into our financial statements. Our blocker subsidiaries, Walnut Hill II LLC, Forest Park II LLC, GLC Trust 2013-2 and Garrison SBIC are 100% owned investment companies. As such, we have consolidated the accounts of these entities into our financial statements. As a result of this consolidation, the amount outstanding under the CLO and the GLC Trust 2013-2 Notes are treated as our indebtedness.

### *Valuation of Portfolio Investments*

We value our investments in accordance with FASB ASC Topic 820 *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157), or ASC Topic 820. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC Topic 820's definition of fair value focuses on exit price in the principal, or most advantageous, market and prioritizes the use of market-based inputs over entity-specific inputs within a measurement of fair value. ASC Topic 820 classifies the inputs used to measure these fair values into the following hierarchy:

*Level 1 –quoted unadjusted prices in active markets for identical investments as of the reporting date.*

*Level 2 — other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.).*

*Level 3 — significant unobservable inputs (including the Investment Adviser's own assumptions about the assumptions market participants would use in determining the fair values of investments).*

The valuation process is conducted at the end of each fiscal quarter, with a portion of our valuations of portfolio companies without market quotations subject to review by the independent valuation firms each quarter.

Our portfolio consists of primarily debt investments and unsecured consumer loans. The fair value of our investments is initially determined by investment professionals of our Investment Adviser and ultimately determined by the Board



on a quarterly basis.

In valuing our debt investments, the Investment Adviser generally uses various approaches, including proprietary models that consider the analyses of independent valuation agents as well as credit risk, liquidity, market credit spreads, other applicable factors for similar transactions, bid quotations obtained from other financial institutions that trade in similar investments or based on bid prices provided by independent third party pricing services.

The types of factors that the Board may take into account when reviewing the fair value initially derived by the Investment Adviser and determining the fair value of the our debt investments generally include, as appropriate, comparison to publicly traded securities, including such factors as yield, maturity and measures of credit quality, the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business and other relevant factors.

In valuing our unsecured consumer loans, the Investment Adviser generally uses a discounted cash flow methodology based upon a set of assumptions. The primary assumptions used to value the unsecured consumer loans include prepayment and default rates derived from historical performance, actual performance as compared to historical projections and discount rate.

The types of factors that the Board may take into account when reviewing the fair value initially derived by the Investment Adviser and determining the fair value of the our consumer loan investments generally include, as appropriate, prepayment and default rates derived from historical performance, actual performance as compared to historical projections and discount rates.

Our Board has retained several independent valuation firms to review the valuation of each portfolio investment that does not have a readily available market quotation at least once during each 12-month period. To the extent a security is reviewed in a particular quarter, it is reviewed and valued by only one service provider. However, our Board does not intend to have de minimis investments of less than 0.5% of our total assets (up to an aggregate of 10% of our total assets) independently reviewed. Our Board is ultimately and solely responsible for determining the fair value of our assets using a documented valuation policy and consistently applied valuation process.

Due to the nature of our strategy, our portfolio includes relatively illiquid investments that are privately held. Inputs into the determination of fair value of our portfolio investments require significant management judgment or estimation. This means that our portfolio valuations are based on unobservable inputs and our own assumptions about how market participants would price the asset or liability in question. Valuations of privately held investments are inherently uncertain and they may fluctuate over short periods of time and may be based on estimates. The determination of fair value by our Board may differ materially from the values that would have been used if a ready market for these investments existed. Our net asset value could be materially affected if the determinations regarding the fair value of our investments were materially higher or lower than the values that we ultimately realized upon the disposal of such investments.

The valuation process is conducted at the end of each fiscal quarter, with a portion of our valuations of portfolio companies without market quotations subject to review by the independent valuation firms each quarter. When an external event with respect to one of our portfolio companies, such as a purchase transaction, public offering or subsequent equity sale, occurs, we expect to use the pricing indicated by the external event to corroborate our valuation.

With respect to investments for which market quotations are not readily available, our Board will undertake a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each portfolio company or investment being initially valued by investment professionals of our Investment Adviser responsible for credit monitoring.

Preliminary valuation conclusions are then documented and discussed with our senior management and our Investment Adviser.

The valuation committee of the Board reviews these preliminary valuations.

At least once annually, the valuation for each portfolio investment that does not have a readily available quotation is reviewed by an independent valuation firm, subject to the de minimis exception above.

•The Board discusses valuations and determines the fair value of each investment in our portfolio in good faith.

Net assets could be materially affected if the determinations regarding the fair value of the investments were materially higher or lower than the values that are ultimately realized upon the disposal of such investments.

#### *Investment Transactions and Related Investment Income and Expense*

We record our investment transactions on a trade date basis, which is the date when we have determined that all material terms have been defined for the transactions. These transactions could possibly settle on a subsequent date depending on the transaction type. All related revenue and expenses attributable to these transactions are reflected on the consolidated statements of operations commencing on the trade date unless otherwise specified by the transaction documents. Realized gains and losses on investment transactions are recorded using the specific identification method.

We accrue interest income if we expect that ultimately we will be able to collect it. Generally, when an interest default occurs on a loan in our portfolio, or if our management otherwise believes that the issuer of the loan will not be able to service the loan and other obligations, we will place the loan on non-accrual status and will cease recognizing interest income on that loan until all principal and interest is current through payment or until a restructuring occurs, such that the interest income is deemed to be collectible. However, we remain contractually entitled to this interest. We may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. Accrued interest is written off when it becomes probable that the interest will not be collected and the amount of uncollectible interest can be reasonably estimated. For consumer loans, any loan which is 120 days past due is considered defaulted and 100% of the principal is charged off with no expected recovery or sale of defaulted receivables. We had four investments placed on non-accrual status as of both March 31, 2016 and December 31, 2015.

Any original issue discounts, as well as any other purchase discounts or premiums on debt investments, are accreted or amortized and included in interest income over the maturity periods of the investments.

#### *Interest Expense*

Interest expense is recorded on an accrual basis and is adjusted for amortization of deferred debt issuance costs.

#### *Other Expenses*

Certain expenses related to, but not limited to, rating fees, due diligence, valuation expenses and independent collateral appraisals may arise when we make certain investments. These expenses are recognized in the consolidated statement of operations within ratings fees and other expenses as they are incurred.

#### *Loan Origination, Facility, Commitment and Amendment Fees*

We may receive loan origination, prepayment, facility, commitment, forbearance and amendment fees in addition to interest income during the life of the investment. We may receive origination fees upon the origination of an investment.

Origination fees received by us are initially deferred and reduced from the cost basis of the investment and subsequently accreted into interest income over the remaining stated term of the loan.

Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and debt securities as interest income when we receive such amounts. Facility fees, sometimes referred to as asset management fees, are accrued as a percentage periodic fee on the base amount (either the funded facility amount or the committed principal amount). Commitment fees are based upon the undrawn portion committed by us and are accrued over the life of the loan.

Amendment and forbearance fees are paid in connection with loan amendments and waivers and are recognized upon completion of the amendments or waivers, generally when such fees are receivable. Any such fees are recorded and classified as other income and included in investment income on the consolidated statements of operations. As these fees are paid and recognized in connection with specific loan amendments or forbearance, they are typically non-recurring in nature.

### *Share Repurchase*

Share repurchase transactions are recorded on a trade date basis, which is the date when management has determined that all material legal terms have been contractually defined for the transactions. The aggregate cost of common stock repurchased, including any direct transaction costs, is recorded as a reduction of the par and paid-in-capital in excess of par value accounts, respectively.

### *Distributions*

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a distribution is determined by our Board each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although we may decide to retain such capital gains for investment.

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our Board declares a cash dividend or other distribution, then our stockholders who have not 'opted out' of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

No action is required on the part of a registered stockholder to have their cash dividend or other distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying American Stock Transfer & Trust Company, LLC, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends or other distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share. The plan administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commission from the proceeds of the sale of any fractional share of common stock.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends and other distributions in cash by notifying their broker or other financial intermediary of their election.

### *Income Tax*

As a business development company, we elected to be treated as a RIC under Subchapter M of the Code, and intend to qualify annually for such treatment.

We intend to comply with all RIC qualification provisions contained in the Code including certain source-of-income and asset diversification requirements as well as the annual distribution requirements, which require us to distribute to our stockholders an amount generally equal to at least 90% of "investment company taxable income." "Investment

company taxable income” is generally defined to include net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses. As a RIC, we do not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders in a timely manner. However, we are subject to U.S. federal income taxes at regular corporate tax rates on any net ordinary income or net capital gain not distributed to our stockholders assuming we meet the annual distribution requirement.

Depending on the level of taxable income earned in a tax year, we may choose to retain taxable income in excess of current year dividend distributions, and would distribute such taxable income in the next tax year. We would then pay a 4% excise tax on such taxable income, as required. To the extent that we determine that our estimated current year annual taxable income, determined on a calendar basis, could exceed estimated current calendar year dividend distributions, we accrue excise tax, if any, on estimated excess taxable income as taxable income is earned. For the three months ended March 31, 2016, \$50,000 was recorded for U.S. federal excise tax. For the three months ended March 31, 2015, \$45,000 was recorded for U.S. federal excise tax.

**Item 3: Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. During the period covered by our financial statements, the majority of the loans in our portfolio had floating interest rates, and we expect that our loans in the future will also have floating interest rates. These loans are usually based on a floating LIBOR and typically have interest rate re-set provisions that adjust applicable LIBOR under such loans to current market rates on a regular basis. In addition, the CLO has a floating interest rate provision based on a cost of funds that approximates LIBOR and we expect that any other credit facilities into which we enter in the future may have floating interest rate provisions.

Assuming that the interim and unaudited consolidated statement of financial condition as of March 31, 2016 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

Change in interest rates (\$ in thousands)	Increase in interest income	(Decrease)/increase in interest expense	Net increase/ (decrease) in investment income
Down 25 basis points	(17 )	(453 )	436
Up 50 basis points	714	1,004	(290 )
Up 100 basis points	2,378	2,009	369
Up 200 basis points	5,900	4,017	1,883
Up 300 basis points	9,428	6,026	3,402

Although management believes that this analysis is indicative of our existing sensitivity to interest rate changes, it does not adjust for changes in the credit markets, the size, credit quality or composition of the assets in our portfolio and other business developments, including indebtedness under the CLO or other borrowings, that could affect net increase in net assets resulting from operations, or net income. Accordingly, we cannot assure you that actual results would not differ materially from the statement above.

We may in the future hedge against currency and interest rate fluctuations by using standard hedging instruments such as futures, forward contracts, currency options and interest rate swaps, caps, collars and floors, and the collateral manager may engage in similar hedging activities with respect to the obligations of the CLO, to the extent permitted under the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in currency exchange and interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates. We, our Investment Adviser and the collateral manager have not hedged any of the obligations of the CLO.



#### **Item 4: Controls and Procedures**

As of the end of the period covered by this report, we, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on our evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in our periodic SEC filings. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, are based upon certain assumptions about the likelihood of future events and can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. There has not been any change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**Part II — Other Information****Item 1: Legal Proceedings**

We, the Investment Adviser, the Administrator and our wholly-owned subsidiaries are not currently subject to any material legal proceedings.

**Item 1A: Risk Factors**

In addition to other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our Annual Report on Form 10-K filed with the SEC on March 2, 2016, which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information regarding our purchases of our common stock for each month in the three month period ended March 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
(\$ in thousands, except share and per share amounts)				
As of December 31, 2015				\$ 6,686
January 1, 2016 through January 31, 2016	152,701	11.78	152,701	4,887
February 1, 2016 through February 29, 2016	101,651	11.14	254,352	3,755
March 1, 2016 through March 31, 2016	18,428	11.33	272,780	3,546
	272,780	\$ 11.51	272,780	\$ 3,546

On October 5, 2015, we announced a share repurchase plan which allows us to repurchase up to \$10.0 million of (1) our outstanding common stock. Unless extended by our board of directors, the repurchase program will expire on the earlier of October 5, 2016 and the repurchase of \$10.0 million of common stock.

### **Item 3: Defaults Upon Senior Securities**

None.

### **Item 4: Mine Safety Disclosures**

Not applicable.

### **Item 5: Other Information**

On May 6, 2016, Michelle Rancic delivered her resignation as Chief Accounting Officer of Garrison Capital in order to pursue other interests. The effective date of the resignation is subject to mutual agreement between Ms. Rancic and Garrison Capital.

### **Item 6: Exhibits**

## **EXHIBIT INDEX**

<b>Number</b>	<b>Description</b>
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31.1*	Certifications by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	GLC Trust 2013-2 Consumer Loan Pool Schedule of Investments.

\* Filed herewith.

## SIGNATURES

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

### **Garrison Capital Inc.**

By /s/ Joseph Tansey

Dated: May 9, 2016      Joseph Tansey  
Chief Executive Officer  
(Principal Executive Officer)

By /s/ Brian Chase

Dated: May 9, 2016      Brian Chase  
Chief Financial Officer  
(Principal Financial Officer)

By /s/ Michelle Rancic

Dated: May 9, 2016      Michelle Rancic  
Chief Accounting Officer  
(Principal Accounting Officer)

