GLADSTONE CAPITAL CORP
Form 10-Q
August 02, 2017
**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark one):**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE TRANSITION PERIOD FROM __________TO __________**

**COMMISSION FILE NUMBER: 814-00237**

**GLADSTONE CAPITAL CORPORATION**

**(Exact name of registrant as specified in its charter)**

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

**(703) 287-5800**

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

**Not Applicable**

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

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

Emerging growth company

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

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

The number of shares of the issuer s common stock, $0.001 par value per share, outstanding as of August 1, 2017 was 26,115,470.

Table of Contents

# GLADSTONE CAPITAL CORPORATION

## TABLE OF CONTENTS

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

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

**(UNAUDITED)**

| | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Investments, at fair value: | | | | |
| Non-Control/Non-Affiliate investments (Cost of **$314,071** and $250,991, respectively) | **$** | **283,161** | $ | 226,401 |
| Affiliate investments (Cost of **$51,217** and $85,013, respectively) | | **42,041** | | 75,473 |
| Control investments (Cost of **$40,615** and $45,797, respectively) | | **20,301** | | 20,240 |
| Total investments at fair value (Cost of **$405,903** and $381,801 respectively) | | **345,503** | | 322,114 |
| Cash and cash equivalents | | **7,002** | | 6,152 |
| Restricted cash and cash equivalents | | **273** | | 406 |
| Interest receivable, net | | **2,284** | | 2,333 |
| Due from custodian | | **2,857** | | 2,164 |
| Deferred financing fees | | **1,039** | | 1,521 |
| Other assets, net | | **2,387** | | 848 |
| **TOTAL ASSETS** | **$** | **361,345** | $ | 335,538 |
| **LIABILITIES** | | | | |
| Borrowings, at fair value (Cost of **$82,200** and $71,300, respectively) | **$** | **82,271** | $ | 71,300 |
| Mandatorily redeemable preferred stock, $0.001 par value, $25 liquidation preference; **4,000,000** shares authorized and **2,440,000** shares issued and outstanding, net | | **59,624** | | 59,360 |
| Accounts payable and accrued expenses | | **219** | | 1,019 |
| Interest payable | | **235** | | 201 |
| Fees due to Adviser[(A)] | | **460** | | 1,222 |
| Fee due to Administrator[(A)] | | **272** | | 282 |
| Other liabilities | | **1,281** | | 947 |
| **TOTAL LIABILITIES** | **$** | **144,362** | $ | 134,331 |
| Commitments and contingencies[(B)] | | | | |
| **NET ASSETS** | | | | |
| Common stock, $0.001 par value per share, **46,000,000** shares authorized; **25,880,466** shares issued and outstanding as of June 30, 2017 and 23,344,422 | **$** | **26** | $ | 23 |

| | | | | |
|---|---|---|---|---|
| shares issued and outstanding as of September 30, 2016 | | | | |
| Capital in excess of par value | | **347,061** | | 327,678 |
| Cumulative net unrealized depreciation of investments | | **(60,400)** | | (59,687) |
| Cumulative net unrealized depreciation of other | | **(71)** | | |
| (Over) under distributed net investment income | | **(313)** | | 4,277 |
| Accumulated net realized losses | | **(69,320)** | | (71,084) |
| **TOTAL NET ASSETS** | **$** | **216,983** | $ | 201,207 |
| **NET ASSET VALUE PER COMMON SHARE** | **$** | **8.38** | $ | 8.62 |

(A) Refer to Note 4 *Related Party Transactions* for additional information.

(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

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

3

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

**(UNAUDITED)**

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Nine Months Ended June 30, 2017 | Nine Months Ended June 30, 2016 |
|---|---|---|---|---|
| **INVESTMENT INCOME** | | | | |
| Interest income, net | | | | |
| Non-Control/Non-Affiliate investments | **$ 8,047** | $ 5,878 | **$ 21,874** | $ 19,203 |
| Affiliate investments | **1,204** | 2,069 | **3,713** | 5,980 |
| Control investments | **371** | 304 | **1,249** | 921 |
| Other | **7** | 2 | **14** | 3 |
| Total interest income | **9,629** | 8,253 | **26,850** | 26,107 |
| Other income | | | | |
| Non-Control/Non-Affiliate investments | **3** | 542 | **407** | 1,831 |
| Affiliate investments | | 466 | **1,142** | 466 |
| Control investments | | 583 | | 958 |
| Total other income | **3** | 1,591 | **1,549** | 3,255 |
| Total investment income | **9,632** | 9,844 | **28,399** | 29,362 |
| **EXPENSES** | | | | |
| Base management fee(A) | **1,480** | 1,369 | **4,217** | 4,258 |
| Loan servicing fee(A) | **1,071** | 896 | **3,009** | 2,876 |
| Incentive fee(A) | **1,116** | 1,187 | **3,479** | 3,369 |
| Administration fee(A) | **272** | 287 | **858** | 900 |
| Interest expense on borrowings | **904** | 648 | **2,047** | 2,066 |
| Dividend expense on mandatorily redeemable preferred stock | **1,029** | 1,029 | **3,087** | 3,088 |
| Amortization of deferred financing fees | **274** | 273 | **821** | 802 |
| Professional fees | **223** | 214 | **665** | 925 |
| Other general and administrative expenses | **230** | 426 | **774** | 1,106 |
| Expenses, before credits from Adviser | **6,599** | 6,329 | **18,957** | 19,390 |
| Credit to base management fee - loan servicing fee(A) | **(1,071)** | (896) | **(3,009)** | (2,876) |
| Credits to fees from Adviser - other(A) | **(1,275)** | (496) | **(3,494)** | (1,736) |
| Total expenses, net of credits | **4,253** | 4,937 | **12,454** | 14,778 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **NET INVESTMENT INCOME** | | **5,379** | | 4,907 | | **15,945** | | 14,584 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS)** | | | | | | | | |
| Net realized (loss) gain: | | | | | | | | |
| Non-Control/Non-Affiliate investments | | **(23)** | | (153) | | **3,903** | | 8,875 |
| Affiliate investments | | | | 72 | | **(2,330)** | | 1,280 |
| Control investments | | | | (3) | | **(4,999)** | | (318) |
| Other | | | | | | | | (64) |
| Total net realized (loss) gain | | **(23)** | | (84) | | **(3,426)** | | 9,773 |
| Net unrealized appreciation (depreciation): | | | | | | | | |
| Non-Control/Non-Affiliate investments | | **283** | | 4,176 | | **(6,320)** | | (18,558) |
| Affiliate investments | | **190** | | (2,012) | | **364** | | (8,546) |
| Control investments | | **516** | | (1,471) | | **5,243** | | (6,643) |
| Other | | **(182)** | | | | **(71)** | | 62 |
| Total net unrealized appreciation (depreciation) | | **807** | | 693 | | **(784)** | | (33,685) |
| Net realized and unrealized gain (loss) | | **784** | | 609 | | **(4,210)** | | (23,912) |
| **NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS** | **$** | **6,163** | $ | 5,516 | **$** | **11,735** | $ | (9,328) |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | | | | | | |
| Net investment income | **$** | **0.21** | $ | 0.21 | **$** | **0.63** | $ | 0.63 |
| Net increase (decrease) in net assets resulting from operations | **$** | **0.24** | $ | 0.24 | **$** | **0.46** | $ | (0.40) |
| Distributions declared and paid | **$** | **0.21** | $ | 0.21 | **$** | **0.63** | $ | 0.63 |
| **WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:** | | | | | | | | |
| Basic and Diluted | | **25,576,149** | | 23,363,952 | | **25,288,289** | | 23,145,842 |

(A) Refer to Note 4 *Related Party Transactions* for additional information.

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

4

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | Nine Months Ended June 30, 2017 | Nine Months Ended June 30, 2016 |
|---|---|---|
| **OPERATIONS** | | |
| Net investment income | **$ 15,945** | $ 14,584 |
| Net realized (loss) gain on investments and other | **(3,426)** | 9,773 |
| Net unrealized depreciation of investments | **(713)** | (33,747) |
| Net unrealized (depreciation) appreciation of other | **(71)** | 62 |
| Net increase (decrease) in net assets resulting from operations | **11,735** | (9,328) |
| **DISTRIBUTIONS** | | |
| Distributions to common stockholders from net investment income | **(15,945)** | (11,395) |
| Distributions to common stockholders from realized gains | | (3,189) |
| Total distributions to common stockholders | **(15,945)** | (14,584) |
| **CAPITAL TRANSACTIONS** | | |
| Issuance of common stock | **20,932** | 19,665 |
| Offering costs for issuance of common stock | **(946)** | (1,111) |
| Repurchase of common stock | | (572) |
| Net increase in net assets resulting from capital transactions | **19,986** | 17,982 |
| **NET INCREASE (DECREASE) IN NET ASSETS** | **15,776** | (5,930) |
| **NET ASSETS, BEGINNING OF PERIOD** | **201,207** | 191,444 |
| **NET ASSETS, END OF PERIOD** | **$ 216,983** | $ 185,514 |

(A) Refer to Note 4 *Related Party Transactions* for additional information.

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

5

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | Nine Months Ended June 30, 2017 | Nine Months Ended June 30, 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net increase (decrease) in net assets resulting from operations | **$ 11,735** | $ (9,328) |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash (used in) provided by operating activities: | | |
| Purchase of investments | **(95,449)** | (59,862) |
| Principal repayments on investments | **62,792** | 78,596 |
| Net proceeds from sale of investments | **8,289** | 19,829 |
| Net realized loss (gain) on investments | **3,426** | (9,837) |
| Increase in investments due to paid-in-kind interest or other | **(3,599)** | (4,311) |
| Net change in premiums, discounts and amortization | **439** | (109) |
| Cost adjustments on non-accrual loans | | (388) |
| Net unrealized depreciation of investments | **713** | 33,747 |
| Net realized loss on other | | 64 |
| Net unrealized depreciation (appreciation) of other | **71** | (62) |
| Changes in assets and liabilities: | | |
| Decrease in restricted cash and cash equivalents | **133** | 223 |
| Amortization of deferred financing fees | **821** | 802 |
| Decrease in interest receivable, net | **49** | 2,927 |
| Decrease in due from custodian | **(693)** | (593) |
| Increase in other assets, net | **(1,539)** | (2,803) |
| Decrease in accounts payable and accrued expenses | **(800)** | (163) |
| Increase (decrease) in interest payable | **34** | (108) |
| (Decrease) increase in fees due to Adviser[(A)] | **(762)** | 460 |
| (Decrease) increase in fee due to Administrator[(A)] | **(10)** | 37 |
| Increase in other liabilities | **334** | 2,770 |
| Net cash (used in) provided by operating activities | **(14,016)** | 51,891 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | **108,000** | 77,000 |
| Repayments on borrowings | **(97,100)** | (131,000) |
| Deferred financing fees | **(75)** | (75) |
| Proceeds from issuance of common stock | **20,932** | 19,665 |
| Offering costs for issuance of common stock | **(946)** | (1,111) |
| Repurchases of common stock | | (572) |

| | | | | |
|---|---|---|---|---|
| Distributions paid to common stockholders | | **(15,945)** | | (14,584) |
| Net cash provided by (used in) financing activities | | **14,866** | | (50,677) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **850** | | 1,214 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | **6,152** | | 3,808 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **$** | **7,002** | $ | 5,022 |
| **NON-CASH ACTIVITIES[(B)]** | **$** | | **$** | 3,921 |

(A) Refer to Note 4 *Related Party Transactions* for additional information.
(B) Significant non-cash operating activities consisted principally of the following transaction:
In February 2016, our investment in Targus Group International, Inc. was restructured resulting in non-cash activity of $3.9 million and a new investment in Targus Cayman HoldCo Limited, which is listed on the accompanying *Consolidated Schedule of Investments* as of June 30, 2017 and September 30, 2016.

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

6

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**JUNE 30, 2017**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(M):** | | | | | |
| **Proprietary Investments:** | | | | | |
| AG Transportation Holdings, LLC | Cargo transport | Secured Second Lien Debt (13.3%, Due 3/2018)(C) | $ 13,000 | $ 13,000 | $ 13,065 |
| | | Member Profit Participation (18.0% ownership)(E)(G) | | 1,000 | |
| | | Profit Participation Warrants (7.0% ownership)(E)(G) | | 244 | |
| | | | | 14,244 | 13,065 |
| Alloy Die Casting Corp.(R) | Diversified/conglomerate manufacturing | Secured First Lien Debt (13.5%, Due 10/2018)(C)(H) | 5,235 | 5,235 | 3,665 |
| | | Secured First Lien Debt (13.5%, Due 10/2018)(C)(H) | 75 | 75 | 53 |
| | | Secured First Lien Debt (Due 10/2018)(C)(P) | 390 | 390 | 275 |
| | | Preferred Stock (2,192 shares)(E)(G) | | 2,192 | |
| | | Common Stock (270 shares)(E)(G) | | 18 | |
| | | | | 7,910 | 3,993 |
| B+T Group Acquisition Inc.(R) | Telecommunications | Secured First Lien Debt (13.0%, Due 12/2019)(C) | 6,000 | 6,000 | 5,940 |
| | | Preferred Stock (5,503 shares)(E)(G)(J) | | 1,799 | 1,374 |
| | | | | 7,799 | 7,314 |
| Belnick, Inc. | Home and Office Furnishings, Housewares and Durable Consumer Products | Secured Second Lien Debt (11.0%, Due 8/2023)(C)(F) | 10,000 | 10,000 | 10,025 |
| Canopy Safety Brands, LLC | Personal and non-durable consumer products | Secured First Lien Line of Credit, $500 available (7.7%, Due 9/2019)(C) | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | Secured First Lien Debt (10.7%, Due 9/2021)(C) | 6,850 | 6,850 | 6,859 |
| | | Participation Warrant(E)(G) | | 500 | 286 |
| | | | | 7,350 | 7,145 |
| Chinese Yellow Pages Company | Printing and publishing | Secured First Lien Line of Credit, $0 available (8.0%, Due 2/2015)(E) | 107 | 107 | |
| Drumcree, LLC | Broadcasting and entertainment | Secured First Lien Debt (15.0% PIK, Due 8/2017)(E)(F) | 6,192 | 6,177 | 6,192 |
| Flight Fit N Fun LLC | Leisure, Amusement, Motion Pictures, Entertainment | Secured First Lien Debt (15.2%, Due 9/2020)(C) | 7,800 | 7,800 | 7,488 |
| | | Preferred Stock (700,000 units)(E)(G) | | 700 | 759 |
| | | | | 8,500 | 8,247 |
| Francis Drilling Fluids, Ltd. | Oil and gas | Secured Second Lien Debt (11.9% PIK, Due 4/2020)(C) | 16,243 | 16,103 | 5,685 |
| | | Secured Second Lien Debt (10.8% PIK, Due 4/2020)(C) | 7,524 | 7,459 | 2,634 |
| | | Preferred Equity Units (1,656 units)(E)(G) | | 1,215 | |
| | | Common Equity Units (1,656 units)(E)(G) | | 1 | |
| | | | | 24,778 | 8,319 |
| Funko Acquisition Holdings, LLC(R) | Personal and non-durable consumer products | Preferred Equity Units (260 units)(E)(G) | | 167 | 245 |
| | | Common Stock (975 units)(E)(G) | | | |
| | | | | 167 | 245 |
| GFRC Holdings, LLC | Buildings and real estate | Secured First Lien Line of Credit, $95 available (9.0%, Due 9/2018)(E) | 1,105 | 1,105 | 1,105 |
| | | Secured First Lien Debt (9.0%, Due 9/2018)(E) | 1,000 | 1,000 | 1,000 |
| | | Preferred Stock (1,000 shares)(E)(G) | | 1,025 | 869 |
| | | Common Stock Warrants (45.0% ownership)(E)(G) | | | |
| | | | | 3,130 | 2,974 |
| HB Capital Resources, Ltd. | Diversified/conglomerate service | Secured Second Lien Debt (11.5%, Due 10/2022)(I) | 22,000 | 22,000 | 22,000 |
| IA Tech, LLC | Diversified/conglomerate service | Secured First Lien Debt (12.2%, Due 6/2021)(C) | 23,000 | 23,000 | 23,518 |
| Leeds Novamark Capital I, L.P. | Private equity fund healthcare, education and childcare | Limited Partnership Interest (3.5% ownership, $1,581 uncalled capital commitment)(G)(L)(Q) | | 1,414 | 1,303 |
| Meridian Rack & Pinion, Inc.(R) | Automobile | Secured First Lien Debt (13.5%, Due 12/2018)(C) | 4,140 | 4,140 | 3,726 |
| | | Preferred Stock (1,449 shares)(E)(G) | | 1,449 | 429 |

| | | |
|---|---|---|
| | 5,589 | 4,155 |

7

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2017**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| **Company[A]** | **Industry** | **Investment[B]** | **Principal** | **Cost** | **Fair Value** |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS[N] (Continued):** | | | | | |
| Merlin International, Inc. | Healthcare, education, and childcare | Secured Second Lien Debt (11.2%, Due 8/2022)[C] | 10,000 | 10,000 | 10,112 |
| The Mochi Ice Cream Company[T] | Beverage, Food and Tobacco | Secured Second Lien Debt (11.7%, Due 1/2021)[C] | 6,750 | 6,750 | 6,885 |
| | | Common Stock (450 units)[E][G] | | 450 | 606 |
| | | | | 7,200 | 7,491 |
| NetFortris Corp. | Telecommunications | Secured First Lien Line of Credit, $2,000 available (11.2%, Due 11/2017)[C] | | | |
| | | Secured First Lien Debt (9.6%, Due 2/2021)[C] | 24,000 | 24,000 | 24,120 |
| | | Common Stock Warrant[E][G] | | 1 | |
| | | | | 24,001 | 24,120 |
| Precision International, LLC | Machinery | Secured First Lien Debt (10.0% PIK, Due 9/2021)[C][F] | 795 | 795 | 789 |
| | | Membership Unit Warrant (33.3% ownership)[E][G] | | | |
| | | | | 795 | 789 |
| Sea Link International IRB, Inc. | Automobile | Secured Second Lien Debt (11.3%, Due 11/2021)[C][F] | 5,000 | 5,000 | 5,037 |
| | | Secured Second Lien Delayed Draw Term Loan, $2,000 available (11.3%, Due 11/2021)[C][F] | | | |
| | | Common Equity Units (240,000 units)[E][G] | | 240 | 177 |
| | | | | 5,240 | 5,214 |
| Travel Sentry, Inc. | Diversified/conglomerate service | Secured First Lien Debt (10.3%, Due 12/2021)[C] | 8,902 | 8,902 | 9,047 |

| | | | | | |
|---|---|---|---|---|---|
| Triple H Food Processors, LLC | Beverage, Food and Tobacco | Secured First Lien Line of Credit, $1,500 available (8.0%, Due 8/2018)(C) | | | |
| | | Secured First Lien Debt (10.0%, Due 8/2020)(C) | 7,000 | 7,000 | 7,166 |
| | | Common Stock (250,000 units)(E)(G) | | 250 | 452 |
| | | | | 7,250 | 7,618 |
| TWS Acquisition Corporation | Healthcare, education and childcare | Secured First Lien Line of Credit, $1,500 available (9.2%, Due 7/2017)(C) | | | |
| | | Secured First Lien Debt (9.2%, Due 7/2020)(C) | 9,432 | 9,432 | 9,598 |
| | | | | 9,432 | 9,598 |
| United Flexible, Inc. | Diversified/conglomerate manufacturing | Secured Second Lien Debt (10.7%, 2.0% PIK, Due 2/2022)(C) | 17,902 | 17,815 | 17,723 |
| | | Preferred Stock (538 shares)(E)(G) | | 538 | 479 |
| | | Common Stock (1,158 shares)(E)(G) | | 148 | |
| | | | | 18,501 | 18,202 |
| Vacation Rental Pros Property Management, LLC | Hotels, motels, inns, and gaming | Secured Second Lien Debt (11.2%, 3.0% PIK, Due 6/2023)(C) | 7,091 | 7,091 | 7,091 |
| Vision Government Solutions, Inc. | Diversified/conglomerate service | Secured First Lien Line of Credit, $0 available (10.0%, Due 1/2019)(C) | 1,450 | 1,450 | 1,399 |
| | | Secured First Lien Delayed Draw Term Loan, $900 available (10.0%, Due 1/2019)(C)(F) | 1,600 | 1,600 | 1,450 |
| | | Secured First Lien Debt (10.0%, Due 1/2019)(C) | 9,000 | 9,000 | 8,261 |
| | | | | 12,050 | 11,110 |
| WadeCo Specialties, Inc. | Oil and gas | Secured First Lien Line of Credit, $425 available (8.2%, Due 4/2018)(C) | 2,575 | 2,575 | 2,510 |
| | | Secured First Lien Debt (8.2%, Due 3/2019)(C) | 10,691 | 10,671 | 10,424 |
| | | Secured First Lien Debt (12.0%, Due 3/2019)(C) | 7,000 | 7,000 | 6,720 |
| | | Preferred Stock (1,000 shares)(E)(G) | | 618 | 1,554 |
| | | | | 20,864 | 21,208 |
| ***Subtotal*** | ***Non-Control/Non-Affiliate Proprietary Investments*** | | | **$ 273,491** | **$ 250,095** |

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2017**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company[(A)] | Industry | Investment[(B)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **Syndicated Investments:** | | | | | |
| DataPipe, Inc. | Diversified/conglomerate service | Secured Second Lien Debt (9.2%, Due 9/2019)[(D)] | $ 2,000 | $ 1,962 | $ 2,005 |
| Keystone Acquisition Corp. | Diversified/conglomerate service | Secured Second Lien Debt (10.5%, Due 5/2025)[(D)] | 4,000 | 3,921 | 3,960 |
| LDiscovery, LLC | Diversified/conglomerate service | Secured Second Lien Debt (11.2%, Due 12/2023)[(D)] | 5,000 | 4,810 | 4,700 |
| Medical Solutions Holdings, Inc. | Healthcare, education and childcare | Secured Second Lien Debt (9.5%, Due 12/2023)[(I)] | 3,000 | 2,955 | 3,000 |
| NetSmart Technologies, Inc. | Healthcare, education and childcare | Secured Second Lien Debt (10.7%, Due 10/2023)[(D)] | 3,660 | 3,607 | 3,642 |
| New Trident Holdcorp, Inc. | Healthcare, education and childcare | Secured Second Lien Debt (10.7%, Due 7/2020)[(D)] | 4,000 | 3,984 | 2,700 |
| Edmentum Ultimate Holdings, LLC[(S)] | Healthcare, education and childcare | Unsecured Debt (10.0% PIK, Due 6/2020)[(C)(F)] | 3,241 | 3,241 | 3,249 |
| | | Common Stock (21,429 shares)[(E)(G)] | | 2,636 | |
| | | | | 5,877 | 3,249 |
| PSC Industrial Holdings Corp. | Diversified/conglomerate service | Secured Second Lien Debt (9.5%, Due 12/2021)[(D)] | 3,500 | 3,450 | 3,010 |
| SourceHOV LLC | Finance | Secured Second Lien Debt (11.8%, Due 4/2020)[(D)] | 5,000 | 4,879 | 4,781 |
| The Active Network, Inc. | Electronics | Secured Second Lien Debt (10.7%, Due 11/2021)[(D)] | 519 | 519 | 517 |
| Vertellus Holdings LLC | | | 1,099 | 1,099 | 923 |

| | | | | | |
|---|---|---|---|---|---|
| | Chemicals, plastics and rubber | Secured Second Lien Debt (13.2%, Due 10/2021)(D) | | | |
| | | Common Stock Units (879,121 units)(D)(G) | | 3,018 | 440 |
| | | | | 4,117 | 1,363 |
| W3 Co. | Oil and gas | Common Equity (435 shares)(D)(G) | 499 | 499 | 139 |
| ***Subtotal Non-Control/Non-Affiliate Syndicated Investments*** | | | | **$ 40,580** | **$ 33,066** |
| **Total Non-Control/Non-Affiliate Investments (represented 81.9% of total investments at fair value)** | | | | **$ 314,071** | **$ 283,161** |
| **AFFILIATE INVESTMENTS(N):** | | | | | |
| **Proprietary Investments:** | | | | | |
| Edge Adhesives Holdings, Inc.(R) | Diversified/conglomerate | Secured First Lien Debt (12.5%, Due 2/2019)(C) | $ 6,200 | $ 6,200 | $ 5,642 |
| | manufacturing | Secured First Lien Debt (13.8%, Due 2/2019)(C) | 1,600 | 1,600 | 1,464 |
| | | Preferred Stock (2,516 units)(E)(G) | | 2,516 | |
| | | | | 10,316 | 7,106 |
| FedCap Partners, LLC | Private equity fund aerospace and defense | Class A Membership Units (80 units, $0 Uncalled Commitment)(G)(K)(Q) | | 1,634 | 1,562 |
| Lignetics, Inc. | Diversified natural resources, precious metals and minerals | Secured Second Lien Debt (12.0%, Due 2/2021)(C) | 6,000 | 6,000 | 6,000 |
| | | Secured Second Lien Debt (12.0%, Due 2/2021)(C) | 8,000 | 8,000 | 8,000 |
| | | Secured Second Lien Debt (12.0%, Due 2/2021)(C) | 3,300 | 3,300 | 3,300 |
| | | Preferred Stock (40,000 shares)(E)(G) | | 800 | 809 |
| | | Common Stock (152,603 shares)(E)(G) | | 1,855 | 637 |
| | | | | 19,955 | 18,746 |
| LWO Acquisitions Company LLC | Diversified/conglomerate manufacturing | Secured First Lien Line of Credit, $0 available (6.7%, 2.0% PIK, Due 3/2018)(C) | 2,635 | 2,632 | 2,206 |
| | | | 10,886 | 10,863 | 9,117 |

| | | | |
|---|---|---|---|
| | Secured First Lien Debt (9.7%, 2.0% PIK, Due 12/2019)(C) | | |
| | Common Units (921,000 units)(E)(G) | 921 | |
| | | 14,416 | 11,323 |
| ***Subtotal Affiliate Proprietary Investments*** | | **$ 46,321** | **$ 38,737** |

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2017**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company[(A)] | Industry | Investment[(B)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **AFFILIATE INVESTMENTS[(N)] (Continued):** | | | | | |
| **Syndicated Investments:** | | | | | |
| Targus Cayman HoldCo Limited | Textiles and leather | Secured First Lien Debt (15.0% PIK, Due 12/2019)[(C)(F)] | 2,553 | 2,553 | 2,563 |
| | | Common Stock (526,141 shares)[(E)(G)] | | 2,343 | 741 |
| | | | | 4,896 | 3,304 |
| **Total Affiliate Investments (represented 12.2% of total investments at fair value)** | | | | **$ 51,217** | **$ 42,041** |
| **CONTROL INVESTMENTS[(O)]:** | | | | | |
| **Proprietary Investments:** | | | | | |
| Defiance Integrated Technologies, Inc. | Automobile | Secured Second Lien Debt (11.0%, Due 2/2019)[(E)] | $ 6,065 | $ 6,065 | $ 6,065 |
| | | Common Stock (33,321 shares)[(E)(G)] | | 580 | 4,990 |
| | | | | $ 6,645 | $ 11,055 |
| PIC 360, LLC | Machinery | Secured First Lien Debt (14.0%, Due 12/2017)[(E)(F)] | 4,000 | 4,000 | 4,000 |
| | | Common Equity Units (750 units)[(E)(G)] | | 1 | 173 |
| | | | | 4,001 | 4,173 |
| Sunshine Media Holdings | Printing and publishing | Secured First Lien Line of Credit, $672 available (8.0%, Due 5/2018)[(E)(F)] | 1,328 | 1,328 | 1,328 |
| | | Secured First Lien Debt (8.0%, Due 5/2018)[(E)(F)(H)] | 5,000 | 3,525 | 1,105 |
| | | Secured First Lien Debt (4.8%, Due 5/2018)[(E)(H)] | 11,948 | 8,401 | 2,640 |
| | | Secured First Lien Debt (5.5%, Due 5/2018)[(E)(H)] | 10,700 | 10,700 | |

| | | | |
|---|---|---|---|
| | Preferred Stock (15,270 shares)(E)(G)(J) | 5,275 | |
| | Common Stock (1,867 shares)(E)(G) | 740 | |
| | Common Stock Warrants (72 shares)(E)(G) | | |
| | | 29,969 | 5,073 |
| **Total Control Proprietary Investments (represented 5.9% of total investments at fair value)** | | **$ 40,615** | **$ 20,301** |
| **TOTAL INVESTMENTS** | | **$ 405,903** | **$ 345,503** |

(A) Certain of the securities listed in this schedule are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $302.8 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5 *Borrowings.* Under the Investment Company Act of 1940, as amended, (the 1940 Act ), we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of June 30, 2017, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 0.8% of total investments, at fair value, as of June 30, 2017.

(B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate ( LIBOR )) in effect at June 30, 2017, and due dates represent the contractual maturity date. If applicable, paid-in-kind ( PIK ) interest rates are noted separately from the cash interest rates and any unused line of credit fees are excluded. Secured first lien debt securities generally take the form of first priority liens on substantially all of the assets of the underlying portfolio company businesses.

(C) Fair value was based on an internal yield analysis or on estimates of value submitted by Standard & Poor s Securities Evaluations, Inc. ( SPSE ).

(D) Fair value was based on the indicative bid price on or near June 30, 2017, offered by the respective syndication agent s trading desk.

(E) Fair value was based on the total enterprise value of the portfolio company, which was then allocated to the portfolio company s securities in order of their relative priority in the capital structure.

(F) Debt security has a fixed interest rate.

(G) Security is non-income producing.

(H) Debt security is on non-accrual status.

(I) New investment valued at cost, as it was determined that the price paid during the quarter ended June 30, 2017 best represents fair value as of June 30, 2017.

(J) Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares.

(K) There are certain limitations on our ability to transfer our units owned, withdraw, or resign prior to dissolution of the entity, which must occur no later than May 3, 2020.

(L) There are certain limitations on our ability to withdraw our partnership interest prior to dissolution of the entity, which must occur no later than May 9, 2024 or two years after all outstanding leverage has matured.

(M) Non-Control/Non-Affiliate investments, as defined by the 1940 Act, are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.

(N) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

(O) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.

Table of Contents

(P) Debt security does not have a stated current interest rate.
(Q) Fair value was based on net asset value provided by the fund as a practical expedient.
(R) One of our affiliated funds, Gladstone Investment Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.
(S) Investment formerly known as PLATO Learning, Inc.
(T) Investment formerly known as Mikawaya.

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

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company[(A)] | Industry | Investment[(B)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS[(N)]:** | | | | | |
| **Proprietary Investments:** | | | | | |
| AG Transportation Holdings, LLC | Cargo transport | Secured Second Lien Debt (13.3%, Due 3/2018)[(D)] | $ 13,000 | $ 13,000 | $ 13,000 |
| | | Member Profit Participation (18.0% ownership)[(F)(H)] | | 1,000 | |
| | | Profit Participation Warrants (7.0% ownership)[(F)(H)] | | 244 | |
| | | | | 14,244 | 13,000 |
| Alloy Die Casting Corp.[(T)] | Diversified/conglomerate manufacturing | Secured First Lien Debt (13.5%, Due 10/2018)[(D)] | 5,235 | 5,235 | 4,973 |
| | | Secured First Lien Debt (13.5%, Due 10/2018)[(D)] | 75 | 75 | 71 |
| | | Secured First Lien Debt (Due 10/2018)[(D) (Q)] | 390 | 390 | 372 |
| | | Preferred Stock (1,742 shares)[(F)(H)] | | 1,742 | |
| | | Common Stock (270 shares)[(F)(H)] | | 18 | |
| | | | | 7,460 | 5,416 |
| Behrens Manufacturing, LLC[(T)] | Diversified/conglomerate manufacturing | Secured First Lien Debt (13.0%, Due 12/2018)[(R)] | 4,275 | 4,275 | 4,638 |
| | | Preferred Stock (1,253 shares)[(H)(R)] | | 1,253 | 4,100 |
| | | | | 5,528 | 8,738 |
| B+T Group Acquisition Inc. [(T)] | Telecommunications | Secured First Lien Debt (13.0%, Due 12/2019)[(D)] | 6,000 | 6,000 | 5,790 |
| | | Preferred Stock (5,503 shares)[(F)(H)(K)] | | 1,799 | |
| | | | | 7,799 | 5,790 |
| Canopy Safety Brands, LLC | Personal and non-durable consumer products | Secured First Lien Line of Credit, $500 available (7.0%, Due 9/2019) | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | (J) | | | |
| | | Secured First Lien Debt (10.5%, Due 9/2021) (J) | 7,000 | 7,000 | 7,000 |
| | | Participation Warrant(J) | | 500 | 500 |
| | | | | 7,500 | 7,500 |
| Chinese Yellow Pages Company | Printing and publishing | Secured First Lien Line of Credit, $0 available (7.3%, Due 2/2015)(F) | 108 | 108 | |
| Drumcree, LLC | Broadcasting and entertainment | Secured First Lien Debt (13.0% PIK, Due 1/2017)(F)(G) | 4,836 | 4,836 | 4,682 |
| Flight Fit N Fun LLC | Leisure, Amusement, Motion Pictures, Entertainment | Secured First Lien Debt (12.0%, Due 9/2020)(D) | 7,800 | 7,800 | 7,800 |
| | | Preferred Stock (700,000 units)(F)(H) | | 700 | 969 |
| | | | | 8,500 | 8,769 |
| Francis Drilling Fluids, Ltd. | Oil and gas | Secured Second Lien Debt (11.4%, Due 4/2020)(D) | 15,000 | 15,000 | 8,250 |
| | | Secured Second Lien Debt (10.8%, Due 4/2020)(D) | 7,000 | 7,000 | 3,850 |
| | | Preferred Equity Units (1,277 units)(F)(H) | | 976 | |
| | | Common Equity Units (1,277 units)(F)(H) | | 1 | |
| | | | | 22,977 | 12,100 |
| Funko Acquisition Holdings, LLC(T) | Personal and non-durable consumer products | Preferred Equity Units (260 units)(H)(F) | | 260 | 358 |
| | | Common Stock (975 units) (H)(F) | | | |
| | | | | 260 | 358 |
| GFRC Holdings, LLC | Buildings and real estate | Secured First Lien Line of Credit, $295 available (9.0%, Due 9/2018)(F) | 905 | 905 | 905 |
| | | Secured First Lien Debt (9.0%, Due 9/2018)(F) | 1,000 | 1,000 | 1,000 |
| | | Preferred Stock (1,000 shares)(F)(H) | | 1,025 | 754 |
| | | Common Stock Warrants (45.0% ownership)(F)(H) | | | |
| | | | | 2,930 | 2,659 |
| IA Tech, LLC | Diversified/conglomerate service | Secured First Lien Debt (12.0%, Due 6/2021)(D) | 23,000 | 23,000 | 23,230 |
| LCR Contractors, LLC | Buildings and Real Estate | Secured First Lien Debt (10.0%, Due 1/2021)(D) | 8,500 | 8,500 | 8,564 |
| Leeds Novamark Capital I, L.P. | Private equity fund healthcare, education and childcare | Limited Partnership Interest (3.5% ownership, $2,004 uncalled capital commitment)(H)(M)(S) | | 991 | 779 |

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company[(A)] | Industry | Investment[(B)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS[(N)] (Continued):** | | | | | |
| Meridian Rack & Pinion, Inc. [(T)] | Automobile | Secured First Lien Debt (13.5%, Due 12/2018)[(D)] | 4,140 | 4,140 | 3,767 |
| | | Preferred Stock (1,449 shares)[(F)(H)] | | 1,449 | 255 |
| | | | | 5,589 | 4,022 |
| Merlin International, Inc. | Healthcare, education, and childcare | Secured Second Lien Debt (11.0%, Due 8/2022)[(J)] | 10,000 | 10,000 | 10,000 |
| Mikawaya | Beverage, Food and Tobacco | Secured Second Lien Debt (11.5%, Due 1/2021)[(D)] | 6,750 | 6,750 | 6,649 |
| | | Common Stock (450 units)[(F)(H)] | | 450 | 172 |
| | | | | 7,200 | 6,821 |
| Precision International, LLC | Machinery | Secured First Lien Debt (10.0% PIK, Due 9/2021)[(F)(G)] | 600 | 600 | 600 |
| | | Secured First Lien Mortgage Note (3.0%, Due 9/2017)[(F)(G)] | 1,000 | 1,000 | 996 |
| | | Membership Unit Warrant (33.3% ownership) [(F)(H)] | | | |
| | | | | 1,600 | 1,596 |
| Travel Sentry, Inc. | Diversified/conglomerate service | Secured First Lien Debt (9.5%, Due 12/2021)[(D)] | 9,665 | 9,665 | 9,677 |

| | | | | | |
|---|---|---|---|---|---|
| Triple H Food Processors | Beverage, Food and Tobacco | Secured First Lien Line of Credit, $1,500 available (7.8%, Due 8/2018)(D) | | | |
| | | Secured First Lien Debt (9.8%, Due 8/2020)(D) | 7,600 | 7,600 | 7,676 |
| | | Common Stock (250,000 units)(F)(H) | | 250 | 525 |
| | | | | 7,850 | 8,201 |
| TWS Acquisition Corporation | Healthcare, education and childcare | Secured First Lien Line of Credit, $1,500 available (9.0%, Due 7/2017)(D) | | | |
| | | Secured First Lien Debt (9.0%, Due 7/2020)(D) | 10,000 | 10,000 | 10,050 |
| | | | | 10,000 | 10,050 |
| United Flexible, Inc. | Diversified/conglomerate manufacturing | Secured Second Lien Debt (10.5%, 2.0% PIK, Due 2/2022)(D) | 17,632 | 17,632 | 17,280 |
| | | Preferred Stock (382 shares)(F)(H) | | 382 | 428 |
| | | Common Stock (852 shares)(F)(H) | | 44 | 36 |
| | | | | 18,058 | 17,744 |
| Vision Government Solutions, Inc. | Diversified/conglomerate service | Secured First Lien Line of Credit, $0 available (7.5%, Due 1/2017)(D) | 1,450 | 1,450 | 1,355 |
| | | Secured First Lien Delayed Draw Term Loan, $1,300 available (10.0%, Due 1/2017)(D)(G) | 1,200 | 1,200 | 1,106 |
| | | Secured First Lien Debt (9.8%, Due 1/2017)(D) | 9,000 | 9,000 | 8,293 |
| | | | | 11,650 | 10,754 |
| WadeCo Specialties, Inc. | Oil and gas | Secured First Lien Line of Credit, | 1,175 | 1,174 | 1,127 |

| | | | | | |
|---|---|---|---|---|---|
| | | $1,125 available (8.0%, Due 4/2017)(D) | | | |
| | | Secured First Lien Debt (8.0%, Due 3/2019)(D) | 11,691 | 11,691 | 11,216 |
| | | Secured First Lien Debt (12.0%, Due 3/2019)(D) | 7,000 | 7,000 | 6,637 |
| | | Preferred Stock (1,000 shares)(F)(H) | | 618 | |
| | | | | 20,483 | 18,980 |
| ***Subtotal Non-Control/Non-Affiliate Proprietary Investments*** | | | | **$ 216,728** | **$ 199,430** |
| **Syndicated Investments:** | | | | | |
| Autoparts Holdings Limited | Automobile | Secured Second Lien Debt (11.0%, Due 1/2018)(E) | $ 700 | $ 699 | $ 609 |
| DataPipe, Inc. | Diversified/conglomerate service | Secured Second Lien Debt (9.0%, Due 9/2019)(E) | 2,000 | 1,951 | 1,965 |
| NetSmart Technologies, Inc. | Healthcare, education and childcare | Secured Second Lien Debt (10.5%, Due 10/2023)(E) | 2,000 | 1,952 | 1,960 |

13

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| **Company**(A) | **Industry** | **Investment**(B) | **Principal** | **Cost** | **Fair Value** |
|---|---|---|---|---|---|
| **Syndicated Investments (Continued):** | | | | | |
| New Trident Holdcorp, Inc. | Healthcare, education and childcare | Secured Second Lien Debt (10.3%, Due 7/2020)(E) | 4,000 | 3,990 | 3,280 |
| PLATO Learning, Inc. | Healthcare, education and childcare | Unsecured Debt (10.0% PIK, Due 6/2020)(D)(G) | 3,000 | 2,960 | 3,012 |
| | | Common Stock (21,429 shares)(F)(H) | | 2,637 | |
| | | | | 5,597 | 3,012 |
| PSC Industrial Holdings Corp. | Diversified/conglomerate service | Secured Second Lien Debt (9.3%, Due 12/2021)(E) | 3,500 | 3,443 | 3,273 |
| RP Crown Parent, LLC | Electronics | Secured Second Lien Debt (11.3%, Due 12/2019)(R) | 2,000 | 1,976 | 2,000 |
| SourceHOV LLC | Finance | Secured Second Lien Debt (11.5%, Due 4/2020) (E) | 5,000 | 4,854 | 3,000 |
| The Active Network, Inc. | Electronics | Secured Second Lien Debt (9.5%, Due 11/2021)(E) | 1,000 | 996 | 980 |
| Vertellus Specialties Inc. | Chemicals, plastics and rubber | Secured First Lien Debt (10.5%, Due 10/2019)(E)(I) | 3,940 | 3,831 | 2,541 |
| Vitera Healthcare Solutions, LLC | Healthcare, education and childcare | Secured Second Lien Debt (9.3%, Due 11/2021)(E) | 4,500 | 4,479 | 4,151 |
| W3 Co. | Oil and gas | Secured Second Lien Debt (9.3%, Due 9/2020)(E) | 499 | 495 | 200 |
| ***Subtotal Non-Control/Non-Affiliate Syndicated Investments*** | | | | **$ 34,263** | **$ 26,971** |
| **Total Non-Control/Non-Affiliate Investments (represented 70.3% of total investments at fair value)** | | | | **$ 250,991** | **$ 226,401** |
| **AFFILIATE INVESTMENTS**(O) **:** | | | | | |
| **Proprietary Investments:** | | | | | |
| Edge Adhesives Holdings, Inc.(T) | Diversified/conglomerate manufacturing | Secured First Lien Debt (12.5%, Due 2/2019)(D) | $ 6,200 | $ 6,200 | $ 6,076 |
| | | Secured First Lien Debt (13.8%, Due 2/2019)(D) | 1,600 | 1,600 | 1,576 |

| | | | | | |
|---|---|---|---|---|---|
| | | Preferred Stock (2,516 units)(F)(H) | | 2,516 | |
| | | | | 10,316 | 7,652 |
| FedCap Partners LLC | Private equity fund aerospace and defense | Class A Membership Units (80 units, $0 Uncalled Commitment)(H)(L)(S) | | 1,634 | 1,265 |
| Lignetics, Inc. | Diversified natural resources, precious metals and minerals | Secured Second Lien Debt (12.0%, Due 2/2021)(D) | 6,000 | 6,000 | 5,850 |
| | | Secured Second Lien Debt (12.0%, Due 2/2021)(D) | 8,000 | 8,000 | 7,800 |
| | | Common Stock (152,603 shares)(F)(H) | | 1,856 | 1,171 |
| | | | | 15,856 | 14,821 |
| LWO Acquisitions Company LLC | Diversified/conglomerate manufacturing | Secured First Lien Line of Credit, $125 available (6.5%, 2.0% PIK, Due 3/2018)(D) | 2,471 | 2,471 | 1,977 |
| | | Secured First Lien Debt (9.5%, 2.0% PIK, Due 12/2019)(D) | 10,723 | 10,723 | 8,578 |
| | | Common Units (921,000 units)(F)(H) | | 921 | |
| | | | | 14,115 | 10,555 |
| RBC Acquisition Corp. | Healthcare, education and childcare | Secured First Lien Debt (8.0%, Due 2/2019)(G)(R) | 6,954 | 6,954 | 7,219 |
| | | Secured First Lien Line of Credit, $0 available (6.0%, 3% PIK, Due 12/2016)(G)(R) | 4,629 | 4,629 | 4,629 |
| | | Secured First Lien Debt (8.0%, 4.0% PIK, Due 12/2016)(C)(G)(R) | 13,808 | 13,808 | 14,582 |
| | | Secured First Lien Mortgage Note (Due 12/2017)(Q)(R) | 7,704 | 7,704 | 7,704 |
| | | Preferred Stock (4,999,000 shares)(H)(K)(R) | | 4,999 | 3,211 |
| | | Common Stock (2,000,000 shares)(H)(R) | | 370 | |
| | | | | 38,464 | 37,345 |
| ***Subtotal*** | ***Affiliate Proprietary Investments*** | | | **$ 80,385** | **$ 71,638** |

14

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **AFFILIATE INVESTMENTS(O) (Continued):** | | | | | |
| **Syndicated Investments:** | | | | | |
| Targus Cayman HoldCo Limited | Textiles and leather | Secured First Lien Debt (15.0% PIK, Due 12/2019)(D)(G) | 2,285 | 2,285 | 2,279 |
| | | Common Stock (526,141 shares)(F)(H) | | 2,343 | 1,556 |
| | | | | 4,628 | 3,835 |
| **Total Affiliate Investments (represented 23.4% of total investments at fair value)** | | | | **$ 85,013** | **$ 75,473** |
| **CONTROL INVESTMENTS(P):** | | | | | |
| **Proprietary Investments:** | | | | | |
| Defiance Integrated Technologies, Inc. | Automobile | Secured Second Lien Debt (11.0%, Due 2/2019)(F) | $ 6,225 | $ 6,225 | $ 6,225 |
| | | Common Stock (33,321 shares)(F)(H) | | 580 | 3,981 |
| | | | | $ 6,805 | $ 10,206 |
| PIC 360, LLC | Machinery | Secured First Lien Debt (14.0%, Due 12/2017)(F) | 4,000 | 4,000 | 4,000 |
| | | Common Equity Units (750 units) (F) | | 1 | 1 |
| | | | | 4,001 | 4,001 |
| Sunshine Media Holdings | Printing and publishing | Secured First Lien Line of Credit, $672 available (8.0%, Due 5/2018)(F)(G) | 1,328 | 1,328 | 1,328 |
| | | Secured First Lien Debt (8.0%, Due 5/2018)(F)(G) | 5,000 | 5,000 | 1,388 |
| | | Secured First Lien Debt (4.8%, Due 5/2018)(F)(I) | 11,948 | 11,948 | 3,317 |
| | | | 10,700 | 10,700 | |

| | | | |
|---|---|---|---|
| | Secured First Lien Debt (5.5%, Due 5/2018)(C)(F)(I) | | |
| | Preferred Stock (15,270 shares)(F)(H)(K) | 5,275 | |
| | Common Stock (1,867 shares)(F)(H) | 740 | |
| | Common Stock Warrants (72 shares) (F)(H) | | |
| | | 34,991 | 6,033 |
| **Total Control Proprietary Investments (represented 6.3% of total investments at fair value)** | | **$ 45,797** | **$ 20,240** |
| **TOTAL INVESTMENTS(U)** | | **$ 381,801** | **$ 322,114** |

(A) Certain of the securities listed in this schedule are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $282.2 million at fair value, are pledged as collateral to our Credit Facility, as described further in Note 5 *Borrowings.* Under the Investment Company Act of 1940, as amended, (the 1940 Act ), we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2016, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 6.6% of total investments, at fair value, as of September 30, 2016.

(B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate ( LIBOR )) in effect at September 30, 2016, and due dates represent the contractual maturity date. If applicable, paid-in-kind ( PIK ) interest rates are noted separately from the cash interest rates and any unused line of credit fees are excluded. Secured first lien debt securities generally take the form of first priority liens on substantially all of the assets of the underlying portfolio company businesses.

(C) Last out tranche ( LOT ) of secured first lien debt, meaning if the portfolio company is liquidated, the holder of the LOT is generally paid after the other secured first lien debt holders but before all other debt and equity holders.

(D) Fair value was based on an internal yield analysis or on estimates of value submitted by Standard & Poor s Securities Evaluations, Inc. ( SPSE ).

(E) Fair value was based on the indicative bid price on or near September 30, 2016, offered by the respective syndication agent s trading desk.

(F) Fair value was based on the total enterprise value of the portfolio company, which was then allocated to the portfolio company s securities in order of their relative priority in the capital structure.

(G) Debt security has a fixed interest rate.

(H) Investment is non-income producing.

(I) Investment is on non-accrual status.

(J) New investment valued at cost, as it was determined that the price paid during the quarter ended September 30, 2016 best represents fair value as of September 30, 2016.

(K) Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares.

(L) There are certain limitations on our ability to transfer our units owned, withdraw or resign prior to dissolution of the entity, which must occur no later than May 3, 2020.

(M) There are certain limitations on our ability to withdraw our partnership interest prior to dissolution of the entity, which must occur no later than May 9, 2024 or two years after all outstanding leverage has matured.

(N) Non-Control/Non-Affiliate investments, as defined by the 1940 Act, are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.

(O)

Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

**Table of Contents**

(P) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.
(Q) This investment does not have a stated interest rate that is payable thereon.
(R) Fair value was based on the expected exit or payoff amount, where such event has occurred or is expected to occur imminently.
(S) Fair value was based on net asset value provided by the fund as a practical expedient.
(T) One of our affiliated funds, Gladstone Investment Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.
(U) Cumulative gross unrealized depreciation for federal income tax purposes is $75.3 million; cumulative gross unrealized appreciation for federal income tax purposes is $8.8 million. Cumulative net unrealized depreciation is $66.5 million, based on a tax cost of $388.6 million.

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

Table of Contents

**GLADSTONE CAPITAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**JUNE 30, 2017**

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

## NOTE 1. ORGANIZATION

Gladstone Capital Corporation was incorporated under the Maryland General Corporation Law on May 30, 2001 and completed an initial public offering on August 24, 2001. The terms the Company, we, our and us all refer to Gladst Capital Corporation and its consolidated subsidiaries. We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ), and is applying the guidance of the Financial Accounting Standards Board (the FASB ) Accounting Standards Codification ( ASC ) Topic 946 *Financial Services-Investment Companies* ( ASC 946 ). In addition, we have elected to be treated for tax purposes as a regulated investment company ( RIC ) under the Internal Revenue Code of 1986, as amended (the Code ). We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States ( U.S ). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established lower middle market companies (which we generally define as companies with annual earnings before interest, taxes, depreciation and amortization of $3 million to $15 million) in the U.S. that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

Gladstone Business Loan, LLC ( Business Loan ), a wholly-owned subsidiary of ours, was established on February 3, 2003, for the sole purpose of owning a portion of our portfolio of investments in connection with our Credit Facility (defined in Note 5 *Borrowings*).

Gladstone Financial Corporation ( Gladstone Financial ), a wholly-owned subsidiary of ours, was established on November 21, 2006, for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial acquired this license in February 2007. The license enables us to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies. As of June 30, 2017 and September 30, 2016, we held no investments in portfolio companies through Gladstone Financial.

The financial statements of Business Loan and Gladstone Financial are consolidated with ours. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by Gladstone Management Corporation (the Adviser ), a Delaware corporation and a U.S. Securities and Exchange Commission (the SEC ) registered investment adviser and an affiliate of ours, pursuant to an investment advisory and management agreement (the Advisory Agreement ). Administrative services are provided by our affiliate, Gladstone Administration, LLC (the Administrator ), a Delaware limited liability company, pursuant to an administration agreement (the Administration Agreement ). Refer to Note 4 *Related Party Transactions* for additional information regarding these arrangements.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Unaudited Interim Financial Statements and Basis of Presentation*

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. ( GAAP ) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of Regulation S-X. Accordingly, we have not included in this quarterly report all of the information and notes required by GAAP for annual financial statements. The accompanying *Consolidated Financial Statements* include our accounts and those of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X, we do not consolidate portfolio company investments. Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants ( AICPA ) Audit and Accounting Guide for Investment Companies, codified in ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 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. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended June 30, 2017, are not necessarily indicative of results that ultimately may be achieved for the fiscal year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as filed with the SEC on November 21, 2016.

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

**Table of Contents**

*Use of Estimates*

Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in our accompanying Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

*Reclassifications*

Certain amounts have been reclassified to conform to the current year presentation.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ( ASU 2015-03 ), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires the presentation of debt issuance costs as a deduction from the carrying amount of the related debt liability instead of as a deferred financing cost asset on the balance sheet. In August 2015, the FASB issued Accounting Standards Update 2015-15, *Interest Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ( ASU 2015-15 ), which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line of credit arrangements as assets. ASU 2015-03 was effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, and we adopted ASU 2015-03 during the three months ended December 31, 2016. ASU 2015-15 was effective immediately and, as a result, we continue to present debt issuance costs related to line of credit arrangements as assets.

As of December 31, 2016 and September 30, 2016, we had unamortized deferred financing costs related to our mandatorily redeemable preferred stock of $1.6 million. These costs have been reclassified from Deferred financing costs, net, to Mandatorily redeemable preferred stock, net. All periods presented have been retrospectively adjusted.

The following table summarizes the retrospective adjustment and the overall impact on the previously reported consolidated financial statements:

| | September 30, 2016 | |
|---|---|---|
| | **As Previously Reported** | **Retrospective Application** |
| Deferred financing costs, net | $ 3,161 | $ 1,521 |
| Mandatorily redeemable preferred stock, net | 61,000 | 59,360 |

*Investment Valuation Policy*

Accounting Recognition

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

Board Responsibility

In accordance with the 1940 Act, our Board of Directors has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our investment valuation policy, which has been approved by our Board of Directors (the Policy ). Such review occurs in three phases. First, prior to its quarterly meetings, our Board of Directors receives written valuation recommendations and supporting materials provided by professionals of the Adviser and Administrator with oversight and direction from our chief valuation officer, who reports directly to our Board of Directors (the Valuation Team ). Second, the Valuation Committee of our Board of Directors, comprised entirely of independent directors, meets to review the valuation recommendations and supporting materials. Third, after the Valuation Committee concludes its meeting, it and our chief valuation officer present the Valuation Committee s findings to the entire Board of Directors and, after discussion, the Board of Directors ultimately approves the value of our portfolio of investments in accordance with the Policy.

There is no single method for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by our chief valuation officer, uses the Policy and each quarter the Valuation Committee and Board of Directors reviews the Policy to determine if changes are advisable and also reviews whether the Valuation Team has applied the Policy consistently.

Table of Contents

Use of Third Party Valuation Firms

The Valuation Team engages third party valuation firms to provide independent assessments of fair value of certain of our investments.

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

We may engage other independent valuation firms to provide earnings multiple ranges, as well as other information, and evaluate such information for incorporation into the total enterprise value of certain of our investments. Generally, at least once per year, we engage an independent valuation firm to value or review our valuation of our significant equity investments, which includes providing the information noted above. The Valuation Team evaluates such information for incorporation into our total enterprise value, including review of all inputs provided by the independent valuation firm. The Valuation Team then makes a recommendation to our Valuation Committee and Board of Directors as to the fair value. Our Board of Directors reviews the recommended fair value, whether it is reasonable in light of the Policy, as well as other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended fair value.

Valuation Techniques

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

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

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

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

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

Table of Contents

*Investments in Funds* For equity investments in other funds, where we cannot effectuate a sale, the Valuation Team generally determines the fair value of our uninvested capital at par value and of our invested capital at the net asset value ( NAV ) provided by the fund. The Valuation Team may also determine fair value of our investments in other investment funds based on the capital accounts of the underlying entity.

In addition to the above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including, but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; timing of expected loan repayments; and the markets in which the portfolio company operates. If applicable, new and follow-on proprietary debt and equity investments made during the current reporting quarter (the quarter ended June 30, 2017) are generally valued at original cost basis.

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

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

*Revenue Recognition Policy*

<u>Interest Income Recognition</u>

Interest income, including the amortization of premiums, acquisition costs and amendment fees, the accretion of original issue discounts ( OID ), and paid-in-kind ( PIK ) interest, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management s judgment, are likely to remain current, or due to a restructuring, the interest income is deemed to be collectible. At June 30, 2017, certain loans to two portfolio companies, Sunshine Media Holdings and Alloy Die Casting Corp., were on non-accrual status with an aggregate debt cost basis of $27.9 million, or 7.6% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $7.5 million, or 2.3% of the fair value of all debt investments in our portfolio. At September 30, 2016, certain loans to two portfolio companies, Sunshine Media Holdings and Vertellus Specialties, Inc. were on non-accrual status with an aggregate debt cost basis of $26.5 million, or 7.7% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $5.9 million, or 1.9% of the fair value of all debt investments in our portfolio.

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

We recorded OID income of $0.1 million during the three and nine months ended June 30, 2017 and 2016. We recorded PIK interest income of $1.3 million and $3.8 million during the three and nine months ended June 30, 2017, respectively, as compared to $0.6 million and $1.6 million during the three and nine months ended June 30, 2016, respectively. We collected $0 and $1.0 million in PIK interest in cash during the three and nine months ended June 30, 2017, respectively, as compared to $0 and $0.1 million during the three and nine months ended June 30, 2016, respectively.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company, typically from an exit or sale. We recorded success fee income of $0 and $1.5 million during the three and nine months ended June 30, 2017, respectively, as compared to $1.5 million and $2.8 million during the three and nine months ended June 30, 2016, respectively.

**Table of Contents**

Dividend income on equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. We recorded $0 and $36 of dividend income during the three and nine months ended June 30, 2017, respectively, as compared to $5 and $0.3 million during the three and nine months ended June 30, 2016, respectively.

During the nine months ended June 30, 2017, we recharacterized $0.2 million of dividend income from our investment in Behrens Manufacturing, LLC ( Behrens ) recorded during our fiscal year ended September 30, 2016 as a return of capital.

We generally record prepayment fees upon receipt of cash. Prepayment fees are contractually due at the time of an investment s exit, based on the prepayment fee schedule. We recorded $3 and $0.2 million in prepayment fees during the three and nine months ended June 30, 2017, as compared to $0.1 million and $0.2 million during the three and nine months ended June 30, 2016, respectively.

Success fees, prepayment fees, dividend income, and any other income amounts are all recorded in other income in our accompanying *Consolidated Statements of Operations*.

*Recent Accounting Pronouncements*

In November 2016, the FASB issued Accounting Standards Update 2016-18, Restricted Cash (a consensus of the Emerging Issues Task Force) ( ASU 2016-18 ), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We are currently assessing the impact of ASU 2016-18 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) ( ASU 2016-15 ), which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. We are currently assessing the impact of ASU 2016-15 and do not anticipate a material impact on our cash flows. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted.

In March 2016, the FASB issued Accounting Standards Update 2016-06, *Contingent Put and Call Options in Debt Instruments* ( ASU 2016-06 ), which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related. We assessed the impact of ASU 2016-06 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-06 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted.

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ), which changes how entities measure certain equity investments and how entities present changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk. We are currently assessing the impact of ASU 2016-01 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted for certain aspects of ASU 2016-01 relating to the recognition of changes in fair value of financial liabilities when the fair value option is elected.

In February 2015, the FASB issued Accounting Standards Update 2015-02, *Amendments to the Consolidation Analysis* ( ASU 2015-02 ), which amends or supersedes the scope and consolidation guidance under existing GAAP. The adoption of ASU 2015-02 did not have a material impact on our financial position, results of operations or cash flows. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, and we adopted ASU 2015-02 effective April 1, 2016. In October 2016, the FASB issued Accounting Standards Update 2016-17, *Interests Held through Related Parties That Are under Common Control* ( ASU 2016-17 ), which amends the consolidation guidance in ASU 2015-02 regarding the treatment of indirect interests held through related parties that are under common control. We assessed the impact of ASU 2016-17 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-17 is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those years, with early adoption permitted.

In August 2014, the FASB issued Accounting Standards Update 2014 15, *Presentation of Financial Statements Going Concern (Subtopic 205 40): Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern* ( ASU 2014-15 ). ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. This guidance relates primarily to certain disclosures to the financial statements. We assessed the impact of ASU 2014-15 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter, with early adoption permitted.

Table of Contents

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ), which was amended in March 2016 by FASB Accounting Standards Update 2016-08, *Principal versus Agent Considerations* ( ASU 2016-08 ), in April 2016 by FASB Accounting Standards Update 2016-10, *Identifying Performance Obligations and Licensing* ( ASU 2016-10 ), in May 2016 by FASB Accounting Standards Update 2016-12, *Narrow-Scope Improvements and Practical Expedients* ( ASU 2016-12 ), and in December 2016 by FASB Accounting Standards Update 2016-20, *Technical Corrections and Improvements to Topic 606* ( ASU 2016-20 ). ASU 2014-09, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. In July 2015, the FASB issued Accounting Standards Update 2015-14, *Deferral of the Effective Date,* which deferred the effective date of ASU 2014-09. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20, is now effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years, with early adoption permitted for annual reporting periods beginning after December 15, 2016 and interim periods within those years. We continue to assess the impact of ASU 2014-09, as amended, and expect to identify similar performance obligations as compared to existing guidance. As a result, we do not anticipate a material change in the timing of revenue recognition or a material impact on our financial position, results of operations, or cash flows from adopting this standard.

**NOTE 3. INVESTMENTS**

*Fair Value*

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

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

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

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

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

However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of June 30, 2017 and September 30, 2016, all of our investments were valued using Level 3 inputs and during the three and nine months ended June 30, 2017 and 2016, there were no investments transferred into or out of Levels 1, 2 or 3.

Table of Contents

The following table presents our investments carried at fair value as of June 30, 2017 and September 30, 2016, by caption on our accompanying *Consolidated Statements of Assets and Liabilities* and by security type, all of which are valued using level 3 inputs:

| | Total Recurring Fair Value Measurements Reported in *Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | **June 30, 2017** | **September 30, 2016** |
| **Non-Control/Non-Affiliate Investments** | | |
| Secured first lien debt | **$ 141,303** | $ 134,067 |
| Secured second lien debt | **129,496** | 80,446 |
| Unsecured debt | **3,249** | 3,012 |
| Preferred equity | **5,710** | 7,051 |
| Common equity/equivalents | **3,403** | 1,825 |
| Total Non-Control/Non-Affiliate Investments | **$ 283,161** | $ 226,401 |
| **Affiliate Investments** | | |
| Secured first lien debt | **$ 20,993** | $ 54,620 |
| Secured second lien debt | **17,300** | 13,650 |
| Preferred equity | **809** | 3,211 |
| Common equity/equivalents | **2,939** | 3,992 |
| Total Affiliate Investments | **$ 42,041** | $ 75,473 |
| **Control Investments** | | |
| Secured first lien debt | **$ 9,073** | $ 10,034 |
| Secured second lien debt | **6,065** | 6,224 |
| Common equity/equivalents | **5,163** | 3,982 |
| Total Control Investments | **$ 20,301** | $ 20,240 |
| **Total Investments, at Fair Value** | **$ 345,503** | $ 322,114 |

**Table of Contents**

In accordance with ASC 820, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2017 and September 30, 2016. The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt related calculations and on the cost basis for all equity related calculations for the particular input.

**Quantitative Information about Level 3 Fair Value Measurements**

| | | | | | Range / Weighted Average(D) as of | |
|---|---|---|---|---|---|---|
| | **June 30, 2017** | **September 30, 2016** | **Valuation Technique/ Methodology** | **Unobservable Input** | **June 30, 2017** | **September 30, 2016** |
| ecured first ien debt(A) | **$ 160,191** | $ 141,550 | Yield Analysis | Discount Rate | 8.5% - 22.1% / 12.8% | 8.1% - 18.5% / 12.1% |
| | **11,178** | 54,630 | TEV | EBITDA multiples | 3.2x 3.2x / 3.2x | 3.2x 5.5x / 2.3x |
| | | | | EBITDA | $1,327 - $1,327 / $1,327 | $1,262 - $20,269 / $4,619 |
| | | | | Revenue multiples | 0.4x 0.4x / 0.4x | 0.2x 0.4x / 0.4x |
| | | | | Revenue | $6,934 - $12,682 / $12,293 | $4,696 - $15,083 / $14,139 |
| | | 2,541 | Market Quote | IBP | | 64.5% - 64.5% / 64.5% |
| ecured econd lien ebt(B) | **117,558** | 72,678 | Yield Analysis | Discount Rate | 10.9% - 21.0% / 13.4% | 12.0% - 22.0% / 15.1% |
| | **29,238** | 21,417 | Market Quote | IBP | 67.5% - 100.3% / 93.7% | 40.0% - 98.3% / 83.7% |
| | **6,065** | 6,225 | TEV | EBITDA multiples | 4.7x 4.7x / 4.7x | 4.7x 4.7x / 4.7x |
| | | | | EBITDA | $4,005 - $4,005 / $4,005 | $2,759 - $2,759 / $2,759 |
| Unsecured ebt | **3,249** | 3,012 | Yield Analysis | Discount Rate | 9.9% - 9.9% / 9.9% | 9.9% - 9.9% /9.9% |
| Preferred and ommon quity / quivalents(C) | **14,580** | 18,017 | TEV | EBITDA multiples | 3.2x 10.5x / 6.1x | 3.2x 7.5x / 5.8x |
| | | | | EBITDA | $1,017 - $94,854 / $7,644 | $1,132 - $86,041 / $7,714 |
| | | | | Revenue multiples | 0.4x 1.2x / 0.4x | 0.4x 0.4x / 0.4x |
| | | | | Revenue | $6,934 - $69,470 / $14,078 | $7,708 - $15,083 / $14,009 |
| | | | | Discount Rate | 12.2% - 12.2% / 12.2% | 11.7% - 11.7% / 11.7% |
| | **579** | | Market Quotes | IBP | 14.6% - 27.9% /16.5% | |
| | **2,865** | 2,044 | Investments in Funds(D) | | | |
| **otal nvestments, t Fair Value** | **$ 345,503** | **$ 322,114** | | | | |

(A) Fair value as of September 30, 2016 includes one new proprietary debt investment and two restructured proprietary debt investments totaling $12.6 million, which were valued at cost, and two proprietary debt investments totaling $38.8 million, which were valued at the expected exit amount.

B) Fair value as of June 30, 2017 includes one new proprietary debt investment and one new syndicated debt investment totaling $25.0 million, which were valued at cost. Fair value as of September 30, 2016 includes one new proprietary debt investment for $10.0 million which was valued at cost.

(C) Fair value as of September 30, 2016 includes one new proprietary investment and one restructured proprietary investment totaling $0.5 million, which were valued at cost, and two proprietary investments for $7.3 million, which were valued at the expected payoff amount.

(D) Fair value as of June 30, 2017 and September 30, 2016 is based on net asset value as a practical expedient and is not subject to leveling within the fair value hierarchy.

Table of Contents

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in market yields, discounts rates, leverage, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in isolation, may change the fair value of certain of our investments. Generally, an increase or decrease in market yields, discount rates or leverage or a decrease in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a corresponding decrease or increase, respectively, in the fair value of certain of our investments.

*Changes in Level 3 Fair Value Measurements of Investments*

The following tables provide the changes in fair value, broken out by security type, during the three and nine months ended June 30, 2017 and 2016 for all investments for which the Adviser determines fair value using unobservable (Level 3) factors.

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| **FISCAL YEAR 2017:**<br>**Three Months Ended June 30, 2017** | **Secured First Lien Debt** | **Secured Second Lien Debt** | **Unsecured Debt** | **Preferred Equity** | **Common Equity/ Equivalents** | **Total** |
|---|---|---|---|---|---|---|
| Fair Value as of March 31, 2017 | **$ 174,033** | **$ 121,097** | **$ 3,185** | **$ 4,666** | **$ 10,536** | **$ 313,517** |
| Total gains (losses): | | | | | | |
| Net realized loss[A] | (14) | | | (8) | (1) | (23) |
| Net unrealized (depreciation) appreciation[B] | 387 | (1,280) | (50) | 963 | 969 | 989 |
| New investments, repayments and settlements:[C] | | | | | | |
| Issuances/originations | 3,001 | 33,128 | 80 | 890 | | 37,099 |
| Settlements/repayments | (6,052) | (84) | 34 | | | (6,102) |
| Net proceeds from sales | 14 | | | 8 | 1 | 23 |
| **Fair Value as of June 30, 2017** | **$ 171,369** | **$ 152,861** | **$ 3,249** | **$ 6,519** | **$ 11,505** | **$ 345,503** |

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| **Nine Months Ended June 30, 2017** | **Secured First Lien Debt** | **Secured Second Lien Debt** | **Unsecured Debt** | **Preferred Equity** | **Common Equity/ Equivalents** | **Total** |
|---|---|---|---|---|---|---|
| Fair Value as of September 30, 2016 | **$ 198,721** | **$ 100,320** | **$ 3,012** | **$ 10,262** | **$ 9,799** | **$ 322,114** |
| Total gains (losses): | | | | | | |
| Net realized (loss) gain[A] | (4,913) | 1 | | 1,465 | 21 | (3,426) |
| Net unrealized (depreciation) appreciation[B] | 1,253 | (3,262) | (43) | 2,016 | (2,282) | (2,318) |
| Reversal of prior period net depreciation (appreciation) on realization[B] | 2,114 | 180 | | (1,059) | 370 | 1,605 |
| New investments, repayments and settlements:[C] | | | | | | |
| Issuances/originations | 33,130 | 63,264 | 241 | 1,644 | 769 | 99,048 |
| Settlements/repayments | (54,909) | (8,361) | 39 | | | (63,231) |
| Net proceeds from sales | (87) | (1) | | (7,809) | (392) | (8,289) |
| Transfers | (3,940) | 720 | | | 3,220 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Fair Value as of June 30, 2017** | **$ 171,369** | **$ 152,861** | **$ 3,249** | **$ 6,519** | **$ 11,505** | **$ 345,503** |

Table of Contents

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| **FISCAL YEAR 2016:**<br>**Three Months Ended June 30, 2016** | **Secured First Lien Debt** | **Secured Second Lien Debt** | **Unsecured Debt** | **Preferred Equity** | **Common Equity/ Equivalents** | **Total** |
|---|---|---|---|---|---|---|
| Fair Value as of March 31, 2016 | **$ 182,660** | **$ 91,955** | **$** | **$ 7,263** | **$ 11,550** | **$ 293,428** |
| Total gains (losses): | | | | | | |
| Net realized loss(A) | | | | (80) | (4) | (84) |
| Net unrealized (depreciation) appreciation(B) | (28) | 454 | 4 | 1,962 | (1,128) | 1,264 |
| Reversal of prior period net depreciation on realization(B) | (390) | | | (169) | (13) | (572) |
| New investments, repayments and settlements:(C) | | | | | | |
| Issuances/originations | 31,733 | 2,044 | 71 | 137 | 580 | 34,565 |
| Settlements/repayments | (8,944) | (11,078) | 3 | (440) | | (20,459) |
| Net proceeds from sales | | | | 80 | 4 | 84 |
| Transfers | (16,888) | 14,042 | 2,846 | 582 | (582) | |
| **Fair Value as of June 30, 2016** | **$ 188,143** | **$ 97,417** | **$ 2,924** | **$ 9,335** | **$ 10,407** | **$ 308,226** |

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| **Nine Months Ended June 30, 2016** | **Secured First Lien Debt** | **Secured Second Lien Debt** | **Unsecured Debt** | **Preferred Equity** | **Common Equity/ Equivalents** | **Total** |
|---|---|---|---|---|---|---|
| Fair Value as of September 30, 2015 | **$ 206,840** | **$ 120,303** | **$** | **$ 24,315** | **$ 14,433** | **$ 365,891** |
| Total gains (losses): | | | | | | |
| Net realized (loss) gain(A) | (6,568) | (167) | | 16,959 | (387) | 9,837 |
| Net unrealized (depreciation) appreciation(B) | (12,405) | (6,979) | 4 | 1,762 | (6,677) | (24,295) |
| Reversal of prior period net depreciation (appreciation) on realization(B) | 6,209 | 147 | | (16,178) | 370 | (9,452) |
| New investments, repayments and settlements:(C) | | | | | | |
| Issuances/originations | 62,157 | 2,280 | 71 | 339 | 3,246 | 68,093 |
| Settlements/repayments | (49,380) | (32,202) | 3 | (440) | | (82,019) |
| Net proceeds from sales | (1,822) | (7) | | (18,004) | 4 | (19,829) |
| Transfers | (16,888) | 14,042 | 2,846 | 582 | (582) | |
| **Fair Value as of June 30, 2016** | **$ 188,143** | **$ 97,417** | **$ 2,924** | **$ 9,335** | **$ 10,407** | **$ 308,226** |

(A) Included in net realized gain (loss) on our accompanying *Consolidated Statements of Operations* for the three and nine months ended June 30, 2017 and 2016.

(B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Consolidated Statements of Operations* for the three and nine months ended June 30, 2017 and 2016.

(C)

Includes increases in the cost basis of investments resulting from new portfolio investments, the accretion of discounts, and PIK, as well as decreases in the cost basis of investments resulting from principal repayments or sales, the amortization of premiums and acquisition costs and other cost-basis adjustments.

**Table of Contents**

*Investment Activity*

Proprietary Investments

As of June 30, 2017 and September 30, 2016, we held 34 and 32 proprietary investments with an aggregate fair value of $309.1 million and $291.3 million, or 89.5% and 90.4% of the total aggregate portfolio, respectively. The following significant proprietary investment transactions occurred during the nine months ended June 30, 2017:

- In November 2016, we completed the sale of substantially all the assets of RBC Acquisition Corp. for net proceeds of $36.3 million, which resulted in a realized loss of $2.3 million. In connection with the sale, we received success fee income of $1.1 million and net receivables of $1.5 million, which are recorded within Other assets, net.

- In November 2016, we invested $5.2 million in Sea Link International IRB, Inc. through secured second lien debt and equity.

- In December 2016, we sold our investment in Behrens, which resulted in success fee income of $0.4 million and a realized gain of $2.5 million. In connection with the sale, we received net cash proceeds of $8.2 million, including the repayment of our debt investment of $4.3 million at par.

- In December 2016, we invested $7.0 million in Vacation Rental Pros Property Management, LLC through secured second lien debt.

- In February 2017, we invested $10.0 million in Belnick, Inc. through secured second lien debt.

- In February 2017, we invested $29.0 million in NetFortris Corp. through secured first lien debt.

- In March 2017, LCR Contractors, LLC paid off at par for net cash proceeds of $8.6 million. In connection with the payoff, we received a prepayment fee of $0.2 million.

- In April 2017, we invested $22.0 million in HB Capital Resources, Ltd. through secured second lien debt.

- In May 2017, we invested an additional $4.1 million in an existing portfolio company, Lignetics, Inc., through secured second lien debt and equity, to support an acquisition.

Syndicated Investments

As of June 30, 2017 and September 30, 2016, we held 13 syndicated investments with an aggregate fair value of $36.4 million and $30.8 million, or 10.5% and 9.6% of the total portfolio at fair value, respectively. The following significant syndicated investment transactions occurred during the nine months ended June 30, 2017:

In October 2016, RP Crown Parent, LLC paid off at par for proceeds of $2.0 million.

In October 2016, our $3.9 million secured first lien debt investment in Vertellus Specialties, Inc. was restructured. As a result of the restructure, we received a new $1.1 million secured second lien debt investment in Vertellus Holdings LLC and common equity with a cost basis of $3.0 million.

In December 2016, Autoparts Holdings Limited paid off at par for proceeds of $0.7 million.

In December 2016, we invested $5.0 million in LDiscovery, LLC through secured second lien debt.

In February 2017, Vitera Healthcare Solutions, LLC paid off at par for proceeds of $4.5 million.

In May 2017, we invested $4.0 million in Keystone Acquisition Corp. through secured second lien debt.

In June 2017, we invested $3.0 million in Medical Solutions Holdings, Inc. through secured second lien debt.

*Investment Concentrations*

As of June 30, 2017, our portfolio consisted of investments in 47 portfolio companies located in 23 states in 22 different industries, with an aggregate fair value of $345.5 million. The five largest investments at fair value totaled $109.6 million, or 31.7% of our total investment portfolio as of June 30, 2017, as compared to $112.1 million, or 34.8% of our total investment portfolio as of September 30,

Table of Contents

2016. As of June 30, 2017 and September 30, 2016, our average investment by obligor was $8.6 million at cost. The following table outlines our investments by security type as of June 30, 2017 and September 30, 2016:

| | June 30, 2017 | | | | September 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Percentage of Total Investments | Fair Value | Percentage of Total Investments | Cost | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Secured first lien debt | **$ 196,107** | **48.3%** | **$ 171,369** | **49.6%** | $ 227,439 | 59.6% | $ 198,721 | 61.7% |
| Secured second lien debt | **169,769** | **41.8** | **152,861** | **44.2** | 113,796 | 29.8 | 100,320 | 31.2 |
| Unsecured debt | **3,241** | **0.8** | **3,249** | **1.0** | 2,995 | 0.8 | 3,012 | 0.9 |
| Total Debt Investments | **369,117** | **90.9** | **327,479** | **94.8** | 344,230 | 90.2 | 302,053 | 93.8 |
| Preferred equity | **18,293** | **4.5** | **6,519** | **1.9** | 22,988 | 6.0 | 10,262 | 3.2 |
| Common equity/equivalents | **18,493** | **4.6** | **11,505** | **3.3** | 14,583 | 3.8 | 9,799 | 3.0 |
| Total Equity Investments | **36,786** | **9.1** | **18,024** | **5.2** | 37,571 | 9.8 | 20,061 | 6.2 |
| **Total Investments** | **$ 405,903** | **100.0%** | **$ 345,503** | **100.0%** | $ 381,801 | 100.0% | $ 322,114 | 100.0% |

Our investments at fair value consisted of the following industry classifications at June 30, 2017 and September 30, 2016:

| | June 30, 2017 | | September 30, 2016 | |
|---|---|---|---|---|
| **Industry Classification** | **Fair Value** | **Percentage of Total Investments** | **Fair Value** | **Percentage of Total Investments** |
| Diversified/Conglomerate Service | **$ 79,349** | **23.0%** | $ 48,898 | 15.2% |
| Diversified/Conglomerate Manufacturing | **40,624** | **11.8** | 50,106 | 15.6 |
| Healthcare, education, and childcare | **33,603** | **9.7** | 70,577 | 21.9 |
| Telecommunications | **31,434** | **9.1** | 5,790 | 1.8 |
| Oil and gas | **29,666** | **8.6** | 31,279 | 9.7 |
| Automobile | **20,425** | **5.9** | 14,837 | 4.6 |
| Diversified natural resources, precious metals and minerals | **18,746** | **5.4** | 14,821 | 4.6 |
| Beverage, food and tobacco | **15,110** | **4.3** | 15,022 | 4.7 |
| Cargo Transportation | **13,065** | **3.8** | 13,000 | 4.0 |
| Home and Office Furnishings, Housewares and Durable Consumer Products | **10,025** | **2.9** | | |

| | | | | |
|---|---|---|---|---|
| Leisure, Amusement, Motion Pictures, Entertainment | **8,247** | **2.4** | 8,769 | 2.7 |
| Personal and non-durable consumer products | **7,389** | **2.1** | 7,858 | 2.4 |
| Hotels, motels, inns, and gaming | **7,091** | **2.1** | | |
| Broadcast and entertainment | **6,192** | **1.8** | 4,682 | 1.5 |
| Printing and publishing | **5,073** | **1.5** | 6,033 | 1.9 |
| Machinery | **4,962** | **1.4** | 5,597 | 1.7 |
| Finance | **4,782** | **1.4** | 3,000 | 0.9 |
| Textiles and leather | **3,304** | **1.0** | 3,836 | 1.2 |
| Buildings and real estate | **2,974** | **0.9** | 11,223 | 3.5 |
| Electronics | **517** | **0.1** | 2,980 | 0.9 |
| Other, < 2.0% | **2,925** | **0.8** | 3,806 | 1.2 |
| **Total Investments** | **$ 345,503** | **100.0%** | $ 322,114 | 100.0% |

Our investments at fair value were included in the following geographic regions of the U.S. as of June 30, 2017 and September 30, 2016:

| | **June 30, 2017** | | **September 30, 2016** | |
|---|---|---|---|---|
| **Geographic Region** | **Fair Value** | **Percentage of Total Investments** | **Fair Value** | **Percentage of Total Investments** |
| South | **$ 141,545** | **41.0%** | $ 131,181 | 40.8% |
| West | **104,486** | **30.2** | 57,786 | 17.9 |
| Midwest | **58,537** | **16.9** | 100,142 | 31.1 |
| Northeast | **40,935** | **11.9** | 33,005 | 10.2 |
| **Total Investments** | **$ 345,503** | **100.0%** | $ 322,114 | 100.0% |

28

Table of Contents

The geographic region indicates the location of the headquarters of our portfolio companies. A portfolio company may also have a number of other business locations in other geographic regions.

*Investment Principal Repayments*

The following table summarizes the contractual principal repayments and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2017:

| | | |
|---|---|---|
| For the remaining three months ending September 30: | 2017 | $ 6,499 |
| For the fiscal year ending September 30: | 2018 | 56,527 |
| | 2019 | 57,209 |
| | 2020 | 81,213 |
| | 2021 | 60,973 |
| | Thereafter | 112,663 |
| | **Total contractual repayments** | **$ 375,084** |
| | Equity investments | 36,786 |
| | Adjustments to cost basis on debt investments | (5,967) |
| | **Cost basis of investments held at June 30, 2017:** | **$ 405,903** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs incurred on behalf of such portfolio companies and are included in other assets on our accompanying *Consolidated Statements of Assets and Liabilities*. We generally maintain an allowance for uncollectible receivables from portfolio companies when the receivable balance becomes 90 days or more past due or if it is determined, based upon management s judgment, that the portfolio company is unable to pay its obligations. We write-off accounts receivable when we have exhausted collection efforts and have deemed the receivables uncollectible. As of June 30, 2017 and September 30, 2016, we had gross receivables from portfolio companies of $0.4 million. The allowance for uncollectible receivables was $36 and $0 at June 30, 2017 and September 30, 2016, respectively.

## NOTE 4. RELATED PARTY TRANSACTIONS

*Transactions with the Adviser*

We have been externally managed by the Adviser pursuant to the Advisory Agreement since October 1, 2004 pursuant to which we pay the Adviser a base management fee and an incentive fee for its services. The Advisory Agreement originally included administrative services; however, it was amended and restated on October 1, 2006. Simultaneously, we entered into the Administration Agreement with the Administrator (discussed further below) to provide those services. With the unanimous approval of our Board of Directors, the Advisory Agreement was later amended in October 2015 to reduce the base management fee payable under the agreement from 2.0% per annum to 1.75% per annum, effective July 1, 2015, with all other terms remaining unchanged. On July 11, 2017, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of such party, unanimously approved the annual renewal of the Advisory Agreement through August 31, 2018.

We also pay the Adviser a loan servicing fee for its role of servicer pursuant to our Credit Facility (defined in Note 5 *Borrowings*). The entire loan servicing fee paid to the Adviser by Business Loan is voluntarily, irrevocably and unconditionally credited against the base management fee otherwise payable to the Adviser, since Business Loan is a consolidated subsidiary of ours, and overall, the base management fee (including any loan servicing fee) cannot exceed 1.75% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement.

Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Brubaker (our vice chairman and chief operating officer) serve as directors and executive officers of the Adviser, which is 100% indirectly owned and controlled by Mr. Gladstone. Robert Marcotte (our president) also serves as an executive managing director of the Adviser.

Table of Contents

The following table summarizes the base management fee, incentive fee, and loan servicing fee and associated non-contractual, unconditional and irrevocable credits reflected in our accompanying *Consolidated Statements of Operations*:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Average total assets subject to base management fee(A) | **$ 338,286** | $ 312,914 | **$ 321,295** | $ 324,419 |
| Multiplied by prorated annual base management fee of 1.75% | **0.4375%** | 0.4375% | **1.3125%** | 1.3125% |
| **Base management fee(B)** | **$ 1,480** | $ 1,369 | **$ 4,217** | $ 4,258 |
| Portfolio company fee credit | **(261)** | (319) | **(1,344)** | (553) |
| Syndicated loan fee credit | **(100)** | (17) | **(122)** | (73) |
| **Net Base Management Fee** | **$ 1,119** | $ 1,033 | **$ 2,751** | $ 3,632 |
| **Loan servicing fee(B)** | **1,071** | 896 | **3,009** | 2,876 |
| Credit to base management fee - loan servicing fee(B) | **(1,071)** | (896) | **(3,009)** | (2,876) |
| **Net Loan Servicing Fee** | **$** | $ | **$** | $ |
| **Incentive fee(B)** | **1,116** | 1,187 | **3,479** | 3,369 |
| Incentive fee credit | **(914)** | (160) | **(2,028)** | (1,110) |
| **Net Incentive Fee** | **$ 202** | $ 1,027 | **$ 1,451** | $ 2,259 |
| Portfolio company fee credit | **(261)** | (319) | **(1,344)** | (553) |
| Syndicated loan fee credit | **(100)** | (17) | **(122)** | (73) |
| Incentive fee credit | **(914)** | (160) | **(2,028)** | (1,110) |
| **Credits to Fees From Adviser - other(B)** | **$ (1,275)** | $ (496) | **$ (3,494)** | $ (1,736) |

(A) Average total assets subject to the base management fee is defined in the Advisory Agreement as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected, on a gross basis, as a line item on our accompanying *Consolidated Statements of Operations*.

Base Management Fee

The base management fee is payable quarterly to the Adviser pursuant to our Advisory Agreement and is assessed at an annual rate of 1.75%, computed on the basis of the value of our average total assets at the end of the two most recently-completed quarters (inclusive of the current quarter), which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings and adjusted appropriately for any share issuances or repurchases during the period.

Additionally, pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser voluntarily, unconditionally, and irrevocably credits 100% of these fees against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, totaling $11 and $57 for the three and nine months ended June 30, 2017 and $35 and $0.1 million for the three and nine months ended June 30, 2016, respectively, was retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser primarily for the valuation of portfolio companies.

Our Board of Directors accepted a non-contractual, unconditional and irrevocable credit from the Adviser to reduce the annual base management fee on syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, for each of the nine months ended June 30, 2017 and 2016.

Incentive Fee

The incentive fee consists of two parts: an income-based incentive fee and a capital gains incentive fee. The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate ). The income-based incentive fee with respect to our pre-incentive fee net investment income is generally payable quarterly to the Adviser and is computed as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);

Table of Contents

100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized); and

20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20.0% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the entire portfolio s aggregate unrealized capital depreciation, if any and excluding any unrealized capital appreciation, as of the date of the calculation. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since inception. The entire portfolio s aggregate unrealized capital depreciation, if any, equals the sum of the difference, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable fiscal year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less the entire portfolio s aggregate unrealized capital depreciation, if any. If this number is positive at the end of such fiscal year, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded or paid since our inception through June 30, 2017, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such period. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded or paid from our inception through June 30, 2017.

Our Board of Directors accepted a non-contractual, unconditional and irrevocable credit from the Adviser to reduce the income-based incentive fee to the extent net investment income did not 100.0% cover distributions to common stockholders for the nine months ended June 30, 2017, and 2016.

Loan Servicing Fee

The Adviser also services the loans held by Business Loan (the borrower under the Credit Facility), in return for which the Adviser receives a 1.5% annual fee payable monthly based on the aggregate outstanding balance of loans pledged under our Credit Facility (defined in Note 5 *Borrowings*). As discussed in the notes to the table above, we treat payment of the loan servicing fee pursuant to our line of credit as a pre-payment of the base management fee under the Advisory Agreement. Accordingly, these loan servicing fees are 100% voluntarily, irrevocably and unconditionally credited back to us by the Adviser.

*Transactions with the Administrator*

We pay the Administrator pursuant to the Administration Agreement for the portion of expenses the Administrator incurs while performing services for us. The Administrator s expenses are primarily rent and the salaries, benefits and expenses of the Administrator s employees, including, but not limited to, our chief financial officer and treasurer, chief compliance officer, chief valuation officer, and general counsel and secretary (who also serves as the Administrator s president, general counsel and secretary) and their respective staffs. Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Brubaker (our vice chairman and chief operating officer) serve as members of the board of managers and executive officers of the Administrator, which is 100% indirectly owned and controlled by Mr. Gladstone.

Our portion of the Administrator s expenses are generally derived by multiplying the Administrator s total expenses by the approximate percentage of time during the current quarter the Administrator s employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator. These administrative fees are accrued at the end of the quarter when the services are performed and recorded on our accompanying *Consolidated Statements of Operations* and generally paid the following quarter to the Administrator. On July 11, 2017, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of such party, approved the annual renewal of the Administration Agreement through August 31, 2018.

*Other Transactions*

Gladstone Securities, LLC ( Gladstone Securities ), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee. Any such fees paid by portfolio companies to Gladstone Securities do not impact the fees we pay to the Adviser or the non-contractual, unconditional and irrevocable credits against the base management fee or incentive fee. Gladstone Securities received fees from portfolio companies totaling $0.3 million and $0.7 million during the three and nine months ended June 30, 2017, respectively, and $0.3 million and $0.4 million during the three and nine months ended June 30, 2016.

*Related Party Fees Due*

Amounts due to related parties on our accompanying *Consolidated Statements of Assets and Liabilities* were as follows:

| | June 30, 2017 | September 30, 2016 |
|---|---|---|
| Base management fee due to Adviser | **$ 9** | $ 162 |
| Loan servicing fee due to Adviser | **256** | 236 |
| Incentive fee due to Adviser | **195** | 824 |
| **Total fees due to Adviser** | **460** | 1,222 |
| Fee due to Administrator | **272** | 282 |
| **Total Related Party Fees Due** | **$ 732** | $ 1,504 |

In addition to the above fees, other operating expenses due to the Adviser as of June 30, 2017 and September 30, 2016, totaled $14 and $10, respectively. In addition, other net co-investment expenses payable to Gladstone Investment Corporation (for reimbursement purposes) totaled $38 and $8 as of June 30, 2017 and September 30, 2016, respectively. These amounts are generally settled in the quarter subsequent to being incurred and have been included in other assets, net and other liabilities, as appropriate, on the accompanying *Consolidated Statements of Assets and Liabilities* as of June 30, 2017 and September 30, 2016, respectively.

## NOTE 5. BORROWINGS

*Revolving Credit Facility*

On May 1, 2015, we, through Business Loan, entered into a Fifth Amended and Restated Credit Agreement with KeyBank National Association ( KeyBank ), as administrative agent, lead arranger and a lender (our Credit Facility ), which increased the commitment amount from $137.0 million to $140.0 million, extended the revolving period end date by three years to January 19, 2019, decreased the marginal interest rate added to 30-day LIBOR from 3.75% to 3.25% per annum, set the unused commitment fee at 0.50% on all undrawn amounts, expanded the scope of eligible collateral, and amended certain other terms and conditions. If our Credit Facility is not renewed or extended by January 19, 2019, all principal and interest will be due and payable on or before April 19, 2020 (fifteen months after the revolving period end date). Subject to certain terms and conditions, our Credit Facility may be expanded up to a total of $250.0 million through additional commitments of new or existing lenders. We incurred fees of approximately $1.1 million in connection with this amendment, which are being amortized through our Credit Facility s revolving period end date of January 19, 2019.

On June 19, 2015, we through Business Loan entered into certain joinder and assignment agreements with three new lenders to increase borrowing capacity under our Credit Facility by $30.0 million to $170.0 million. We incurred fees of approximately $0.6 million in connection with this expansion, which are being amortized through our Credit Facility s revolving period end date of January 19, 2019.

On October 9, 2015 and August 18, 2016, we entered into Amendments No. 1 and 2 to our Credit Facility, respectively, each of which clarified various constraints on our ability to draw on available borrowings.

Table of Contents

The following tables summarize noteworthy information related to our Credit Facility (at cost):

| | June 30, 2017 | September 30, 2016 |
|---|---|---|
| Commitment amount | **$ 170,000** | $ 170,000 |
| Borrowings outstanding, at cost | **82,200** | 71,300 |
| Availability[(A)] | **71,048** | 31,053 |

| | For the Three Months Ended June 30, | | For the Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Weighted average borrowings outstanding, at cost | **$ 72,555** | $ 52,481 | **$ 51,398** | $ 59,824 |
| Weighted average interest rate[(B)] | **5.0%** | 4.9% | **5.3%** | 4.6% |
| Commitment (unused) fees incurred | **$ 123** | $ 147 | **$ 449** | $ 417 |

(A) Available borrowings are subject to various constraints imposed under our Credit Facility, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required.

(B) Includes unused commitment fees and excludes the impact of deferred financing fees.

Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower

into a lockbox account with KeyBank. KeyBank is also the trustee of the account and generally remits the collected funds to us once a month.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders consent. Our Credit Facility also generally limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts elected to have been paid during the prior year in accordance with Section 855(a) of the Code. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 20 obligors required in the borrowing base.

Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of $205.0 million plus 50.0% of all equity and subordinated debt raised after May 1, 2015 less 50% of any equity and subordinated debt retired or redeemed after May 1, 2015, which equates to $225.0 million as of June 30, 2017, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Sections 18 and 61 of the 1940 Act, and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code.

As of June 30, 2017, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $275.6 million, asset coverage on our senior securities representing indebtedness of 434.4%, calculated in compliance with the requirements of Section 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. In addition, we had 32 obligors in our Credit Facility s borrowing base as of June 30, 2017. As of June 30, 2017, we were in compliance with all of our Credit Facility covenants.

*Fair Value*

We elected to apply the fair value option of ASC 825, *Financial Instruments*, specifically for the Credit Facility, which was consistent with our application of ASC 820 to our investments. Generally, the fair value of our Credit Facility is determined using a yield analysis which includes a DCF calculation and also takes into account the Valuation Team s own assumptions, including, but not limited to, the estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. As of June 30, 2017, the discount rate used to determine the fair value of our Credit Facility was 30-day LIBOR, plus 3.15% per annum, plus a 0.54% unused fee. As of September 30, 2016, the discount rate used to determine the fair value of our Credit Facility was 30-day LIBOR, plus 3.25% per annum, plus a 0.50% unused fee. Generally, an increase or decrease in the discount rate used in the DCF calculation may result in a corresponding increase or decrease, respectively, in the fair value of our Credit Facility. As of June 30, 2017 and September 30, 2016, our Credit Facility was valued using Level 3 inputs and any changes in its fair value are recorded in net unrealized depreciation (appreciation) of other on our accompanying *Consolidated Statements of Operations*.

Table of Contents

The following tables present our Credit Facility carried at fair value as of June 30, 2017 and September 30, 2016, on our accompanying *Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and the changes in fair value of our Credit Facility during the three and nine months ended June 30, 2017 and 2016:

| | **Total Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3)** | |
|---|---|---|
| | **June 30, 2017** | **September 30, 2016** |
| **Credit Facility** | **$ 82,271** | $ 71,300 |

**Fair Value Measurements Using Significant**

**Unobservable Data Inputs (Level 3)**

| | **Three Months Ended June 30,** | |
|---|---|---|
| | **2017** | **2016** |
| Fair value as of March 31, 2017 and 2016, respectively | **$ 53,989** | $ 57,300 |
| Borrowings | **37,700** | 41,000 |
| Repayments | **(9,600)** | (25,000) |
| Net unrealized appreciation[(A)] | **182** | |
| **Fair Value as of June 30, 2017 and 2016, respectively** | **$ 82,271** | $ 73,300 |

| | **Nine Months Ended June 30,** | |
|---|---|---|
| | **2017** | **2016** |
| Fair value as of September 30, 2016 and 2015, respectively | **$ 71,300** | $ 127,300 |
| Borrowings | **108,000** | 77,000 |
| Repayments | **(97,100)** | (131,000) |
| Net unrealized appreciation[(A)] | **71** | |
| **Fair Value as of June 30, 2017 and 2016, respectively** | **$ 82,271** | $ 73,300 |

(A) Included in net unrealized appreciation (depreciation) of other on our accompanying *Consolidated Statements of Operations* for the three and nine months ended June 30, 2017 and 2016.

The fair value of the collateral under our Credit Facility totaled approximately $302.8 million and $282.0 million as of June 30, 2017 and September 30, 2016, respectively.

**NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK**

In May 2014, we completed a public offering of approximately 2.4 million shares of 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share ( Series 2021 Term Preferred Stock ), at a public offering price of $25.00 per share. Gross proceeds totaled $61.0 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were approximately $58.5 million, a portion of which was used to voluntarily redeem all 1.5 million outstanding shares of our then existing 7.125% Series 2016 Term Preferred Stock, par value $0.001 per share and the remainder was used to repay a portion of outstanding borrowings under our Credit Facility. We incurred $2.5 million in total offering costs related to the issuance of our Series 2021 Term Preferred Stock, which are recorded as deferred financing fees on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending June 30, 2021, the mandatory redemption date.

The shares of our Series 2021 Term Preferred Stock are traded under the ticker symbol GLADO on the NASDAQ Global Select Market. Our Series 2021 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.75% per year, payable monthly (which equates in total to approximately $4.1 million per year). We are required to redeem all of the outstanding Series 2021 Term Preferred Stock on June 30, 2021 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date of redemption (the Redemption Price ). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2021 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control, and (2) if we fail to maintain an asset coverage of at least 200% on our senior securities that are stock (which is currently only our Series 2021 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report. We may also voluntarily redeem all or a portion of the Series 2021 Term Preferred Stock at our option at the Redemption Price at any time after June 30, 2017.

The asset coverage on our senior securities that are stock as of June 30, 2017 was 249.6%, calculated in accordance with Sections 18 and 61 of the 1940 Act. If we fail to redeem our Series 2021 Term Preferred Stock pursuant to the mandatory redemption required on June 30, 2021, or in any other circumstance in which we are required to mandatorily redeem our Series 2021 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of June 30, 2017, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2021 Term Preferred Stock.

Table of Contents

We paid the following monthly dividends on our Series 2021 Term Preferred Stock for the nine months ended June 30, 2017:

| Fiscal Year | Declaration Date | Record Date | Payment Date | | Dividend per Series 2021 Term Preferred Share |
|---|---|---|---|---|---|
| **2017** | October 11, 2016 | October 21, 2016 | October 31, 2016 | $ | 0.1406250 |
| | October 11, 2016 | November 17, 2016 | November 30, 2016 | | 0.1406250 |
| | October 11, 2016 | December 20, 2016 | December 30, 2016 | | 0.1406250 |
| | January 10, 2017 | January 20, 2017 | January 31, 2017 | | 0.1406250 |
| | January 10, 2017 | February 16, 2017 | February 28, 2017 | | 0.1406250 |
| | January 10, 2017 | March 22, 2017 | March 31, 2017 | | 0.1406250 |
| | April 11, 2017 | April 21, 2017 | April 28, 2017 | | 0.1406250 |
| | April 11, 2017 | May 19, 2017 | May 31, 2017 | | 0.1406250 |
| | April 11, 2017 | June 21, 2017 | June 30, 2017 | | 0.1406250 |
| | | | **Nine Months Ended June 30, 2017:** | **$** | **1.2656250** |

We paid the following monthly dividends on our Series 2021 Term Preferred Stock for the nine months ended June 30, 2016:

| Fiscal Year | Declaration Date | Record Date | Payment Date | | Dividend per Series 2021 Term Preferred Share |
|---|---|---|---|---|---|
| **2016** | October 13, 2015 | October 26, 2015 | November 4, 2015 | $ | 0.1406250 |
| | October 13, 2015 | November 17, 2015 | November 30, 2015 | | 0.1406250 |
| | October 13, 2015 | December 18, 2015 | December 31, 2015 | | 0.1406250 |
| | January 12, 2016 | January 22, 2016 | February 2, 2016 | | 0.1406250 |
| | January 12, 2016 | February 18, 2016 | February 29, 2016 | | 0.1406250 |
| | January 12, 2016 | March 21, 2016 | March 31, 2016 | | 0.1406250 |
| | April 12, 2016 | April 22, 2016 | May 2, 2016 | | 0.1406250 |
| | April 12, 2016 | May 19, 2016 | May 31, 2016 | | 0.1406250 |
| | April 12, 2016 | June 17, 2016 | June 30, 2016 | | 0.1406250 |
| | | | **Nine Months Ended June 30, 2016:** | $ | **1.2656250** |

The tax character of dividends paid by us to our preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

In accordance with ASC 480, *Distinguishing Liabilities from Equity*, mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet and we have recorded our mandatorily redeemable preferred stock at cost, as of June 30, 2017 and September 30, 2016. The related dividend payments to our mandatorily redeemable preferred stockholders are treated as dividend expense on our statement of operations as of the ex-dividend date. Aggregate preferred stockholder dividends declared and paid on our Series 2021 Term Preferred Stock for the nine months ended June 30, 2017 and 2016, was $3.1 million.

For disclosure purposes, the fair value, based on the last quoted closing price, for our Series 2021 Term Preferred Stock as of June 30, 2017 and September 30, 2016, was approximately $62.4 million. We consider our mandatorily redeemable preferred stock to be a Level 1 liability within the ASC 820 hierarchy.

**NOTE 7. REGISTRATION STATEMENT, COMMON EQUITY OFFERINGS AND SHARE REPURCHASES**

*Registration Statement*

We filed Post-Effective Amendment No. 2 to our current universal shelf registration statement (our Registration Statement ) on Form N-2 (File No. 333-208637) with the SEC on December 22, 2016, which was declared effective by the SEC on February 6, 2017. Our Registration Statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, preferred stock or debt securities. As of June 30, 2017, we have the ability to issue up to $279.1 million in securities under the Registration Statement.

*Common Stock Offerings*

Pursuant to our current registration statement, in October 2016, we completed a public offering of 2.0 million shares of our common stock at a public offering price of $7.98 per share, which was below our then current NAV per share. In November 2016, the underwriters partially exercised their overallotment option to purchase an additional 173,444 shares of our common stock. Gross proceeds totaled $17.3 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately $16.4 million.

Table of Contents

Pursuant to our prior registration statement, in October 2015, we completed a public offering of 2.0 million shares of our common stock at a public offering price of $8.55 per share, which was below our then current NAV per share. In November 2015, the underwriters exercised their option to purchase an additional 300,000 shares. Gross proceeds totaled $19.7 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately $18.4 million.

In February 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or the Sales Agreements ) with KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., each a Sales Agent, under which we had the ability to issue and sell, from time to time, through the Sales Agents, up to an aggregate offering price of $50.0 million shares of our common stock. In May 2017, we terminated the Sales Agreement with KeyBanc Capital Markets Inc. and amended the Sales Agreement with Cantor Fitzgerald & Co. to reference our current registration statement. All other material terms of the Sales Agreement with Cantor Fitzgerald & Co. remained unchanged. We did not sell any shares under the Sales Agreements during the year ended September 30, 2016 or the six months ended March 31, 2017. During the three months ended June 30, 2017, we sold 362,600 shares of our common stock under the Sales Agreement with Cantor Fitzgerald & Co., at a weighted-average price of $9.89 per share and raised $3.6 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately $3.4 million. As of June 30, 2017, we had a remaining capacity to sell up to $45.2 million of common stock under the Sales Agreement with Cantor Fitzgerald & Co.

*Share Repurchases*

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of $7.5 million of the Company s common stock. The program expired on January 31, 2017. During the year ended September 30, 2016, we repurchased 87,200 shares of our common stock at an average share price of $6.53, resulting in aggregate gross purchases of $0.6 million. We did not repurchase any shares during the nine months ended June 30, 2017.

**NOTE 8. NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE**

The following table sets forth the computation of basic and diluted net increase (decrease) in net assets resulting from operations per weighted average common share for the three and nine months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Numerator for basic and diluted net increase (decrease) in net assets resulting from operations per common share | **$ 6,163** | $ 5,516 | **$ 11,735** | $ (9,328) |
| Denominator for basic and diluted weighted average common shares | **25,576,149** | 23,363,952 | **25,288,289** | 23,145,842 |
| Basic and diluted net increase (decrease) in net assets resulting from operations per common share | **$ 0.24** | $ 0.24 | **$ 0.46** | $ (0.40) |

**NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS**

To qualify to be taxed as a RIC, we are required to distribute to our stockholders 90.0% of our investment company taxable income. The amount to be paid out as distributions to our stockholders is determined by our Board of Directors quarterly and is based on management s estimate of the fiscal year earnings. Based on that estimate, our Board of Directors declares three monthly distributions to common stockholders each quarter.

The federal income tax characteristics of all distributions will be reported to stockholders on the Internal Revenue Service Form 1099 at the end of each calendar year.

Table of Contents

We paid the following monthly distributions to common stockholders for the nine months ended June 30, 2017 and 2016:

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2017** | October 11, 2016 | October 21, 2016 | October 31, 2016 | $ 0.07 |
| | October 11, 2016 | November 17, 2016 | November 30, 2016 | 0.07 |
| | October 11, 2016 | December 20, 2016 | December 30, 2016 | 0.07 |
| | January 10, 2017 | January 20, 2017 | January 31, 2017 | 0.07 |
| | January 10, 2017 | February 16, 2017 | February 28, 2017 | 0.07 |
| | January 10, 2017 | March 22, 2017 | March 31, 2017 | 0.07 |
| | April 11, 2017 | April 21, 2017 | April 28, 2017 | 0.07 |
| | April 11, 2017 | May 19, 2017 | May 31, 2017 | 0.07 |
| | April 11, 2017 | June 21, 2017 | June 30, 2017 | 0.07 |
| | | | **Nine Months Ended June 30, 2017:** | **$ 0.63** |
| **2016** | October 13, 2015 | October 26, 2015 | November 4, 2015 | $ 0.07 |
| | October 13, 2015 | November 17, 2015 | November 30, 2015 | 0.07 |
| | October 13, 2015 | December 18, 2015 | December 31, 2015 | 0.07 |
| | January 12, 2016 | January 22, 2016 | February 2, 2016 | 0.07 |
| | January 12, 2016 | February 18, 2016 | February 29, 2016 | 0.07 |
| | January 12, 2016 | March 21, 2016 | March 31, 2016 | 0.07 |
| | April 12, 2016 | April 22, 2016 | May 2, 2016 | 0.07 |
| | April 12, 2016 | May 19, 2016 | May 31, 2016 | 0.07 |
| | April 12, 2016 | June 17, 2016 | June 30, 2016 | 0.07 |
| | | | **Nine Months Ended June 30, 2016:** | **$ 0.63** |

Aggregate distributions declared and paid to our common stockholders for the nine months ended June 30, 2017 and 2016, were each approximately $15.9 million and $14.6 million, respectively, and were declared based on estimates of investment company taxable income for the respective periods. For our federal income tax reporting purposes, we determine the tax characterization of our common stockholder distributions at fiscal year-end based upon our investment company taxable income for the full fiscal year and distributions paid during the full fiscal year. Therefore, a determination of tax characterization made on a quarterly basis may not be representative of the actual tax characterization of distributions for the full year. If we determined the tax characterization of our distributions as of June 30, 2017, 100% would be from ordinary income and 0% would be a return of capital. For the fiscal year ended September 30, 2016, our current and accumulated earnings and profits (after taking into account our mandatorily redeemable preferred stock dividends), exceeded common stock distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $5.5 million of the first common distributions paid in fiscal year 2016 as having been paid in the respective prior year. For the nine months ended June 30, 2017 and the fiscal year ended September 30, 2016, we recorded the following adjustments for book-tax differences to reflect tax character.

| | Nine Months Ended June 30, 2017 | Year Ended September 30, 2016 |
|---|---|---|
| (Over) Under distributed net investment income | **$ (4,590)** | $ 5,818 |
| Accumulated net realized gains (losses) | **5,191** | (7,754) |
| Capital in excess of par value | **(601)** | 1,936 |

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

*Legal Proceedings*

We are party to certain legal proceedings incidental to the normal course of our business. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our financial condition, results of operations or cash flows. Additionally, based on our current knowledge, we do not believe such loss contingencies are both probable and estimable and therefore, as of June 30, 2017 and September 30, 2016, we have not established reserves for such loss contingencies.

**Table of Contents**

*Financial Commitments and Obligations*

We have lines of credit, delayed draw term loans, and an uncalled capital commitment with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit, the unused delayed draw term loans and the uncalled capital commitment as of June 30, 2017 and September 30, 2016 to be immaterial.

The following table summarizes the amounts of our unused lines of credit, delayed draw term loans and uncalled capital commitment, at cost, as of June 30, 2017 and September 30, 2016, which are not reflected as liabilities in the accompanying *Consolidated Statements of Assets and Liabilities*:

| | **June 30, 2017** | **September 30, 2016** |
|---|---|---|
| Unused line of credit commitments | **$ 7,092** | $ 6,397 |
| Delayed draw term loans | **2,900** | 1,300 |
| Uncalled capital commitment | **1,581** | 2,004 |
| **Total** | **$ 11,573** | $ 9,701 |

38

Table of Contents

## NOTE 11. FINANCIAL HIGHLIGHTS

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Per Common Share Data[(A)]:** | | | | |
| Net asset value at beginning of period[(A)] | **$ 8.33** | $ 7.92 | **$ 8.62** | $ 9.06 |
| Net investment income[(B)] | **0.21** | 0.21 | **0.63** | 0.63 |
| Net realized and unrealized gain (loss) on investments[(B)] | **0.04** | 0.03 | **(0.17)** | (1.04) |
| Net realized and unrealized loss on other[(B)] | **(0.01)** | | | |
| Total from operations | **0.24** | 0.24 | **0.46** | (0.41) |
| Distributions to common stockholders[(A)(C)] | **(0.21)** | (0.21) | **(0.63)** | (0.63) |
| Repurchase of common stock | | 0.01 | | 0.02 |
| Offering costs for issuance of common stock | | | **(0.04)** | (0.05) |
| Anti-dilutive (dilutive) effect of common stock issuance[(D)] | **0.02** | | **(0.04)** | (0.05) |
| Other, net[(E)] | | (0.01) | **0.01** | 0.01 |
| Net asset value at end of period[(A)] | **$ 8.38** | $ 7.95 | **$ 8.38** | $ 7.95 |
| Market value at beginning of period | **$ 9.49** | $ 7.45 | **$ 8.13** | $ 8.13 |
| Market value at end of period | **9.83** | 7.24 | **9.83** | 7.24 |
| Total return[(F)] | **5.82%** | (0.01) | **29.46%** | (3.04)% |
| Common shares outstanding at end of period | **25,880,466** | 23,344,422 | **25,880,466** | 23,344,422 |
| **Statement of Assets and Liabilities Data:** | | | | |
| Net assets at end of period | **$ 216,983** | $ 185,514 | **$ 216,983** | $ 185,514 |
| Average net assets[(G)] | **214,391** | 185,959 | **213,862** | 194,030 |
| **Senior Securities Data:** | | | | |
| Borrowings under Credit Facility, at cost | **82,200** | 73,300 | **82,200** | 73,300 |
| Mandatorily redeemable preferred stock, at liquidation preference | **59,624** | 61,000 | **59,624** | 61,000 |
| **Ratios/Supplemental Data:** | | | | |
| Ratio of net expenses to average net assets-annualized[(H)(I)] | **7.93** | 10.62 | **7.76** | 10.16 |
| | **10.04** | 10.55 | **9.94** | 10.02 |

| | |
|---|---|
| Ratio of net investment income to average net assets-annualized(J) | |

(A) Based on actual common shares outstanding at the end of the corresponding period.

(B) Based on weighted average basic per common share data for the corresponding period.

(C) Distributions to common stockholders are determined based on taxable income calculated in accordance with income tax regulations which may differ from income amounts determined under GAAP.

(D) During the nine months ended June 30, 2017 and 2016, the dilution was a result of issuing common shares during the respective periods at a price below the then current NAV per share. During the three months ended June 30, 2017, the anti-dilution was a result of issuing common shares during the period at a price above our current NAV per share, which partially offset the dilution during the nine months ended June 30, 2017.

(E) Represents the impact of the different share amounts (weighted average basic common shares outstanding for the corresponding period and actual common shares outstanding at the end of the corresponding period) in the Per Common Share Data calculations and rounding impacts.

(F) Total return equals the change in the ending market value of our common stock from the beginning of the period, taking into account common stockholder distributions reinvested in accordance with the terms of the dividend reinvestment plan. Total return does not take into account common stockholder distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders*.

(G) Average net assets are computed using the average of the balance of net assets at the end of each month of the reporting period.

(H) Ratio of net expenses to average net assets is computed using total expenses, net of credits from the Adviser, to the base management, loan servicing and incentive fees.

(I) Had we not received any credits to the incentive fee due to the Adviser, the ratio of net expenses to average net assets would have been 9.65% and 9.04% for the three and nine months ended June 30, 2017, respectively and 10.97% and 10.92% for the three and nine months ended June 30, 2016, respectively.

(J) Had we not received any credits to the incentive fee due to the Adviser, the ratio of net investment income to average net assets would have been 8.34% and 8.69% for the three and nine months ended June 30, 2017, respectively and 10.21% and 9.26% for the three and nine months ended June 30, 2016, respectively.

Table of Contents

**NOTE 12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES**

In accordance with the SEC s Regulation S-X, we do not consolidate portfolio company investments. Further, in accordance with ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 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.

We had two unconsolidated subsidiaries, Defiance Integrated Technologies, Inc. and Sunshine Media Holdings, that met at least one of the significance conditions under Rule 1-02(w) of the SEC s Regulation S-X as of or during at least one of the nine month periods ended June 30, 2017 and 2016. Accordingly, summarized, comparative financial information, in aggregate, is presented below for the nine months ended June 30, 2017 and 2016 for our unconsolidated significant subsidiaries.

| | Nine Months Ended June 30, | |
|---|---|---|
| **Income Statement** | **2017** | **2016** |
| Net sales | **$ 27,489** | $ 29,253 |
| Gross profit | **5,874** | 7,545 |
| Net loss | **(1,745)** | (830) |

**NOTE 13. SUBSEQUENT EVENTS**

*Portfolio Activity*

In July 2017, our loan to SourceHOV, LLC was paid off for net proceeds of $4.8 million, resulting in a realized loss of $0.2 million.

*Distributions and Dividends*

In July 2017, our Board of Directors declared the following monthly distributions to common stockholders and monthly dividends to and preferred stockholders:

| **Record Date** | **Payment Date** | **Distribution per Common Share** | **Dividend per Series 2021 Term Preferred Share** |
|---|---|---|---|
| July 21, 2017 | July 31, 2017 | $ 0.07 | $ 0.140625 |
| August 21, 2017 | August 31, 2017 | 0.07 | 0.140625 |
| September 20, 2017 | September 29, 2017 | 0.07 | 0.140625 |
| | **Total for the Quarter:** | **$ 0.21** | **$ 0.421875** |

Table of Contents

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**All statements contained herein, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, our future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with Gladstone Management Corporation, our adviser, and its affiliates, the use of borrowed money to finance our investments, the adequacy of our financing sources and working capital, and our ability to co-invest, among other factors. In some cases, you can identify forward-looking statements by terminology such as estimate, may, might, believe will, provided, anticipate, future, could, growth, plan, intend, expect, should, would, if, likely or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: (1) the recurrence or impact of adverse events in the economy and the capital markets, including stock price volatility; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker or Robert L. Marcotte; (4) changes in our investment objectives and strategy; (5) availability, terms (including the possibility of interest rate volatility) and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; (8) our ability to maintain our qualification as a RIC and as business development company; and (9) those factors described herein, including Item 1A. Risk Factors and in the Risk Factors sections of our Annual Report on Form 10-K (our Annual Report ) filed with the U.S Securities and Exchange Commission ( SEC ) on November 21, 2016. We caution readers not to place undue reliance on 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. We have based forward-looking statements on information available to us on the date of this report. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise or any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Quarterly Report on Form 10-Q. 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 have filed or in the future may file with the SEC from time to time, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.**

**The following analysis of our financial condition and results of operations should be read in conjunction with our accompanying *Consolidated Financial Statements* and the notes thereto contained elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report. Historical financial condition and results of operations and percentage relationships among any amounts in the financial statements are not necessarily indicative of financial condition or results of operations for any future periods. Except per share amounts, dollar amounts in the tables included herein are in thousands unless otherwise indicated.**

## OVERVIEW

### General

We were incorporated under the Maryland General Corporation Law on May 30, 2001. We operate as an externally managed, closed-end, non-diversified management investment company, and have elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, for federal income tax purposes we have elected to be treated as a registered investment company ( RIC ) under Subchapter M of the Internal Revenue Code (the Code ). As a BDC and a RIC, we are subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the U.S. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our investment objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $8 million to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We expect that our investment portfolio over time will consist of approximately 90.0% debt investments and 10.0% equity investments, at cost. As of June 30, 2017, our investment portfolio was made up of approximately 90.9% debt investments and 9.1% equity investments, at cost.

We focus on investing in lower middle market companies (which we generally define as companies with annual earnings before interest, taxes, depreciation and amortization of $3 million to $15 million) in the U.S. that meet certain criteria, including, but not limited to, the following: the sustainability of the business free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, reasonable capitalization of the borrower, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples and, to a lesser extent, the potential to realize appreciation and gain liquidity in our equity position, if any. We lend to borrowers that need funds for growth capital or to finance acquisitions or recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity and have opportunistically made several co-investments with our affiliate Gladstone Investment Corporation, a BDC also managed by our Advisor, pursuant to an exemptive order granted by the SEC. We believe this ability to co-invest will continue to enhance our ability to further our investment objectives and strategies. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

We are externally managed by Gladstone Management Corporation (the Adviser ), an investment adviser registered with the SEC and an affiliate of ours, pursuant to an investment advisory and management agreement (the Advisory Agreement ). The Adviser manages our investment activities. We have also entered into an administration agreement (the Administration Agreement ) with Gladstone Administration, LLC (the Administrator ), an affiliate of ours and the Adviser, whereby we pay separately for administrative services.

Additionally, since February 2011, Gladstone Securities, LLC ( Gladstone Securities ), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee.

Our shares of common stock and 6.75% Series 2021 Term Preferred Stock (our Series 2021 Term Preferred Stock ) are traded on the NASDAQ Global Select Market ( NASDAQ ) under the trading symbols GLAD and GLADO, respectively.

## Business

### *Portfolio and Investment Activity*

During the nine months ended June 30, 2017, we invested $85.2 million in eight new portfolio companies and extended $13.8 million of investments to existing portfolio companies. In addition, during the nine months ended June 30, 2017, we exited six portfolio companies through sales and early payoffs. We received a total of $71.1 million in combined net proceeds and principal repayments from the aforementioned portfolio company exits as well as existing portfolio companies during the nine months ended June 30, 2017. This activity resulted in a net increase in our overall portfolio by two portfolio companies to 47 and a net increase of 6.3% in our portfolio at cost since September 30, 2016. We intend to continue to make new conservative investments in businesses with steady cash flows. We are focused on building our pipeline and making investments that meet our objectives and strategies and that provide appropriate returns, in light of the accompanying risks. From our initial public offering in August 2001 and through June 30, 2017, we have made 460 different loans to, or investments in, 214 companies for a total of approximately $1.6 billion, before giving effect to principal repayments on investments and divestitures.

During the nine months ended June 30, 2017, the following significant transactions occurred:

In October 2016, RP Crown Parent, LLC paid off at par for proceeds of $2.0 million.

In October 2016, our $3.9 million secured first lien debt investment in Vertellus Specialties, Inc. was restructured. As a result of the restructure, we received a new $1.1 million secured second lien debt investment in Vertellus Holdings LLC and common equity with a cost basis of $3.0 million.

In November 2016, we completed the sale of substantially all the assets of RBC Acquisition Corp. ( RBC ) for net proceeds of $36.3 million, which resulted in a realized loss of $2.3 million. In connection with the sale, we received success fee income of $1.1 million and net receivables of $1.5 million, which are recorded within Other assets, net.

In November 2016, we invested $5.2 million in Sea Link International IRB, Inc. through secured second lien debt and equity.

In December 2016, we sold our investment in Behrens Manufacturing, LLC ( Behrens ), which resulted in success fee income of $0.4 million and a realized gain of $2.5 million. In connection with the sale, we received net cash proceeds of $8.2 million, including the repayment of our debt investment of $4.3 million at par.

In December 2016, we invested $7.0 million in Vacation Rental Pros Property Management, LLC through secured second lien debt.

In December 2016, Autoparts Holdings Limited paid off at par for proceeds of $0.7 million.

In December 2016, we invested $5.0 million in LDiscovery, LLC through secured second lien debt.

In February 2017, we invested $10.0 million in Belnick, Inc. through secured second lien debt.

In February 2017, we invested $29.0 million in NetFortris Corp. through secured first lien debt.

In February 2017, Vitera Healthcare Solutions, LLC paid off at par for proceeds of $4.5 million.

In March 2017, LCR Contractors, LLC paid off at par for net cash proceeds of $8.6 million. In connection with the payoff, we received a prepayment fee of $0.2 million.

In April 2017, we invested $22.0 million in HB Capital Resources, Ltd. through secured second lien debt.

In May 2017, we invested an additional $4.1 million in an existing portfolio company, Lignetics, Inc., through secured second lien debt and equity, to support an acquisition.

In May 2017, we invested $4.0 million in Keystone Acquisition Corp. through secured second lien debt.

In June 2017, we invested $3.0 million in Medical Solutions Holdings, Inc. through secured second lien debt.

Refer to Note 13 *Subsequent Events* in the accompanying *Consolidated Financial Statements* included elsewhere in this Quarterly Report on Form 10-Q for portfolio activity occurring subsequent to June 30, 2017.

***Capital Raising***

We have been able to meet our capital needs through extensions of and increases to the Credit Facility and by accessing the capital markets in the form of public equity offerings. We have successfully extended the Credit Facility s revolving period multiple times, most recently to January 2019, and currently have a total commitment amount of $170.0 million. Additionally, we issued 2.3 million shares of common stock for gross proceeds of $19.8 million in October 2015, inclusive of the November 2015 overallotment, and we issued approximately 2.2 million shares of our common stock for gross proceeds of $17.3 million in October 2016, inclusive of the November 2016 overallotment. During the three months ended June 30, 2017, we sold 362,600 shares of our common stock under the Sales Agreement with Cantor Fitzgerald & Co., at a weighted-average price of $9.89 per share and raised $3.6 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately $3.4 million. Refer to *Liquidity and Capital Resources Equity Common Stock* for further discussion of our common stock and *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of our Credit Facility.

Although we were able to access the capital markets historically and in recent years, we believe uncertain market conditions continue to affect the trading price of our capital stock and thus may inhibit our ability to finance new investments through the issuance of equity. During times of increased price volatility, our common stock may be more likely to trade at a price below our NAV per share, which is not uncommon for BDCs like us.

When our stock trades below NAV per common share, as it has often done over the last several years, our ability to issue equity is constrained by provisions of the 1940 Act, which generally prohibits the issuance and sale of our common stock below NAV per common share without first obtaining approval from our stockholders and our independent directors, other than through sales to our then-existing stockholders pursuant to a rights offering. At our annual meeting of stockholders held on February 11, 2016, our stockholders approved a proposal which authorizes us to sell shares of our common stock at a price below our then current NAV per common share subject to certain limitations (including, but not limited to, that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale) for a period of one year from the date of approval, provided that our Board of Directors makes certain determinations prior to any such sale. We completed the abovementioned October 2016 common stock offering as a result of the stockholder approval of the proposal at our 2016 Annual Meeting of Stockholders and additional Board of Directors approval. We did not request that our stockholders approve the Company s ability to issue shares of common stock at a price below NAV at our annual meeting of stockholders held on February 9, 2017. Should we decide to issue shares of common stock at a price below NAV, we will seek the requisite approval of our stockholders at such time.

On August 1, 2017, the closing market price of our common stock was $9.93, an 18.5% premium to our June 30, 2017 NAV per share of $8.38.

***Regulatory Compliance***

Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have an asset coverage (as defined in Sections 18 and 61 of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock. As of June 30, 2017, our asset coverage on our senior securities representing indebtedness was 434.4% and our asset coverage on our senior securities that are stock was 249.6%.

Table of Contents

## Recent Developments

### *Distributions and Dividends*

On July 11, 2017, our Board of Directors declared the following monthly distributions to common stockholders and monthly dividends to preferred stockholders:

| Record Date | Payment Date | Distribution per Common Share | Dividend per Series 2021 Term Preferred Share |
|---|---|---|---|
| July 21, 2017 | July 31, 2017 | $ 0.07 | $ 0.140625 |
| August 21, 2017 | August 31, 2017 | 0.07 | 0.140625 |
| September 20, 2017 | September 29, 2017 | 0.07 | 0.140625 |
| | **Total for the Quarter:** | **$ 0.21** | **$ 0.421875** |

**Table of Contents**

**RESULTS OF OPERATIONS**

**Comparison of the Three Months Ended June 30, 2017, to the Three Months Ended June 30, 2016**

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | **2017** | **2016** | **$ Change** | **% Change** |
| **INVESTMENT INCOME** | | | | |
| Interest income, net | **$ 9,629** | $ 8,253 | $ 1,376 | 16.7% |
| Other income | **3** | 1,591 | (1,588) | (99.8) |
| Total investment income | **9,632** | 9,844 | (212) | (2.2) |
| **EXPENSES** | | | | |
| Base management fee | **1,480** | 1,369 | 111 | 8.1 |
| Loan servicing fee | **1,071** | 896 | 175 | 19.5 |
| Incentive fee | **1,116** | 1,187 | (71) | (6.0) |
| Administration fee | **272** | 287 | (15) | (5.2) |
| Interest expense on borrowings | **904** | 648 | 256 | 39.5 |
| Dividend expense on mandatorily redeemable preferred stock | **1,029** | 1,029 | | |
| Amortization of deferred financing fees | **274** | 273 | 1 | 0.4 |
| Other expenses | **453** | 640 | (187) | (29.2) |
| Expenses, before credits from Adviser | **6,599** | 6,329 | 270 | 4.3 |
| Credit to base management fee loan servicing fee | **(1,071)** | (896) | (175) | 19.5 |
| Credits to fees from Adviser - other | **(1,275)** | (496) | (779) | 157.1 |
| Total expenses, net of credits | **4,253** | 4,937 | (684) | (13.9) |
| **NET INVESTMENT INCOME** | **5,379** | 4,907 | 472 | 9.6 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS)** | | | | |
| Net realized loss on investments | **(23)** | (84) | 61 | (72.6) |
| Net realized gain on other | | | | |
| Net unrealized appreciation of investments | **989** | 693 | 296 | 42.7 |
| Net unrealized depreciation of other | **(182)** | | (182) | NM |
| Net gain from investments and other | **784** | 609 | 175 | 28.7 |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$ 6,163** | $ 5,516 | $ 647 | 11.7 |

*NM = Not Meaningful*

***Investment Income***

Interest income increased by 16.7% for the three months ended June 30, 2017, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended June 30, 2017, was $333.2 million, compared to $303.6 million for the prior year period, an increase of 9.7%. The weighted average yield on our interest-bearing investment portfolio is based on the current stated interest rate on interest-bearing investments which increased to 11.5% for the three months ended June 30, 2017, compared to 10.9% for the three months ended June 30, 2016, inclusive of any allowances on interest receivables made during those periods.

As of June 30, 2017, certain loans to two portfolio companies were on non-accrual status, with an aggregate debt cost basis of $27.9 million, or 7.6%, of the cost basis of all debt investments in our portfolio. As of June 30, 2016, certain loans to two portfolio companies were on non-accrual status, with an aggregate debt cost basis of $26.5 million, or 7.5%, of the cost basis of all debt investments in our portfolio.

For the three months ended June 30, 2017, other income decreased by 99.8% as compared to the prior year period. Other income for the three months ended June 30, 2016, consisted primarily of $1.5 million in success fees recognized and $0.1 million in prepayment fees received whereas there were no such amounts recognized in the current year period.

Table of Contents

The following tables list the investment income for our five largest portfolio company investments at fair value during the respective periods:

| | As of June 30, 2017 | | Three Months Ended June 30, 2017 | |
|---|---|---|---|---|
| **Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Income** |
| NetFortris Corp. | $ 24,120 | 7.0% | $ 637 | 6.6 |
| IA Tech, LLC | 23,518 | 6.8 | 699 | 7.3 |
| HB Capital Resources, Ltd. [(A)] | 22,000 | 6.4 | 462 | 4.8 |
| WadeCo Specialties, Inc. | 21,208 | 6.1 | 481 | 5.0 |
| Lignetics, Inc. | 18,746 | 5.4 | 482 | 5.0 |
| **Subtotal five largest investments** | **109,592** | **31.7** | **2,761** | **28.7** |
| Other portfolio companies | 235,911 | 68.3 | 6,871 | 71.3 |
| **Total Investment Portfolio** | **$ 345,503** | **100.0%** | **$ 9,632** | **100.0%** |

| | As of June 30, 2016 | | Three Months Ended June 30, 2016 | |
|---|---|---|---|---|
| **Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Income** |
| IA Tech, LLC[(A)] | $ 30,000 | 9.7% | $ 40 | 0.4% |
| RBC Acquisition Corp. | 22,090 | 7.2 | 658 | 6.7 |
| WadeCo Specialties, Inc. | 19,630 | 6.4 | 528 | 5.4 |
| United Flexible, Inc. | 17,304 | 5.6 | 556 | 5.6 |
| Lignetics, Inc. | 15,499 | 5.0 | 425 | 4.3 |
| **Subtotal five largest investments** | **104,523** | **33.9** | **2,207** | **22.4** |
| Other portfolio companies | 203,703 | 66.1 | 7,637 | 77.6 |
| **Total Investment Portfolio** | **$ 308,226** | **100.0%** | **$ 9,844** | **100.0%** |

(A) New investment during the applicable period.

***Expenses***

Expenses, net of any non-contractual, unconditional and irrevocable credits to fees from the Adviser, decreased by 13.9% for the three months ended June 30, 2017, as compared to the prior year period. This decrease was primarily due to a decrease in the net incentive fee and a decrease in professional fees, partially offset by an increase in interest expense on borrowings.

Interest expense on borrowings increased by $0.3 million, or 39.5%, during the three months ended June 30, 2017, as compared to the prior year period, due primarily to an increase in the borrowings outstanding under our Credit Facility during the period driven by a net increase in investments. The weighted average balance outstanding under our Credit

Facility during the three months ended June 30, 2017, was $72.6 million, as compared to $52.5 million in the prior year period, an increase of 38.3%.

Our Board of Directors accepted a non-contractual, unconditional and irrevocable credit of $0.9 million from the Adviser to reduce the income-based incentive fee to the extent net investment income for the quarter ended June 30, 2017 did not cover 100.0% of the distributions to common stockholders during the period. The credit granted for the quarter ended June 30, 2016, was $0.2 million.

Table of Contents

The base management, loan servicing and incentive fees, and associated non-contractual, unconditional and irrevocable credits, are computed quarterly, as described under *Transactions with the Adviser* in Note 4 *Related Party Transactions* of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the following table:

| | Three Months Ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| Average total assets subject to base management fee[(A)] | **$ 338,286** | $ 312,914 |
| Multiplied by prorated annual base management fee of 1.75% | **0.4375%** | 0.4375% |
| **Base management fee[(B)]** | **$ 1,480** | $ 1,369 |
| Portfolio company fee credit | **(261)** | (319) |
| Syndicated loan fee credit | **(100)** | (17) |
| **Net Base Management Fee** | **$ 1,119** | $ 1,033 |
| **Loan servicing fee[(B)]** | **1,071** | 896 |
| Credit to base management fee - loan servicing fee[(B)] | **(1,071)** | (896) |
| **Net Loan Servicing Fee** | **$** | $ |
| **Incentive fee[(B)]** | **1,116** | 1,187 |
| Incentive fee credit | **(914)** | (160) |
| **Net Incentive Fee** | **$ 202** | $ 1,027 |
| Portfolio company fee credit | **(261)** | (319) |
| Syndicated loan fee credit | **(100)** | (17) |
| Incentive fee credit | **(914)** | (160) |
| **Credits to Fees From Adviser - other[(B)]** | **$ (1,275)** | $ (496) |

(A) Average total assets subject to the base management fee is defined in the Advisory Agreement as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected, on a gross basis, as a line item on our accompanying *Consolidated Statements of Operations*.

***Net Realized and Unrealized Gain (Loss)***

Net Realized Gain (Loss) on Investments

We had no significant realized gains (losses) on investments for the three months ended June 30, 2017 and 2016.

Net Unrealized Appreciation (Depreciation) of Investments

The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the three months ended June 30, 2017, were as follows:

| | Three Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net Gain (Loss)** |
| WadeCo Specialties, Inc. | $ | 1,748 | $ | 1,748 |
| B+T Group Acquisition Inc. | | 1,434 | | 1,434 |
| LWO Acquisitions Company LLC | | 1,163 | | 1,163 |
| Defiance Integrated Technologies, Inc. | | 693 | | 693 |
| Lignetics, Inc. | | 480 | | 480 |
| United Flexible, Inc. | | 311 | | 311 |
| FedCap Partners, LLC | | 297 | | 297 |
| The Mochi Ice Cream Company | | 246 | | 246 |
| Flight Fit N Fun LLC | | 205 | | 205 |
| PSC Industrial Holdings Corp. | | (212) | | (212) |
| Vertellus Specialties Inc. | | (220) | | (220) |
| Targus Cayman HoldCo, Ltd. | | (279) | | (279) |
| Sunshine Media Holdings | | (314) | | (314) |
| New Trident Holdcorp, Inc. | | (621) | | (621) |
| Alloy Die Casting, Corp. | | (660) | | (660) |
| Meridian Rack & Pinion, Inc. | | (789) | | (789) |
| Francis Drilling Fluids, Ltd. | | (1,037) | | (1,037) |
| Edge Adhesives Holdings, Inc. | | (1,471) | | (1,471) |
| Other, net (<$250) | (23) | 15 | | (8) |
| **Total:** | **$ (23)** | **$ 989** | **$** | **$ 966** |

Table of Contents

The primary driver of net unrealized appreciation on investments of $1.0 million for the three months ended June 30, 2017, was an improvement in the performance of certain portfolio companies and an increase in comparable multiples used to estimate the fair value of our investments, which more than offset the decline in performance of certain of our other portfolio companies.

The net realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended June 30, 2016, were as follows:

| | Three Months Ended June 30, 2016 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net Gain (Loss)** |
| Southern Petroleum Laboratories, Inc. | $ | 1,906 | $ | 1,906 |
| RBC Acquisition Corp. | | 1,232 | | 1,232 |
| Vision Solutions, Inc. | | 777 | | 777 |
| Westland Technologies, Inc. | | 683 | | 683 |
| Flight Fit N Fun LLC | | 633 | | 633 |
| Precision Acquisition Group Holdings, Inc. | | 597 | | 597 |
| Behrens Manufacturing, LLC | | 588 | | 588 |
| Vitera Healthcare Solutions, LLC | | 449 | | 449 |
| Vertellus Specialties Inc. | | 368 | | 368 |
| Targus Cayman HoldCo, Ltd. | | (338) | | (338) |
| SourceHOV, LLC | | (358) | | (358) |
| Ashland Acquisitions, LLC | 72 | | (572) | (500) |
| New Trident Holdcorp, Inc. | | (600) | | (600) |
| Lignetics, Inc. | | (622) | | (622) |
| Sunshine Media Holdings | | (1,301) | | (1,301) |
| LWO Acquisitions Company LLC | | (1,478) | | (1,478) |
| Francis Drilling Fluids, Ltd. | | (1,565) | | (1,565) |
| Other, net (<$250) | (156) | 294 | | 138 |
| **Total:** | **$ (84)** | **$ 1,265** | **$ (572)** | **$ 609** |

The primary driver of net unrealized appreciation of $0.7 million for the three months ended June 30, 2016, was an improvement in the performance of certain portfolio companies and an increase in comparable multiples used to estimate the fair value of our investments, which more than offset the decreased performance of several of our portfolio companies.

Net Realized Loss on Other

During the three months ended June 30, 2016, we recorded a net realized loss of $0.1 million due to the expiration of our interest rate cap agreement in January 2016. No such amounts were incurred during the three months ended June 30, 2017.

Net Unrealized Depreciation on Other

During the three months ended June 30, 2017, we recorded $0.2 million of net unrealized depreciation on our Credit Facility. No such amounts were incurred in the prior year period.

**Table of Contents**

**Comparison of the Nine Months Ended June 30, 2017, to the Nine Months Ended June 30, 2016**

| | For the Nine Months Ended June 30, | | | |
|---|---|---|---|---|
| | **2017** | **2016** | **$ Change** | **% Change** |
| **INVESTMENT INCOME** | | | | |
| Interest income, net | **$ 26,850** | $ 26,107 | $ 743 | 2.8% |
| Other income | **1,549** | 3,255 | (1,706) | (52.4) |
| Total investment income | **28,399** | 29,362 | (963) | (3.3) |
| **EXPENSES** | | | | |
| Base management fee | **4,217** | 4,258 | (41) | (1.0) |
| Loan servicing fee | **3,009** | 2,876 | 133 | 4.6 |
| Incentive fee | **3,479** | 3,369 | 110 | 3.3 |
| Administration fee | **858** | 900 | (42) | (4.7) |
| Interest expense on borrowings | **2,047** | 2,066 | (19) | (0.9) |
| Dividend expense on mandatorily redeemable preferred stock | **3,087** | 3,088 | (1) | 0.0 |
| Amortization of deferred financing fees | **821** | 802 | 19 | 2.4 |
| Other expenses | **1,439** | 2,031 | (592) | (29.1) |
| Expenses, before credits from Adviser | **18,957** | 19,390 | (433) | (2.2) |
| Credits to base management fee loan servicing fee | **(3,009)** | (2,876) | (133) | 4.6 |
| Credits to fees from Adviser other | **(3,494)** | (1,736) | (1,758) | 101.3 |
| Total expenses, net of credits | **12,454** | 14,778 | (2,324) | (15.7) |
| **NET INVESTMENT INCOME** | **15,945** | 14,584 | 1,361 | 9.3 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS)** | | | | |
| Net realized (loss) gain on investments | **(3,426)** | 9,837 | (13,263) | (134.8) |
| Net realized loss on other | | (64) | 64 | 100.0 |
| Net unrealized depreciation of investments | **(713)** | (33,747) | 33,034 | 97.9 |
| Net unrealized depreciation (appreciation) of other | **(71)** | 62 | (133) | (214.5) |
| Net loss from investments and other | **(4,210)** | (23,912) | 19,702 | (82.4) |
| **NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$ 11,735** | $ (9,328) | $ 21,063 | (225.8)% |

*NM = Not Meaningful*

***Investment Income***

Interest income, net increased by 2.8% for the nine months ended June 30, 2017, as compared to the prior year period. This increase was due primarily to a higher weighted average yield as the weighted average principal balance was relatively consistent period over period. The weighted average yield on our interest-bearing investment portfolio is based on the current stated interest rate on interest-bearing investments and increased to 11.5% for the nine months ended June 30, 2017 compared to 11.1% for the nine months ended June 30, 2016 inclusive of any allowances on interest receivables made during that period. The weighted average principal balance of our interest-bearing investment portfolio during the nine months ended June 30, 2017 was $312.5 million, compared to $313.5 million for the prior year period, a slight decrease of 0.3%.

Other income decreased by 52.4% during the nine months ended June 30, 2017, as compared to the prior year period. For the nine months ended June 30, 2017, other income consisted primarily of $1.5 million in success fees recognized. For the nine months ended June 30, 2016, other income consisted primarily of $2.8 million in success fees recognized, $0.3 million in dividend income received, and $0.2 million in prepayment fees received.

Table of Contents

The following tables list the investment income for our five largest portfolio company investments at fair value during the respective periods:

| | As of June 30, 2017 | | Nine Months Ended June 30, 2017 | |
|---|---|---|---|---|
| Company | Fair Value | % of Portfolio | Investment Income | % of Total Income |
| NetFortris Corp. | $ 24,120 | 7.0% | $ 928 | 3.3% |
| IA Tech, LLC | 23,518 | 6.8 | 2,094 | 7.4 |
| HB Capital Resources, Ltd. (A) | 22,000 | 6.4 | 462 | 1.6 |
| WadeCo Specialties, Inc. | 21,208 | 6.1 | 1,435 | 5.0 |
| Lignetics, Inc. | 18,746 | 5.4 | 1,331 | 4.7 |
| **Subtotal five largest investments** | **109,592** | **31.7** | **6,250** | **22.0** |
| Other portfolio companies | 235,911 | 68.3 | 22,149 | 78.0 |
| **Total Investment Portfolio** | **$ 345,503** | **100.0%** | **$ 28,399** | **100.0%** |

| | As of June 30, 2016 | | Nine Months Ended June 30, 2016 | |
|---|---|---|---|---|
| Company | Fair Value | % of Portfolio | Investment Income | % of Total Income |
| IA Tech, LLC(A) | $ 30,000 | 9.7% | $ 40 | 0.1% |
| RBC Acquisition Corp. | 22,090 | 7.2 | 2,159 | 7.3 |
| WadeCo Specialties, Inc. | 19,630 | 6.4 | 1,563 | 5.3 |
| United Flexible, Inc. | 17,304 | 5.6 | 1,544 | 5.3 |
| Lignetics, Inc. | 15,499 | 5.0 | 1,279 | 4.4 |
| **Subtotal five largest investments** | **104,523** | **33.9** | **6,585** | **22.4** |
| Other portfolio companies | 203,703 | 66.1 | 22,777 | 77.6 |
| **Total Investment Portfolio** | **$ 308,226** | **100.0%** | **$ 29,362** | **100.0%** |

(A) New investment during the applicable period.

***Expenses***

Expenses, net of any non-contractual, unconditional and irrevocable credits to fees from the Adviser, decreased for the nine months ended June 30, 2017 by 15.7%, as compared to the prior year period. This decrease was primarily due to decreases in professional fees and shareholder related costs.

Net base management fee earned by the Adviser decreased by $0.9 million, or 24.3%, during the nine months ended June 30, 2017, as compared to the prior year period, resulting from an increase in portfolio company fee credits due to new investments made in the current year period.

Our Board of Directors accepted non-contractual, unconditional and irrevocable credits totaling $2.0 million from the Adviser to reduce the income-based incentive fee to the extent that net investment income did not cover 100.0% of the distributions to common stockholders during the nine months ended June 30, 2017. The credits granted during the nine months ended June 30, 2016, totaled $1.1 million.

Table of Contents

Base management, loan servicing and incentive fees and associated non-contractual, unconditional and irrevocable credits are computed quarterly, as described under *Investment Advisory and Management Agreement* in Note 4 *Related Party Transactions* of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the following table:

| | Nine Months Ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| Average total assets subject to base management fee(A) | **$ 321,295** | $ 324,419 |
| Multiplied by prorated annual base management fee of 1.75% | **1.3125%** | 1.3125% |
| **Base management fee(B)** | **$ 4,217** | $ 4,258 |
| Portfolio company fee credit | **(1,344)** | (553) |
| Syndicated loan fee credit | **(122)** | (73) |
| **Net Base Management Fee** | **$ 2,751** | $ 3,632 |
| **Loan servicing fee(B)** | **3,009** | 2,876 |
| Credits to base management fee - loan servicing fee(B) | **(3,009)** | (2,876) |
| **Net Loan Servicing Fee** | **$** | $ |
| **Incentive fee(B)** | **3,479** | 3,369 |
| Incentive fee credit | **(2,028)** | (1,110) |
| **Net Incentive Fee** | **$ 1,451** | $ 2,259 |
| Portfolio company fee credit | **(1,344)** | (553) |
| Syndicated loan fee credit | **(122)** | (73) |
| Incentive fee credit | **(2,028)** | (1,110) |
| **Credit to Fees From Adviser - other(B)** | **$ (3,494)** | $ (1,736) |

(A) Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected, on a gross basis, as a line item on our accompanying *Consolidated Statements of Operations*.

***Net Realized and Unrealized Gain (Loss)***

Net Realized Gain (Loss) on Investments

For the nine months ended June 30, 2017, we recorded a net realized loss on investments of $3.4 million, which resulted primarily from the sale of substantially all the assets of RBC for a $2.3 million realized loss and the write-off of $5.0 million of our investment in Sunshine Media Holdings ( Sunshine ), partially offset by the sale of Behrens for a $2.5 million realized gain and a $1.2 million realized gain related to an additional earn-out from Funko, LLC ( Funko ), which was exited in the prior year.

For the nine months ended June 30, 2016, we recorded a net realized gain on investments of $9.8 million, which resulted primarily from a realized gain of $16.9 million from the sale of Funko, partially offset by a realized loss of $5.5 million recognized from the restructure of Targus Group International, Inc. ( Targus ) and a realized loss of $2.4 million from our sale of Heartland Communications Group, LLC during the period.

Table of Contents

Net Unrealized Appreciation (Depreciation) of Investments

The net realized gain (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended June 30, 2017, were as follows:

| | Nine Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net Gain (Loss)** |
| WadeCo Specialties, Inc. | $ | $ 1,850 | $ | $ 1,850 |
| SourceHOV LLC | | 1,756 | | 1,756 |
| B+T Group Acquisition Inc. | | 1,524 | | 1,524 |
| Funko Acquisition Holdings, LLC | 1,235 | (20) | | 1,215 |
| Defiance Integrated Technologies, Inc. | | 1,009 | | 1,009 |
| The Mochi Ice Cream Company | | 670 | | 670 |
| LWO Acquisitions Company LLC | | 467 | | 467 |
| Vitera Healthcare Solutions, LLC | | 213 | 115 | 328 |
| FedCap Partners, LLC | | 297 | | 297 |
| IA Tech, LLC | | 288 | | 288 |
| PIC 360, LLC | | 173 | | 173 |
| Drumcree, LLC | | 169 | | 169 |
| Travel Sentry, Inc. | | 133 | | 133 |
| Lignetics, Inc. | | (175) | | (175) |
| Canopy Safety Brands, LLC | | (206) | | (206) |
| PSC Industrial Holdings Corp. | | (269) | | (269) |
| Flight Fit N Fun LLC | | (522) | | (522) |
| Edge Adhesives Holdings, Inc. | | (546) | | (546) |
| New Trident Holdcorp, Inc. | | (574) | | (574) |
| Behrens Manufacturing, LLC | 2,544 | | (3,211) | (667) |
| Targus Cayman HoldCo, Ltd. | | (800) | | (800) |
| Sunshine Media Holdings | (5,000) | 449 | 3,612 | (939) |
| RBC Acquisition Corp. | (2,330) | | 1,119 | (1,211) |
| Vertellus Specialties Inc. | 108 | (1,464) | | (1,356) |
| Alloy Die Casting, Corp. | | (1,875) | | (1,875) |
| Francis Drilling Fluids, Ltd. | | (5,583) | | (5,583) |
| Other, net (<$250) | 17 | 718 | (30) | 705 |
| **Total:** | **$ (3,426)** | **$ (2,318)** | **$ 1,605** | **$ (4,139)** |

The largest driver of our net unrealized depreciation for the nine months ended June 30, 2017 was derived from a decline in financial and operation performance of certain portfolio companies and, to a lesser extent, decreases in comparable multiples used in valuations, most notably Francis Drilling Fluids, Ltd. of $5.6 million and Alloy Die Cast, Co. of $1.9 million. This depreciation was largely offset by the unrealized appreciation resulting from an increase in performance on certain portfolio companies, most notably WadeCo Specialties, Inc. of $1.9 million and SourceHOV LLC of $1.8 million and the reversal of previously recorded depreciation on our investment in Sunshine upon partial write-off.

Table of Contents

The net realized gain (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended June 30, 2016, were as follows:

| | Nine Months Ended June 30, 2016 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net Gain (Loss)** |
| Legend Communications of Wyoming, LLC | $ | $ 2,857 | $ 27 | $ 2,884 |
| Behrens Manufacturing, LLC | | 2,008 | | 2,008 |
| Funko, LLC | 16,887 | 66 | (16,009) | 944 |
| Southern Petroleum Laboratories, Inc. | | 871 | | 871 |
| Westland Technologies, Inc. | | 622 | | 622 |
| J. America, Inc. | | 482 | | 482 |
| Triple H Food Processors | | 450 | | 450 |
| Mikawaya | | (282) | | (282) |
| Ashland Acquisitions, LLC | 72 | 183 | (572) | (317) |
| United Flexible, Inc. | | (329) | | (329) |
| FedCap Partners, LLC | | (381) | | (381) |
| Vitera Healthcare Solutions, LLC | | (475) | | (475) |
| New Trident Holdcorp, Inc. | | (561) | | (561) |
| Lignetics, Inc. | | (573) | | (573) |
| AG Transportation Holdings, LLC | | (584) | | (584) |
| Vertellus Specialties Inc. | | (882) | | (882) |
| Vision Government Solutions, Inc. | | (986) | | (986) |
| WadeCo Specialties, Inc. | | (1,082) | | (1,082) |
| Precision Acquisition Group Holdings, Inc. | | (1,282) | | (1,282) |
| SourceHOV LLC | | (1,722) | | (1,722) |
| RBC Acquisition Corp. | 1,207 | (3,183) | | (1,976) |
| Sunshine Media Holdings | | (2,593) | | (2,593) |
| LWO Acquisitions Company LLC | | (3,474) | | (3,474) |
| Targus Cayman HoldCo, Ltd. | (5,500) | (2,530) | 4,198 | (3,832) |
| Defiance Integrated Technologies, Inc. | | (4,348) | | (4,348) |
| Francis Drilling Fluids, Ltd. | | (5,840) | | (5,840) |
| Other, net (<$250) | (2,829) | (727) | 2,904 | (652) |
| **Total:** | **$ 9,837** | **$ (24,295)** | **$ (9,452)** | **$ (23,910)** |

The largest driver of our net unrealized depreciation for the nine months ended June 30, 2016 was derived from a decline in financial and operation performance of certain portfolio companies and, to a lesser extent, decreases in comparable multiples used in valuations, most notably Francis Drilling Fluids, Ltd. of $5.8 million and Defiance Integrated Technologies, Inc. of $4.3 million. The change was also driven by the reversal of $16.0 million of previously recorded unrealized appreciation on our investment in Funko upon exit. This depreciation was partially offset by the unrealized appreciation resulting from an increase in performance on certain portfolio companies, most notably Behrens of $2.9 million and the reversal of $4.1 million of previously recorded unrealized depreciation on our investment in Targus upon restructure.

Net Realized Loss on Other

During the nine months ended June 30, 2016, we recorded a net realized loss of $0.1 million, due to the expiration of our interest rate cap agreement in January 2016. No such amounts were incurred during the nine months ended June 30, 2017.

Net Unrealized Depreciation of Other

During the nine months ended June 30, 2017, we recorded $0.1 million of net unrealized depreciation on our Credit Facility recorded at fair value. During the nine months ended June 30, 2016, we reversed $0.1 million of unrealized depreciation related to the expiration of our interest rate cap agreement in January 2016.

Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Our cash flows from operating activities are primarily generated from the interest payments on debt securities that we receive from our portfolio companies, as well as net proceeds received through repayments or sales of our investments. We utilize this cash primarily to fund new investments, make interest payments on our Credit Facility, make distributions to our stockholders, pay management fees to the Adviser, and for other operating expenses. Net cash used in operating activities for the nine months ended June 30, 2017 was $14.0 million as compared to net cash provided by operating activities of $51.9 million for the nine months ended June 30, 2016. The change was primarily due to the increase in purchases of investments and the decrease in net unrealized depreciation period over period. Purchases of investments were $95.4 million during the nine months ended June 30, 2017 compared to $59.9 million during the prior year period. Net unrealized depreciation totaled $0.7 million during the nine months ended June 30, 2017 compared to $33.7 million during the prior year period.

As of June 30, 2017, we had loans to, syndicated participations in or equity investments in 47 private companies, with an aggregate cost basis of approximately $405.9 million. As of June 30, 2016, we had loans to, syndicated participations in or equity investments in 43 private companies, with an aggregate cost basis of approximately $386.3 million.

The following table summarizes our total portfolio investment activity during the nine months ended June 30, 2017 and 2016:

| | Nine Months Ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| Beginning investment portfolio, at fair value | **$ 322,114** | $ 365,891 |
| New investments | **85,241** | 54,300 |
| Disbursements to existing portfolio companies | **10,208** | 5,562 |
| Scheduled principal repayments | **(3,196)** | (1,169) |
| Unscheduled principal repayments | **(59,596)** | (77,427) |
| Net proceeds from sales | **(8,289)** | (19,829) |
| Net unrealized (depreciation) appreciation | **(2,318)** | (24,295) |
| Reversal of prior period (appreciation) depreciation | **1,605** | (9,452) |
| Net realized gain (loss) | **(3,426)** | 9,837 |
| Increase in investments due to PIK[(A)] or other | **3,599** | 4,311 |
| Cost adjustments on non-accrual loans | | 388 |
| Net change in premiums, discounts and amortization | **(439)** | 109 |
| **Investment Portfolio, at Fair Value** | **$ 345,503** | $ 308,226 |

(A) Paid-in-kind ( PIK ) interest is a non-cash source of income and is calculated at the contractual rate stated in a loan agreement and added to the principal balance of a loan.

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2017:

| | | **Amount** |
|---|---|---|
| For the remaining three months ending September 30: | 2017 | $ 6,499 |
| For the fiscal year ending September 30: | 2018 | 56,527 |
| | 2019 | 57,209 |
| | 2020 | 81,213 |
| | 2021 | 60,973 |
| | Thereafter | 112,663 |
| | **Total contractual repayments** | **$ 375,084** |
| | Equity investments | 36,786 |
| | Adjustments to cost basis on debt investments | (5,967) |
| | **Cost basis of investments held at June 30, 2017:** | **$ 405,903** |

54

Table of Contents

## Financing Activities

Net cash provided by financing activities totaled $14.9 million for the nine months ended June 30, 2017 and consisted primarily of net borrowings on our Credit Facility of $10.9 million and $20.0 million in net proceeds from our common stock offerings, partially offset by $15.9 million of distributions to common shareholders. Net cash used in financing activities totaled $50.7 million for the nine months ended June 30, 2016 and consisted primarily of net repayments on our Credit Facility of $54.0 million and $14.6 million of distributions to common stockholders, partially offset by $18.5 million in net proceeds from our common stock offering during the nine months ended June 30, 2016.

## Distributions and Dividends to Stockholders

### *Common Stock Distributions*

To qualify to be taxed as a RIC and thus avoid corporate level federal income tax on the income we distribute to our stockholders, we are required to distribute to our stockholders on an annual basis at least 90.0% of our investment company taxable income. Additionally, our Credit Facility has a covenant that generally restricts the amount of distributions to stockholders that we can pay out to be no greater than our aggregate net investment income, net capital gains and amounts elected to have been paid during the prior year in accordance with Section 855(a) of the Code. In accordance with these requirements, we paid monthly cash distributions of $0.07 per common share for each month during the nine months ended June 30, 2017 and 2016, which totaled an aggregate of $15.9 million and $14.6 million, respectively. In July 2017, our Board of Directors declared a monthly distribution of $0.07 per common share for each of July, August, and September 2017. Our Board of Directors declared these distributions based on our estimates of our investment company taxable income for the fiscal year ending September 30, 2017.

For the year ended September 30, 2016, our current and accumulated earnings and profits (after taking into account mandatorily redeemable preferred stock dividends) exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $5.5 million of the first common distributions paid in fiscal year 2017 as having been paid in the respective prior year.

The characterization of the common stockholder distributions declared and paid for the fiscal year ending September 30, 2017 will be determined at fiscal year-end based upon our investment company taxable income for the full fiscal year and distributions paid during the full fiscal year. Such a characterization made on a quarterly basis may not be representative of the actual full fiscal year characterization.

### *Preferred Stock Dividends*

Our Board of Directors declared and we paid monthly cash dividends of $0.140625 per share to holders of our Series 2021 Term Preferred Stock for each of the three months ended, April, May and June 2017. In accordance with GAAP, we treat these monthly dividends as an operating expense. For federal income tax purposes, dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

## Equity

### *Registration Statement*

We filed Post-Effective Amendment No. 2 to our current Registration Statement on Form N-2 (File No. 333-208637) with the SEC on December 22, 2016, which was declared effective by the SEC on February 6, 2017. Our Registration Statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, preferred stock or debt securities. As of June 30, 2017, we have the ability to issue up to $279.1 million in securities under the Registration Statement.

***Common Stock***

Pursuant to our current Registration Statement, in October 2016, we completed a public offering of 2.0 million shares of our common stock at a public offering price of $7.98 per share, which was below our then current NAV per share. In November 2016, the underwriters partially exercised their overallotment option to purchase an additional 173,444 shares of our common stock. Gross proceeds totaled $17.3 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately $16.4 million. The net proceeds of this offering were used to repay borrowings under our Credit Facility.

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of $7.5 million of the Company s common stock. The program expired on January 31, 2017. During the year ended September 30, 2016, we repurchased 87,200 shares of our common stock at an average share price of $6.53, resulting in aggregate gross purchases of $0.6 million. We did not repurchase any shares during the nine months ended June 30, 2017.

Pursuant to our prior registration statement, on October 27, 2015, we completed a public offering of 2.0 million shares of our common stock at a public offering price of $8.55 per share, which was below our then current NAV per share. In November 2015, the underwriters exercised their option to purchase an additional 300,000 shares. Gross proceeds totaled $19.7 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately $18.4 million. The net proceeds of this offering were used to repay borrowings under our Credit Facility.

In February 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or the Sales Agreements ) with KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., each a Sales Agent, under which we had the ability to issue and sell, from time to time, through the Sales Agents, up to an aggregate offering price of $50.0 million shares of our common stock. In May 2017, we terminated the Sales Agreement with KeyBanc Capital Markets Inc. and amended the Sales Agreement with Cantor Fitzgerald & Co. to reference our current registration statement. All other material terms of the Sales Agreement remained unchanged. We did not sell any shares under the Sales Agreements during the year ended September 30, 2016 or the six months ended March 31, 2017. During the three months ended June 30, 2017, we sold 362,600 shares of our common stock under the Sales Agreement with Cantor Fitzgerald & Co., at a weighted-average price of $9.89 per share and raised $3.6 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately $3.4 million. As of June 30, 2017, we had a remaining capacity to sell up to $45.2 million of common stock under the Sales Agreement with Cantor Fitzgerald & Co.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the timing or terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. To the extent that our common stock trades at a market price below our NAV per share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder and independent director approval or a rights offering to existing common stockholders. We completed the abovementioned October 2016 common stock offering as a result of the stockholder approval of the proposal at our 2016 Annual Meeting of Stockholders and additional Board of Directors approval. We did not request that our stockholders approve the Company s ability to issue shares of common stock at a price below NAV at our annual meeting of stockholders held on February 9, 2017. Should we decide to issue shares of common stock at a price below NAV, we will seek the requisite approval of our stockholders.

On August 1, 2017, the closing market price of our common stock was $9.93, an 18.5% premium to our June 30, 2017 NAV per share of $8.38.

***Term Preferred Stock***

Pursuant to our prior registration statement on Form N-2, in May 2014, we completed a public offering of approximately 2.4 million shares of our Series 2021 Term Preferred Stock, par value $0.001 per share, at a public offering price of $25.00 per share and a 6.75% rate. Gross proceeds totaled $61.0 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were $58.5 million, a portion of which was used to voluntarily redeem all 1.5 million outstanding shares of our then existing 7.125% Series 2016 Term Preferred Stock, par value $0.001 per share, and the remainder was used to repay a portion of outstanding borrowings under our Credit Facility.

Our Series 2021 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend rate equal to 6.75% per year, payable monthly (which equates in total to approximately $4.1 million per year). We are required to redeem all of the outstanding Series 2021 Term Preferred Stock on June 30, 2021 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date of redemption (the Redemption Price ). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2021 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control, and (2) if we fail to maintain an asset coverage of at least 200% on our senior securities that are stock (which, currently is only the Series 2021 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report. We may also voluntarily redeem all or a portion of the Series 2021 Term Preferred Stock at our option at the Redemption Price at any time after June 30, 2017. The asset coverage on our senior securities that are stock (thus, our Series 2021 Term Preferred Stock) as of June 30, 2017 was 249.6%.

If we fail to redeem our Series 2021 Term Preferred Stock pursuant to the mandatory redemption required on June 30, 2021, or in any other circumstance in which we are required to mandatorily redeem our Series 2021 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of June 30, 2017, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2021 Term Preferred Stock.

**Revolving Credit Facility**

On May 1, 2015, we, through Business Loan, entered into a Fifth Amended and Restated Credit Agreement with KeyBank, as administrative agent, lead arranger and a lender, which increased the commitment amount of our Credit Facility from $137.0 million to $140.0 million, extended the revolving period end date by three years to January 19, 2019, decreased the marginal interest rate added to 30-day LIBOR from 3.75% to 3.25% per annum, set the unused commitment fee at 0.50% on all undrawn amounts, expanded the scope of eligible collateral, and amended other terms and conditions to among other items. If our Credit Facility is not renewed or extended by January 19, 2019, all principal and interest will be due and payable on or before April 19, 2020. Subject to

Table of Contents

certain terms and conditions, our Credit Facility may be expanded up to a total of $250.0 million through additional commitments of new or existing lenders. We incurred fees of approximately $1.1 million in connection with this amendment, which are being amortized through our Credit Facility s revolving period end date of January 19, 2019. On June 19, 2015, we, through Business Loan, entered into certain joinder and assignment agreements with three new lenders to increase borrowing capacity on our Credit Facility by $30.0 million to $170.0 million. We incurred fees of approximately $0.6 million in connection with this expansion, which are being amortized through our Credit Facility s revolving period end date of January 19, 2019.

On October 9, 2015 and August 18, 2016, we entered into Amendments No. 1 and 2 to our Credit Facility, respectively, each of which clarified various constraints on available borrowings.

Interest is payable monthly during the term of our Credit Facility. Available borrowings are subject to various constraints imposed under our Credit Facility, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required. Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with KeyBank and with The Bank of New York Mellon Trust Company, N.A. as custodian. KeyBank, which also serves as the trustee of the account, generally remits the collected funds to us once a month.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders consents. Our Credit Facility generally limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts elected to have been paid during the prior year in accordance with Section 855(a) of the Code. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, portfolio company leverage and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 20 obligors required in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of $205.0 million plus 50% of all equity and subordinated debt raised after May 1, 2015 less 50% of any equity and subordinated debt retired or redeemed after May 1, 2015, which equates to $225.0 million as of June 30, 2017, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Sections 18 and 61 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code.

As of June 30, 2017, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $275.6 million, asset coverage on our senior securities representing indebtedness of 434.4% and an active status as a BDC and RIC. In addition, we had 32 obligors in our Credit Facility s borrowing base as of June 30, 2017. As of June 30, 2017, we were in compliance with all of our Credit Facility covenants. Refer to Note 5 *Borrowings* of the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this quarterly report for additional information regarding our Credit Facility.

## Off-Balance Sheet Arrangements

We generally recognize success fee income only when the payment has been received. As of June 30, 2017 and September 30, 2016, we had off-balance sheet success fee receivables on our accruing debt investments of

$3.8 million and $3.4 million (or approximately $0.15 per common share and $0.14 per common share), respectively, that would be owed to us based on our current portfolio if fully paid off. Consistent with GAAP, we have not recognized our success fee receivable on our balance sheet or income statement. Due to our success fees contingent nature, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

Table of Contents

## Contractual Obligations

We have lines of credit, delayed draw term loans, and an uncalled capital commitment with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit, the unused delayed draw term loans and the uncalled capital commitment as of June 30, 2017 and September 30, 2016 to be immaterial. The following table shows our contractual obligations as of June 30, 2017, at cost:

| | Payments Due by Fiscal Years | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations**[A] | **Less than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** | **Total** |
| Credit Facility[B] | $ | $ 82,200 | $ | $ | $ 82,200 |
| Series 2021 Term Preferred Stock | | | 61,000 | | 61,000 |
| Interest expense on debt obligations[C] | 2,076 | 17,933 | 3,088 | | 23,097 |
| **Total** | **$ 2,076** | **$ 100,133** | **$ 64,088** | **$** | **$ 166,297** |

(A) Excludes unused line of credit commitments, an unused delayed draw term loan and an uncalled capital commitment to our portfolio companies in the aggregate principal amount of $11.6 million as of June 30, 2017.

(B) Principal balance of borrowings under our Credit Facility as of June 30, 2017, based on the current revolving period end date of January 19, 2019.

(C) Includes estimated interest payments on our Credit Facility and distribution obligations on our Series 2021 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and outstanding balances as of June 30, 2017. Dividend payments on our Series 2021 Term Preferred Stock assume quarterly declarations and monthly dividend payments through the date of mandatory redemption.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, including disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates under different assumptions or conditions. We have identified our investment valuation policy (which has been approved by our Board of Directors) (the Policy ) as our most critical accounting policy.

### *Investment Valuation*

Fair value measurements of our investments may involve subjective judgments and estimates and due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate from period to period. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Refer to Note 2 *Summary of Significant Accounting Policies* and Note 3 *Investments* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this report for additional information regarding fair value measurements.

Credit Monitoring and Risk Rating

The Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance and, in some instances, used as inputs in our valuation techniques. Generally, we, through the Adviser, participate in periodic board meetings of our portfolio companies in which we hold board seats and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, the Adviser calculates and evaluates certain credit statistics.

The Adviser risk rates all of our investments in debt securities. The Adviser does not risk rate our equity securities. For syndicated loans that have been rated by a Nationally Recognized Statistical Rating Organization ( NRSRO ) (as defined in Rule 2a-7 under the 1940 Act), the Adviser generally uses the average of two corporate level NRSRO s risk ratings for such security. For all other debt securities, the Adviser uses a proprietary risk rating system. While the Adviser seeks to mirror the NRSRO systems, we cannot provide any assurance that the Adviser s risk rating system will provide the same risk rating as an NRSRO for these securities. The Adviser s risk rating system is used to estimate the probability of default on debt securities and the expected loss if there is a default. The Adviser s risk rating system uses a scale of 0 to >10, with >10 being the lowest probability of default. It is the Adviser s understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on an NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, the Adviser s scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB from an NRSRO; however, no assurance can be given that a >10 on the Adviser s scale is equal to a BBB or Baa2 on an NRSRO scale. The Adviser s risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

58

Table of Contents

The following table reflects risk ratings for all proprietary loans in our portfolio at June 30, 2017 and September 30, 2016, representing approximately 90.0% of the principal balance of all debt investments in our portfolio at the end of each period:

| Rating | As of June 30, 2017 | As of September 30, 2016 |
|---|---|---|
| Highest | **9.0** | 8.0 |
| Average | **5.4** | 5.3 |
| Weighted Average | **5.5** | 5.3 |
| Lowest | **1.0** | 1.0 |

The following table reflects the risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO at June 30, 2017 and September 30, 2016, representing approximately 8.2% and 7.3%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

| Rating | As of June 30, 2017 | As of September 30, 2016 |
|---|---|---|
| Highest | **5.0** | 5.0 |
| Average | **4.3** | 3.9 |
| Weighted Average | **4.2** | 4.0 |
| Lowest | **3.0** | 2.0 |

The following table reflects the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO at June 30, 2017 and September 30, 2016, representing approximately 1.8% and 2.7%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

| Rating | As of June 30, 2017 | As of September 30, 2016 |
|---|---|---|
| Highest | **6.0** | 5.0 |
| Average | **4.5** | 4.0 |
| Weighted Average | **4.1** | 3.5 |
| Lowest | **3.0** | 3.0 |

***Tax Status***

We intend to continue to maintain our qualification as a RIC under Subchapter M of the Code for federal income tax purposes and also to limit certain federal excise taxes imposed on RICs. Refer to Note 9 *Distributions to Common Stockholders* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this report for additional information regarding our tax status.

***Revenue Recognition***

Interest Income Recognition

Interest income, including the amortization of premiums, acquisition costs and amendment fees, the accretion of OID, and PIK interest, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company, typically from an exit or sale. Dividend income on equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. We generally record prepayment fees upon receipt of cash. Prepayment fees are contractually due at the time of an investment s exit, based on the prepayment fee schedule. Success fees, prepayment fees and dividend income are all recorded in other income in our accompanying *Consolidated Statements of Operations*.

Refer to Note 2 *Summary of Significant Accounting Policies* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this report for additional information regarding revenue recognition.

**Recent Accounting Pronouncements**

Refer to Note 2 *Summary of Significant Accounting Policies* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this report for a description and our application of recent accounting pronouncements.

Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The prices of securities held by us may decline in response to certain events, including those directly involving the companies whose securities are owned by us; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and interest rate fluctuations.

The primary risk we believe we are exposed to is interest rate risk. Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We use a combination of debt and equity capital to finance our investing activities. We may use interest rate risk management techniques from time to time to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

All of our variable-rate debt investments have rates generally associated with either the current LIBOR or prime rate. As of June 30, 2017, our portfolio of debt investments on a principal basis consisted of the following:

| | |
|---|---|
| Variable rates | 89.3% |
| Fixed rates | 10.7 |
| Total: | 100.0% |

There have been no material changes in the quantitative and qualitative market risk disclosures for the nine months ended June 30, 2017 from that disclosed in our Annual Report.

## ITEM 4. CONTROLS AND PROCEDURES

### a) Evaluation of Disclosure Controls and Procedures

As of June 30, 2017 (the end of the period covered by this report), our management, including our chief executive officer and chief financial officer, evaluated the effectiveness and design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective at a reasonable assurance level in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in periodic SEC filings. However, in evaluation of the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, 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.

### b) Changes in Internal Control over Financial Reporting

There were no changes in internal controls for the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various investigation, claims and legal proceedings that arise in the ordinary course of our business. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While we do not expect that the resolution of these matters, if they arise, would materially affect our business, financial condition, results of operations or cash flows, resolution of these matters will be subject to various uncertainties and could result in the expenditure of significant financial and managerial resources. Neither we, nor any of our subsidiaries are currently subject to any material legal proceeding, nor, to our knowledge, is any material legal proceeding pending or threatened against us or any of our subsidiaries.

### ITEM 1A. RISK FACTORS.

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. For a discussion of these risks, please refer to this section, the section captioned Item 1A. Risk Factors in Part I of our Annual Report. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

*Sales of Unregistered Securities*

Not applicable.

*Issuer Purchases of Equity Securities*

Not applicable.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

### ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

### ITEM 5. OTHER INFORMATION.

Not applicable.

### ITEM 6. EXHIBITS.

See the exhibit index.

61

## SIGNATURE

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.

**GLADSTONE CAPITAL CORPORATION**

By: /s/ *Nicole Schaltenbrand*
Nicole Schaltenbrand
Chief Financial Officer and Treasurer

Date: August 2, 2017

Table of Contents

**EXHIBIT INDEX**

| Exhibit | Description |
|---|---|
| 3.1 | Articles of Amendment and Restatement to the Articles of Incorporation, incorporated by reference to Exhibit 99.a.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001. |
| 3.2 | Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares, including Appendix A thereto relating to the Term Preferred Shares, 7.125% Series 2016, incorporated by reference to Exhibit 2.a.2 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-162592), filed October 31, 2011. |
| 3.3 | Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares, 6.75% Series 2021, including Exhibit A thereto, incorporated by reference to Exhibit 3.3 to Form 8-A (File No. 001-35332), filed May 15, 2014. |
| 3.4 | Certificate of Correction to Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares, 6.75% Series 2021, incorporated by reference to Exhibit 3.4 to the Quarterly Report on Form 10-Q (File No.811-000000), filed July 30, 2014. |
| 3.5 | Certificate of Correction to Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 814-00237), filed October 29, 2015. |
| 3.6 | By-laws, incorporated by reference to Exhibit 99.b to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001. |
| 3.7 | Amendment to By-laws, incorporated by reference to Exhibit 3.3 to the Quarterly Report on Form 10-Q (File No. 814-00237), filed February 17, 2004. |
| 3.8 | Second Amendment to By-laws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00237), filed July 10, 2007. |
| 3.9 | Third Amendment to By-laws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00237), filed June 10, 2011. |
| 3.10 | Fourth Amendment to Bylaws, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 814-00237), filed November 29, 2016. |
| 4.1 | Form of Certificate for Common Stock, incorporated by reference to Exhibit 99.d.2 to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-63700), filed August 23, 2001. |
| 4.2 | Form of Certificate for 6.75% Series 2021 Term Preferred Stock, incorporated by reference to Exhibit 4.3 to Form 8-A (File No. 001-35332), filed May 15, 2014. |
| 10.1 | Amendment No. 1 to Equity Distribution Agreement, dated May 22, 2017, by and among the Registrant, Gladstone Management Corporation, Gladstone Administration, LLC and Cantor Fitzgerald & Co., incorporated by reference to Exhibit 2.h.3 to Post-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-208637), filed May 22, 2017. |

| | |
|---|---|
| | Computation of Per Share Earnings (included in the notes to the unaudited consolidated financial statements contained in this report).* |
| 31.1 | Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.+ |
| 32.2 | Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.+ |

* Filed herewith
\+ Furnished herewith
All other exhibits for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.