

GLADSTONE CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 05/03/17 for the Period Ending 03/31/17

Address	1521 WESTBRANCH DRIVE SUITE 100 MCLEAN, VA 22102
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CIK	0001143513
Symbol	GLAD
Industry	Closed End Funds
Sector	Financials
Fiscal Year	09/30

**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 MARCH 31, 2017

OR

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

COMMISSION FILE NUMBER: 814-00237

GLADSTONE CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

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

1521 WESTBRANCH DRIVE, SUITE 100
MCLEAN, VIRGINIA
(Address of principal executive office)

22102
(Zip Code)

(703) 287-5800
(Registrant's telephone number, including area code)

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 May 2, 2017 was 25,517,866.

GLADSTONE CAPITAL CORPORATION
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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	March 31, 2017	September 30, 2016
ASSETS		
Investments, at fair value:		
Non-Control/Non-Affiliate investments (Cost of \$287,342 and \$250,991, respectively)	\$ 256,149	\$ 226,401
Affiliate investments (Cost of \$46,949 and \$85,013, respectively)	37,583	75,473
Control investments (Cost of \$40,615 and \$45,797 respectively)	19,785	20,240
Total investments at fair value (Cost of \$374,906 and \$381,801 respectively)	313,517	322,114
Cash and cash equivalents	5,014	6,152
Restricted cash and cash equivalents	310	406
Interest receivable, net	2,066	2,333
Due from custodian	2,148	2,164
Deferred financing fees	1,225	1,521
Other assets, net	4,357	848
TOTAL ASSETS	\$ 328,637	\$ 335,538
LIABILITIES		
Borrowings, at fair value (Cost of \$54,100 and \$71,300, respectively)	\$ 53,989	\$ 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	59,536	59,360
Accounts payable and accrued expenses	455	1,019
Interest payable	174	201
Fees due to Adviser (A)	209	1,222
Fee due to Administrator (A)	286	282
Other liabilities	1,318	947
TOTAL LIABILITIES	\$ 115,967	\$ 134,331
Commitments and contingencies (B)		
NET ASSETS		
Common stock, \$0.001 par value per share, 46,000,000 shares authorized; 25,517,866 shares issued and outstanding as of March 31, 2017 and 23,344,422 shares issued and outstanding as of September 30, 2016	\$ 26	\$ 23
Capital in excess of par value	343,741	327,678
Cumulative net unrealized depreciation of investments	(61,389)	(59,687)
Cumulative net unrealized depreciation of other	111	—
(Over) under distributed net investment income	(518)	4,277
Accumulated net realized losses	(69,301)	(71,084)
TOTAL NET ASSETS	\$ 212,670	\$ 201,207
NET ASSET VALUE PER COMMON SHARE	\$ 8.33	\$ 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.

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	\$ 7,021	\$ 6,416	\$ 13,827	\$ 13,324
Affiliate investments	1,129	1,945	2,509	3,910
Control investments	433	306	878	618
Other	5	1	7	2
Total interest income	<u>8,588</u>	<u>8,668</u>	<u>17,221</u>	<u>17,854</u>
Other income				
Non-Control/Non-Affiliate investments	205	788	404	1,289
Affiliate investments	—	—	1,142	—
Control investments	—	—	—	375
Total other income	<u>205</u>	<u>788</u>	<u>1,546</u>	<u>1,664</u>
Total investment income	<u>8,793</u>	<u>9,456</u>	<u>18,767</u>	<u>19,518</u>
EXPENSES				
Base management fee (A)	1,359	1,362	2,737	2,890
Loan servicing fee (A)	955	973	1,938	1,981
Incentive fee (A)	1,070	1,064	2,363	2,182
Administration fee (A)	286	277	586	612
Interest expense on borrowings	587	633	1,143	1,418
Dividend expense on mandatorily redeemable preferred stock	1,029	1,029	2,058	2,058
Amortization of deferred financing fees	274	273	547	528
Professional fees	206	358	442	711
Other general and administrative expenses	143	394	544	681
Expenses, before credits from Adviser	<u>5,909</u>	<u>6,363</u>	<u>12,358</u>	<u>13,061</u>
Credit to base management fee - loan servicing fee (A)	(955)	(973)	(1,938)	(1,981)
Credits to fees from Adviser - other (A)	(1,520)	(851)	(2,219)	(1,239)
Total expenses, net of credits	<u>3,434</u>	<u>4,539</u>	<u>8,201</u>	<u>9,841</u>
NET INVESTMENT INCOME	<u>5,359</u>	<u>4,917</u>	<u>10,566</u>	<u>9,677</u>
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss):				
Non-Control/Non-Affiliate investments	44	(5,460)	3,926	9,030
Affiliate investments	—	—	(2,330)	1,207
Control investments	1	—	(4,999)	(317)
Other	—	(61)	—	(63)
Total net realized gain (loss)	<u>45</u>	<u>(5,521)</u>	<u>(3,403)</u>	<u>9,857</u>
Net unrealized (depreciation) appreciation:				
Non-Control/Non-Affiliate investments	(736)	(2,503)	(6,603)	(22,733)
Affiliate investments	(532)	(1,778)	174	(6,533)
Control investments	621	(1,315)	4,727	(5,173)
Other	(101)	61	111	61
Total net unrealized (depreciation) appreciation	<u>(748)</u>	<u>(5,535)</u>	<u>(1,591)</u>	<u>(34,378)</u>
Net realized and unrealized (loss) gain	<u>(703)</u>	<u>(11,056)</u>	<u>(4,994)</u>	<u>(24,521)</u>
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 4,656</u>	<u>\$ (6,139)</u>	<u>\$ 5,572</u>	<u>\$ (14,844)</u>

BASIC AND DILUTED PER COMMON SHARE:

Net investment income	<u>\$ 0.21</u>	<u>\$ 0.21</u>	<u>\$ 0.42</u>	<u>\$ 0.42</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 0.18</u>	<u>\$ (0.26)</u>	<u>\$ 0.22</u>	<u>\$ (0.64)</u>
Distributions declared and paid	<u>\$ 0.21</u>	<u>\$ 0.21</u>	<u>\$ 0.42</u>	<u>\$ 0.42</u>

WEIGHTED AVERAGE SHARES OF COMMON STOCK

OUTSTANDING: Basic and Diluted	25,517,866	23,413,131	25,144,358	23,048,110
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(A) Refer to Note 4— *Related Party Transactions* for additional information.

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

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

	Six Months Ended March 31,	
	2017	2016
OPERATIONS		
Net investment income	\$ 10,566	\$ 9,677
Net realized (loss) gain on investments	(3,403)	9,857
Net unrealized depreciation of investments	(1,702)	(34,439)
Net unrealized appreciation of other	111	61
Net increase (decrease) in net assets resulting from operations	5,572	(14,844)
DISTRIBUTIONS		
Distributions to common stockholders from net investment income	(10,566)	(6,489)
Distributions to common stockholders from realized gains	—	(3,188)
Total distributions to common stockholders	(10,566)	(9,677)
CAPITAL TRANSACTIONS		
Issuance of common stock	17,344	19,665
Offering costs for issuance of common stock	(887)	(1,102)
Repurchase of common stock	—	(282)
Net increase in net assets resulting from capital transactions	16,457	18,281
NET INCREASE (DECREASE) IN NET ASSETS	11,463	(6,240)
NET ASSETS, BEGINNING OF PERIOD	201,207	191,444
NET ASSETS, END OF PERIOD	\$ 212,670	\$ 185,204

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	<u>Six Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets resulting from operations	\$ 5,572	\$ (14,844)
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(59,658)	(25,868)
Principal repayments on investments	56,755	58,123
Net proceeds from sale of investments	8,311	19,913
Increase in investments due to paid-in-kind interest or other	(2,289)	(3,739)
Net change in premiums, discounts and amortization	373	(97)
Cost adjustments on non-accrual loans	—	(388)
Net realized loss (gain) on investments	3,403	(9,920)
Net realized loss on other	—	63
Net unrealized depreciation of investments	1,702	34,439
Net unrealized appreciation of other	(111)	(61)
Decrease in restricted cash and cash equivalents	96	123
Amortization of deferred financing fees	547	528
Decrease in interest receivable, net	267	2,828
Decrease in due from custodian	16	473
Increase in other assets, net	(3,509)	(2,865)
Decrease in accounts payable and accrued expenses	(564)	(123)
Decrease in interest payable	(27)	(111)
Decrease in fees due to Adviser (A)	(1,013)	(45)
Increase in fee due to Administrator (A)	4	27
Increase in other liabilities	371	5,010
Net cash provided by operating activities	<u>10,246</u>	<u>63,466</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	70,300	36,000
Repayments on borrowings	(87,500)	(106,000)
Deferred financing fees	(75)	(76)
Proceeds from issuance of common stock	17,344	19,665
Offering costs for issuance of common stock	(887)	(1,102)
Repurchases of common stock	—	(282)
Distributions paid to common stockholders	(10,566)	(9,677)
Net cash used in financing activities	<u>(11,384)</u>	<u>(61,472)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,138)	1,994
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,152	3,808
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,014	\$ 5,802
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 March 31, 2017 and September 30, 2016.

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
MARCH 31, 2017
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) :					
Proprietary Investments:					
AG Transportation Holdings, LLC	Cargo transport	Secured Second Lien Debt (13.3%, Due 3/2018) (D) Member Profit Participation (18.0% ownership) (F)(H) Profit Participation Warrants (7.0% ownership) (F)(H)	\$ 13,000	\$ 13,000 1,000 244	\$ 13,098 — —
Alloy Die Casting Corp. (S)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018) (D)(I) Secured First Lien Debt (13.5%, Due 10/2018) (D)(I) Secured First Lien Debt (Due 10/2018) (D) (Q) Preferred Stock (2,102 shares) (F)(H) Common Stock (270 shares) (F)(H)	5,235 75 390	5,235 75 390 2,102 18	4,188 60 314 — —
B+T Group Acquisition Inc. (S)	Telecommunications	Secured First Lien Debt (13.0%, Due 12/2019) (D) Preferred Stock (5,503 shares) (F)(H)(K)	6,000	6,000 1,799	5,880 —
Belnick, Inc.	Home and Office Furnishings, Housewares and Durable Consumer Products	Secured Second Lien Debt (11.0%, Due 8/2023) (J)(G)	10,000	10,000	10,000
Canopy Safety Brands, LLC	Personal and non-durable consumer products	Secured First Lien Line of Credit, \$500 available (7.5%, Due 9/2019) (D) Secured First Lien Debt (10.5%, Due 9/2021) (D) Participation Warrant (F)(H)	— 7,000	— 7,000 500	— 7,035 390
Chinese Yellow Pages Company Drumcree, LLC	Printing and publishing Broadcasting and entertainment	Secured First Lien Line of Credit, \$0 available (8.0%, Due 2/2015) (F) Secured First Lien Debt (13.0% PIK, Due 1/2017) (F)(G)(V)	107	107	—
Flight Fit N Fun LLC	Leisure, Amusement, Motion Pictures, Entertainment	Secured First Lien Debt (15.0%, Due 9/2020) (D) Preferred Stock (700,000 units) (F)(H)	7,800	7,800 700	7,371 671
Francis Drilling Fluids, Ltd.	Oil and gas	Secured Second Lien Debt (11.9% PIK, Due 4/2020) (D) Secured Second Lien Debt (10.8% PIK, Due 4/2020) (D) Preferred Equity Units (1,656 units) (F)(H) Common Equity Units (1,656 units) (F)(H)	15,761 7,321	15,611 7,252 1,215 1	5,910 2,746 — —
Funko Acquisition Holdings, LLC (S)	Personal and non-durable consumer products	Preferred Equity Units (260 units) (H)(F) Common Stock (975 units) (H)(F)	—	167 —	258 —
GFRC Holdings, LLC	Buildings and real estate	Secured First Lien Line of Credit, \$195 available (9.0%, Due 9/2018) (F) Secured First Lien Debt (9.0%, Due 9/2018) (F) Preferred Stock (1,000 shares) (F)(H) Common Stock Warrants (45.0% ownership) (F)(H)	1,005 1,000	1,005 1,000 1,025 3,030	1,005 1,000 811 2,816
IA Tech, LLC	Diversified/conglomerate service	Secured First Lien Debt (12.0%, Due 6/2021) (D)	23,000	23,000	23,460
Leeds Novamark Capital I, L.P.	Private equity fund—healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, \$1,581 uncalled capital commitment) (H)(M)(R)	—	1,414	1,303
Meridian Rack & Pinion, Inc. (S)	Automobile	Secured First Lien Debt (13.5%, Due 12/2018) (D) Preferred Stock (1,449 shares) (F)(H)	4,140	4,140 1,449	3,705 1,239
Merlin International, Inc.	Healthcare, education, and childcare	Secured Second Lien Debt (11.0%, Due 8/2022) (D)	10,000	10,000	10,087

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2017
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) (Continued):					
The Mochi Ice Cream Company (T)	Beverage, Food and Tobacco	Secured Second Lien Debt (11.5%, Due 1/2021) (D) Common Stock (450 units) (F)(H)	6,750	6,750 450	6,843 402
				<u>7,200</u>	<u>7,245</u>
NetFortris Corp.	Telecommunications	Secured First Lien Line of Credit, \$2,000 available (11.0%, Due 11/2017) (J) Secured First Lien Debt (9.4%, Due 2/2021) (J) Common Stock Warrant (F)	— 29,000	— 29,000 1	— 29,000 —
				<u>29,001</u>	<u>29,000</u>
Precision International, LLC	Machinery	Secured First Lien Debt (10.0% PIK, Due 9/2021) (D)(G) Secured First Lien Mortgage Note (3.0%, Due 9/2017) (D)(G) Membership Unit Warrant (33.3% ownership) (F)(H)	776 10	776 10 —	769 10 19
				<u>786</u>	<u>798</u>
Sea Link International IRB, Inc.	Automobile	Secured Second Lien Debt (11.3%, Due 11/2021) (D)(G) Secured Second Lien Delayed Draw Term Loan, \$2,000 available (11.3%, Due 11/2021) (D)(G) Common Equity Units (240,000 units) (F)(H)	5,000 —	5,000 — 240	5,012 — 240
				<u>5,240</u>	<u>5,252</u>
Travel Sentry, Inc.	Diversified/conglomerate service	Secured First Lien Debt (10.0%, Due 12/2021) (D)	9,329	9,329	9,422
Triple H Food Processors, LLC	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) Common Stock (250,000 units) (F)(H)	— 7,200	— 7,200 250	— 7,344 523
				<u>7,450</u>	<u>7,867</u>
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)	— 9,432	— 9,432 9,432	— 9,586 9,586
				<u>17,812</u>	<u>17,323</u>
United Flexible, Inc.	Diversified/conglomerate manufacturing	Secured Second Lien Debt (10.5%, 2.0% PIK, Due 2/2022) (D) Preferred Stock (538 shares) (F)(H) Common Stock (1,158 shares) (F)(H)	17,812	17,722 538 148	17,323 475 —
				<u>18,408</u>	<u>17,798</u>
Vacation Rental Pros Property Management, LLC	Hotels, motels, inns, and gaming	Secured Second Lien Debt (11.0%, 3.0% PIK, Due 6/2023) (D)	7,037	7,037	7,028
Vision Government Solutions, Inc.	Diversified/conglomerate service	Secured First Lien Line of Credit, \$0 available (7.5%, Due 4/2017) (D) Secured First Lien Delayed Draw Term Loan, \$1,200 available (10.0%, Due 4/2017) (D)(G) Secured First Lien Debt (9.8%, Due 4/2017) (D)	1,450 1,300 9,000	1,450 1,300 9,000	1,373 1,211 8,421
				<u>11,750</u>	<u>11,005</u>
WadeCo Specialties, Inc.	Oil and gas	Secured First Lien Line of Credit, \$1,825 available (8.0%, Due 4/2017) (D)(U) Secured First Lien Debt (8.0%, Due 3/2019) (D) Secured First Lien Debt (12.0%, Due 3/2019) (D) Preferred Stock (1,000 shares) (F)(H)	1,175 10,941 7,000	1,174 10,941 7,000 618	1,116 10,394 6,545 277
				<u>19,733</u>	<u>18,332</u>
Subtotal – Non-Control/Non-Affiliate Proprietary Investments				\$253,774	\$229,023
Syndicated Investments:					
DataPipe, Inc.	Diversified/conglomerate service	Secured Second Lien Debt (9.0%, Due 9/2019) (E)	2,000	1,958	2,005
LDiscovery, LLC	Diversified/conglomerate service	Secured Second Lien Debt (11.0%, Due 12/2023) (E)	5,000	4,805	4,750
NetSmart Technologies, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.5%, Due 10/2023) (E)	3,660	3,606	3,660

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2017
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

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	3,983	3,320
PLATO Learning, Inc.	Healthcare, education and childcare	Unsecured Debt (10.0% PIK, Due 6/2020) (D)(G) Common Stock (21,429 shares) (F)(H)	\$ 3,161	\$ 3,126 2,637	\$ 3,185 —
				5,763	3,185
PSC Industrial Holdings Corp.	Diversified/conglomerate service	Secured Second Lien Debt (9.3%, Due 12/2021) (E)	3,500	3,448	3,220
SourceHOV LLC	Finance	Secured Second Lien Debt (11.5%, Due 4/2020) (E)	5,000	4,870	4,750
The Active Network, Inc.	Electronics	Secured Second Lien Debt (10.5%, Due 11/2021) (E)	519	519	514
Vertellus Holdings LLC	Chemicals, plastics and rubber	Secured Second Lien Debt (13.0%, Due 10/2021) (E) Common Stock Units (879,121 units) (E)	1,099	1,099 3,018	923 659
				4,117	1,582
W3 Co.	Oil and gas	Common Equity (435 shares) (F)(H)	499	499	140
Subtotal – Non-Control/Non-Affiliate Syndicated Investments				\$ 33,568	\$ 27,126
Total Non-Control/Non-Affiliate Investments (represented 81.7% of total investments at fair value)				\$287,342	\$256,149
AFFILIATE INVESTMENTS (O) :					
Proprietary Investments:					
Edge Adhesives Holdings, Inc. (S)	Diversified/conglomerate manufacturing	Secured First Lien Debt (12.5%, Due 2/2019) (D) Secured First Lien Debt (13.8%, Due 2/2019) (D) Preferred Stock (2,516 units) (F)(H)	\$ 6,200 1,600	\$ 6,200 1,600 2,516	\$ 6,138 1,592 847
				10,316	8,577
FedCap Partners, LLC	Private equity fund – aerospace and defense	Class A Membership Units (80 units, \$0 Uncalled Commitment) (H) (L)(R)		1,634	1,265
Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Secured Second Lien Debt (12.0%, Due 2/2021) (D) Secured Second Lien Debt (12.0%, Due 2/2021) (D) Common Stock (152,603 shares) (F)(H)	6,000 8,000	6,000 8,000 1,855	5,932 7,910 323
				15,855	14,165
LWO Acquisitions Company LLC	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$0 available (6.5%, 2.0% PIK, Due 3/2018) (D) Secured First Lien Debt (9.5%, 2.0% PIK, Due 12/2019) (D) Common Units (921,000 units) (F)(H)	2,621 10,831	2,617 10,806 921	1,966 8,123 —
				14,344	10,089
Subtotal – Affiliate Proprietary Investments				\$ 42,149	\$ 34,096

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2017
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

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) Common Stock (526,141 shares) (F)(H)	2,457	2,457 2,343	2,460 1,027
				4,800	3,487
Total Affiliate Investments (represented 12.0% of total investments at fair value)				\$ 46,949	\$ 37,583
CONTROL INVESTMENTS (P):					
Proprietary Investments:					
Defiance Integrated Technologies, Inc.	Automobile	Secured Second Lien Debt (11.0%, Due 2/2019) (F) Common Stock (33,321 shares) (F)(H)	\$ 6,065	\$ 6,065 580	\$ 6,065 4,297
				\$ 6,645	\$ 10,362
PIC 360, LLC	Machinery	Secured First Lien Debt (14.0%, Due 12/2017) (F)(G) Common Equity Units (750 units) (F)	4,000	4,000 1	4,000 37
				4,001	4,037
Sunshine Media Holdings	Printing and publishing	Secured First Lien Line of Credit, \$672 available (8.0%, Due 5/2018) (F)(G) Secured First Lien Debt (8.0%, Due 5/2018) (F)(G) Secured First Lien Debt (4.8%, Due 5/2018) (F)(I) Secured First Lien Debt (5.5%, Due 5/2018) (C)(F)(I) Preferred Stock (15,270 shares) (F)(H)(K) Common Stock (1,867 shares) (F)(H) Common Stock Warrants (72 shares) (F)(H)	1,328 5,000 11,948 10,700	1,328 3,525 8,401 10,700 5,275 740	1,328 1,197 2,861 — — — —
				29,969	5,386
Total Control Proprietary Investments (represented 6.3% of total investments at fair value)				\$ 40,615	\$ 19,785
TOTAL INVESTMENTS				\$374,906	\$313,517

- (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 \$270.9 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 March 31, 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 March 31, 2017.
- (B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate (“LIBOR”)) in effect at March 31, 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) 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 March 31, 2017, 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 March 31, 2017 best represents fair value as of March 31, 2017.
- (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.

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- (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.
- (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 net asset value provided by the fund as a practical expedient.
- (S) One of our affiliated funds, Gladstone Investment Corporation, co-invested with us in this portfolio company pursuant to an exemptive order”) granted by the U.S. Securities and Exchange Commission.
- (T) Investment formerly known as Mikaway.
- (U) Subsequent to March 31, 2017, the maturity date of our first lien line of credit to WadeCo Specialties, Inc. was extended to April 2018.
- (V) Subsequent to March 31, 2017, the maturity date of our loan to Drumcree, LLC was extended to August 2017.

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

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) Member Profit Participation (18.0% ownership) (F)(H) Profit Participation Warrants (7.0% ownership) (F)(H)	\$ 13,000	\$ 13,000 1,000 244 14,244	\$ 13,000 — — 13,000
Alloy Die Casting Corp. (T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018) (D) Secured First Lien Debt (13.5%, Due 10/2018) (D) Secured First Lien Debt (Due 10/2018) (D) (Q) Preferred Stock (1,742 shares) (F)(H) Common Stock (270 shares) (F)(H)	5,235 75 390	5,235 75 390 1,742 18 7,460	4,973 71 372 — — 5,416
Behrens Manufacturing, LLC (T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.0%, Due 12/2018) (R) Preferred Stock (1,253 shares) (H)(R)	4,275	4,275 1,253 5,528	4,638 4,100 8,738
B+T Group Acquisition Inc. (T)	Telecommunications	Secured First Lien Debt (13.0%, Due 12/2019) (D) Preferred Stock (5,503 shares) (F)(H)(K)	6,000	6,000 1,799 7,799	5,790 — 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) Participation Warrant (J)	— 7,000	— 7,000 500 7,500	— 7,000 500 7,500
Chinese Yellow Pages Company Drumcree, LLC	Printing and publishing Broadcasting and entertainment	Secured First Lien Line of Credit, \$0 available (7.3%, Due 2/2015) (F) Secured First Lien Debt (13.0% PIK, Due 1/2017) (F)(G)	108	108 4,836 7,800	— 4,682 7,800
Flight Fit N Fun LLC	Leisure, Amusement, Motion Pictures, Entertainment	Secured First Lien Debt (12.0%, Due 9/2020) (D) Preferred Stock (700,000 units) (F)(H)	7,800	7,800 700 8,500	7,800 969 8,769
Francis Drilling Fluids, Ltd.	Oil and gas	Secured Second Lien Debt (11.4%, Due 4/2020) (D) Secured Second Lien Debt (10.8%, Due 4/2020) (D) Preferred Equity Units (1,277 units) (F)(H) Common Equity Units (1,277 units) (F)(H)	15,000 7,000	15,000 7,000 976 1 22,977	8,250 3,850 — — 12,100
Funko Acquisition Holdings, LLC (T)	Personal and non-durable consumer products	Preferred Equity Units (260 units) (H)(F) Common Stock (975 units) (H)(F)	—	260 — 260	358 — 358
GFRC Holdings, LLC	Buildings and real estate	Secured First Lien Line of Credit, \$295 available (9.0%, Due 9/2018) (F) Secured First Lien Debt (9.0%, Due 9/2018) (F) Preferred Stock (1,000 shares) (F)(H) Common Stock Warrants (45.0% ownership) (F)(H)	905 1,000	905 1,000 1,025 — 2,930	905 1,000 754 — 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

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) Preferred Stock (1,449 shares) (F)(H)	4,140	4,140 1,449	3,767 255
				5,589	4,022
Merlin International, Inc.	Healthcare, education, and childcare	Secured Second Lien Debt (11.0%, Due 8/2022) (D)	10,000	10,000	10,000
Mikawaya	Beverage, Food and Tobacco	Secured Second Lien Debt (11.5%, Due 1/2021) (D) Common Stock (450 units) (F)(H)	6,750	6,750 450	6,649 172
				7,200	6,821
Precision International, LLC	Machinery	Secured First Lien Debt (10.0% PIK, Due 9/2021) (F)(G) Secured First Lien Mortgage Note (3.0%, Due 9/2017) (F)(G) Membership Unit Warrant (33.3% ownership) (F)(H)	600 1,000	600 1,000	600 996
				—	—
				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) Common Stock (250,000 units) (F)(H)	— 7,600	— 7,600 250	— 7,676 525
				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) Preferred Stock (382 shares) (F)(H) Common Stock (852 shares) (F)(H)	17,632	17,632 382 44	17,280 428 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) Secured First Lien Delayed Draw Term Loan, \$1,300 available (10.0%, Due 1/2017) (D)(G) Secured First Lien Debt (9.8%, Due 1/2017) (D)	1,450 1,200 9,000	1,450 1,200 9,000	1,355 1,106 8,293
				11,650	10,754
WadeCo Specialties, Inc.	Oil and gas	Secured First Lien Line of Credit, \$1,125 available (8.0%, Due 4/2017) (D) Secured First Lien Debt (8.0%, Due 3/2019) (D) Secured First Lien Debt (12.0%, Due 3/2019) (D) Preferred Stock (1,000 shares) (F)(H)	1,175 11,691 7,000	1,174 11,691 7,000	1,127 11,216 6,637
				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

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) Common Stock (21,429 shares) (F)(H)	\$ 3,000	\$ 2,960 2,637	\$ 3,012 — 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) Secured First Lien Debt (13.8%, Due 2/2019) (D) Preferred Stock (2,516 units) (F)(H)	\$ 6,200 1,600	\$ 6,200 1,600 2,516	\$ 6,076 1,576 — 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) Secured Second Lien Debt (12.0%, Due 2/2021) (D) Common Stock (152,603 shares) (F)(H)	6,000 8,000	6,000 8,000 1,856	5,850 7,800 1,171 14,821
LWO Acquisitions Company LLC	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$125 available (6.5%, 2.0% PIK, Due 12/2017) (D) Secured First Lien Debt (9.5%, 2.0% PIK, Due 12/2019) (D) Common Units (921,000 units) (F)(H)	2,471 10,723	2,471 10,723 921	1,977 8,578 — 10,555
RBC Acquisition Corp.	Healthcare, education and childcare	Secured First Lien Debt (8.0%, Due 2/2019) (G)(R) Secured First Lien Line of Credit, \$0 available (6.0%, 3% PIK, Due 12/2016) (G)(R) Secured First Lien Debt (8.0%, 4.0% PIK, Due 12/2016) (C)(G)(R) Secured First Lien Mortgage Note (Due 12/2017) (Q)(R) Preferred Stock (4,999,000 shares) (H)(K)(R) Common Stock (2,000,000 shares) (H)(R)	\$ 6,954 4,629 13,808 7,704	\$ 6,954 4,629 13,808 7,704 4,999 370	\$ 7,219 4,629 14,582 7,704 3,211 — 37,464
Subtotal – Affiliate Proprietary Investments				\$ 80,385	\$ 71,638

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) Common Stock (526,141 shares) (F)(H)	2,285	2,285 2,343	2,279 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) Common Stock (33,321 shares) (F)(H)	\$ 6,225	\$ 6,225 580	\$ 6,225 3,981
				\$ 6,805	\$ 10,206
PIC 360, LLC	Machinery	Secured First Lien Debt (14.0%, Due 12/2017) (F) Common Equity Units (750 units) (F)	4,000	4,000 1	4,000 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) Secured First Lien Debt (8.0%, Due 5/2018) (F)(G) Secured First Lien Debt (4.8%, Due 5/2018) (F)(I) Secured First Lien Debt (5.5%, Due 5/2018) (C)(F)(I) Preferred Stock (15,270 shares) (F)(H)(K) Common Stock (1,867 shares) (F)(H) Common Stock Warrants (72 shares) (F)(H)	1,328 5,000 11,948 10,700	1,328 5,000 11,948 10,700 5,275 740	1,328 1,388 3,317 — — — —
				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.
- (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.

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- (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.

GLADSTONE CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 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 Gladstone Capital Corporation and its consolidated subsidiaries. We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”), 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 March 31, 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 six months ended March 31, 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.

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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 we opted to 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.

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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 then allocates the TEV to the portfolio company's securities in order of their relative priority in the capital structure. Generally, the Valuation Team uses TEV to value our equity investments and, in the circumstances where we have the ability to effectuate a sale of a portfolio company, our debt investments.

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.

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- *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 March 31, 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

Interest Income Recognition

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 March 31, 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 approximately \$24.4 million, or 7.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately \$7.1 million, or 2.4% 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 approximately \$26.5 million, or 7.7% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately \$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 six months ended March 31, 2017, as compared to \$41 and \$0.1 million during the three and six months ended March 31, 2016, respectively. We recorded PIK interest income of \$1.2 million and \$2.4 million during the three and six months ended March 31, 2017, respectively, as compared to \$0.9 million and \$1.0 million during the three and six months ended March 31, 2016, respectively. We collected \$0 and \$1.0 million in PIK interest in cash during the three and six months ended March 31, 2017, respectively, as compared to \$0.1 million during the three and six months ended March 31, 2016.

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 six months ended March 31, 2017, respectively, as compared to \$0.6 million and \$1.3 million during the three and six months ended March 31, 2016, respectively.

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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 \$32 and \$36 of dividend income during the three and six months ended March 31, 2017, respectively, as compared to \$0.1 million and \$0.3 million during the three and six months ended March 31, 2016, respectively.

During the six months ended March 31, 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 \$0.2 million in prepayment fees during the three and six months ended March 31, 2017, as compared to \$0.1 million during the three and six months ended March 31, 2016.

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.

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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 March 31, 2017 and September 30, 2016, all of our investments were valued using Level 3 inputs and during the three and six months ended March 31, 2017 and 2016, there were no investments transferred into or out of Levels 1, 2 or 3. The following table presents our investments carried at fair value as of March 31, 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)	
	March 31, 2017	September 30, 2016
Non-Control/Non-Affiliate Investments		
Secured first lien debt	\$ 144,367	\$ 134,067
Secured second lien debt	101,190	80,446
Unsecured debt	3,185	3,012
Preferred equity	3,819	7,051
Common equity/equivalents	3,588	1,825
Total Non-Control/Non-Affiliate Investments	\$ 256,149	\$ 226,401
Affiliate Investments		
Secured first lien debt	\$ 20,279	\$ 54,620
Secured second lien debt	13,842	13,650
Preferred equity	847	3,211
Common equity/equivalents	2,615	3,992
Total Affiliate Investments	\$ 37,583	\$ 75,473
Control Investments		
Secured first lien debt	\$ 9,387	\$ 10,034
Secured second lien debt	6,065	6,224
Common equity/equivalents	4,333	3,982
Total Control Investments	\$ 19,785	\$ 20,240
Total Investments, at Fair Value	\$ 313,517	\$ 322,114

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In accordance with ASU 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Reporting Standards (“IFRS”)”, (“ASU 2011-04”), the following table provides quantitative information about our Level 3 fair value measurements of our investments as of March 31, 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					
	March 31, 2017	September 30, 2016	Valuation Technique/ Methodology	Unobservable Input	March 31, 2017	September 30, 2016	
Secured first lien debt (A)	\$157,483	\$141,550	Yield Analysis	Discount Rate	3.0% - 30.3% / 12.4%	8.1% - 18.5% / 12.1%	
	16,550	54,630		TEV	EBITDA multiples	3.2x - 3.2x / 3.2x	3.2x - 5.5x / 2.3x
					EBITDA	\$1,255 - \$1,255 / \$1,255	\$1,262 - \$20,269 / \$4,619
					Revenue multiples	0.4x - 0.4x / 0.4x	0.2x - 0.4x / 0.4x
				Revenue	\$7,166 - \$13,467 / \$13,059	\$4,696 - \$15,083 / \$14,139	
Secured second lien debt (B)	—	2,541	Market Quote	IBP	—	64.5% - 64.5% / 64.5%	
	91,890	72,678	Yield Analysis	Discount Rate	10.8% - 29.0% / 15.6%	12.0% - 22.0% / 15.1%	
	23,142	21,417	Market Quote	IBP	83.0% - 100.3% / 93.4%	40.0% - 98.3% / 83.7%	
	6,065	6,225	TEV	EBITDA multiples	4.8x - 4.8x / 4.8x	4.7x - 4.7x / 4.7x	
				EBITDA	\$2,851 - \$2,851 / \$2,851	\$2,759 - \$2,759 / \$2,759	
Unsecured debt	3,185	3,012	Yield Analysis	Discount Rate		9.9% - 9.9% / 9.9%	
Preferred and common equity / equivalents (C)	11,975	18,017	TEV	EBITDA multiples	3.2x - 10.3x / 6.1x	3.2x - 7.5x / 5.8x	
					EBITDA	\$783 - \$97,366 / \$8,590	\$1,132 - \$86,041 / \$7,714
					Revenue multiples	0.2x - 0.5x / 0.4x	0.4x - 0.4x / 0.4x
					Revenue	\$4,178 - \$21,662 / \$14,658	\$7,708 - \$15,083 / \$14,009
	659	—	Market Quotes	Discount Rate	12.4% - 12.4% / 12.4%	11.7% - 11.7% / 11.7%	
			Investments in	IBP	21.9% - 21.9% / 21.9%	—	
			Funds (D)				
	2,568	2,044					
Total Investments, at Fair Value	\$313,517	\$322,114					

(A) Fair value as of March 31, 2017 includes one new proprietary debt investment totaling \$29.0 million, which was valued at cost. 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 March 31, 2017 includes one new proprietary debt investment totaling \$10.0 million, which was 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 March 31, 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.

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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 six months ended March 31, 2017 and 2016 for all investments for which the Adviser determines fair value using unobservable (Level 3) factors.

FISCAL YEAR 2017:	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Secured First Lien Debt	Secured Second Lien Debt	Unsecured Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three Months Ended March 31, 2017						
Fair Value as of December 31, 2016	\$156,330	\$114,021	\$ 3,091	\$ 4,415	\$ 10,389	\$288,246
Total gains (losses):						
Net realized (loss) gain (A)	—	(24)	—	47	22	45
Net unrealized (depreciation) appreciation (B)	(1,791)	1,238	6	(63)	(56)	(666)
Reversal of prior period net depreciation (appreciation) on realization (B)	(96)	115	—	—	—	19
New investments, repayments and settlements: (C)						
Issuances/originations	29,582	10,776	85	360	1	40,804
Settlements/repayments	(9,992)	(4,851)	3	—	—	(14,840)
Net proceeds from sales	—	24	—	(93)	(22)	(91)
Transfers	—	(202)	—	—	202	—
Fair Value as of March 31, 2017	\$174,033	\$121,097	\$ 3,185	\$ 4,666	\$ 10,536	\$313,517

FISCAL YEAR 2017:	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Secured First Lien Debt	Secured Second Lien Debt	Unsecured Debt	Preferred Equity	Common Equity/ Equivalents	Total
Six Months Ended March 31, 2017						
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)	(4,899)	1	—	1,473	22	(3,403)
Net unrealized (depreciation) appreciation (B)	866	(1,982)	7	1,053	(3,251)	(3,307)
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	30,129	30,136	161	754	768	61,948
Settlements/repayments	(48,857)	(8,277)	5	—	—	(57,129)
Net proceeds from sales	(101)	(1)	—	(7,817)	(392)	(8,311)
Transfers	(3,940)	720	—	—	3,220	—
Fair Value as of March 31, 2017	\$174,033	\$121,097	\$ 3,185	\$ 4,666	\$ 10,536	\$313,517

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

FISCAL YEAR 2016:	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three Months Ended March 31, 2016					
Fair Value as of December 31, 2015	\$ 175,632	\$ 105,835	\$ 6,979	\$ 11,245	\$ 299,691
Total gains (losses):					
Net realized (loss) gain (A)	(5,500)	—	40	—	(5,460)
Net unrealized (depreciation) appreciation (B)	(3,759)	(3,969)	269	(2,362)	(9,821)
Reversal of prior period net depreciation on realization (B)	4,225	—	—	—	4,225
New investments, repayments and settlements: (C)					
Issuances/originations	22,700	124	15	2,667	25,506
Settlements/repayments	(10,638)	(10,035)	—	—	(20,673)
Net proceeds from sales	—	—	(40)	—	(40)
Fair Value as of March 31, 2016	\$ 182,660	\$ 91,955	\$ 7,263	\$ 11,550	\$ 293,428

FISCAL YEAR 2016:	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Six Months Ended March 31, 2016					
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)	17,039	(384)	9,920
Net unrealized depreciation (B)	(12,378)	(7,434)	(199)	(5,548)	(25,559)
Reversal of prior period net depreciation (appreciation) on realization (B)	6,599	147	(16,009)	383	(8,880)
New investments, repayments and settlements: (C)					
Issuances/originations	30,425	236	201	2,666	33,528
Settlements/repayments	(40,436)	(21,123)	—	—	(61,559)
Net proceeds from sales	(1,822)	(7)	(18,084)	—	(19,913)
Fair Value as of March 31, 2016	\$ 182,660	\$ 91,955	\$ 7,263	\$ 11,550	\$ 293,428

- (A) Included in net realized gain (loss) on our accompanying *Consolidated Statements of Operations* for the three and six months ended March 31, 2017 and 2016.
- (B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Consolidated Statements of Operations* for the three and six months ended March 31, 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.

Investment Activity

Proprietary Investments

As of March 31, 2017 and September 30, 2016, we held 33 and 32 proprietary investments with an aggregate fair value of \$282.9 million and \$291.3 million, or 90.2% and 90.4% of the total aggregate portfolio, respectively. The following significant proprietary investment transactions occurred during the six months ended March 31, 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.

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- 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.

Syndicated Investments

As of March 31, 2017 and September 30, 2016, we held 11 and 13 syndicated investments with an aggregate fair value of \$30.6 million and \$30.8 million, or 9.8% and 9.6% of the total portfolio at fair value, respectively. The following significant syndicated investment transactions occurred during the six months ended March 31, 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, Viterra Healthcare Solutions, LLC paid off at par for proceeds of \$4.5 million.

Investment Concentrations

As of March 31, 2017, our investment portfolio consisted of investments in 44 portfolio companies located in 21 states in 22 different industries, with an aggregate fair value of \$313.5 million. The five largest investments at fair value as of March 31, 2017 totaled \$102.8 million, or 32.8% of our total investment portfolio, as compared to the five largest investments at fair value as of September 30, 2016 totaling \$112.1 million, or 34.8% of our total investment portfolio. As of March 31, 2017 and September 30, 2016, our average investment by obligor was \$8.5 million at cost. The following table outlines our investments by security type as of March 31, 2017 and September 30, 2016:

	March 31, 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	\$199,159	53.1%	\$174,033	55.5%	\$227,439	59.6%	\$198,721	61.7%
Secured second lien debt	136,725	36.5	121,097	38.6	113,796	29.8	100,320	31.2
Unsecured debt	3,126	0.8	3,185	1.0	2,995	0.8	3,012	0.9
Total Debt Investments	339,010	90.4	298,315	95.1	344,230	90.2	302,053	93.8
Preferred equity	17,403	4.6	4,666	1.5	22,988	6.0	10,262	3.2
Common equity/equivalents	18,493	5.0	10,536	3.4	14,583	3.8	9,799	3.0
Total Equity Investments	35,896	9.6	15,202	4.9	37,571	9.8	20,061	6.2
Total Investments	\$374,906	100.0%	\$313,517	100.0%	\$381,801	100.0%	\$322,114	100.0%

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Our investments at fair value consisted of the following industry classifications at March 31, 2017 and September 30, 2016:

Industry Classification	March 31, 2017		September 30, 2016	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Diversified/Conglomerate Service	\$ 53,862	17.2%	\$ 48,898	15.2%
Diversified/Conglomerate Manufacturing	41,027	13.1	50,106	15.6
Telecommunications	34,880	11.2	5,790	1.8
Healthcare, education, and childcare	31,140	9.9	70,577	21.9
Oil and gas	27,128	8.7	31,279	9.7
Automobile	20,558	6.6	14,837	4.6
Beverage, food and tobacco	15,112	4.8	15,022	4.7
Diversified natural resources, precious metals and minerals	14,165	4.5	14,821	4.6
Cargo Transportation	13,098	4.2	13,000	4.0
Home and Office Furnishings, Housewares and Durable Consumer Products	10,000	3.2	—	—
Leisure, Amusement, Motion Pictures, Entertainment	8,042	2.6	8,769	2.7
Personal and non-durable consumer products	7,683	2.4	7,858	2.4
Hotels, motels, inns, and gaming	7,028	2.2	—	—
Printing and publishing	5,387	1.7	6,033	1.9
Broadcast and entertainment	5,159	1.6	4,682	1.5
Machinery	4,834	1.5	5,597	1.7
Finance	4,750	1.5	3,000	0.9
Textiles and leather	3,487	1.1	3,836	1.2
Buildings and real estate	2,816	0.9	11,223	3.5
Electronics	514	0.2	2,980	0.9
Other, < 2.0%	2,847	0.9	3,806	1.2
Total Investments	\$313,517	100.0%	\$322,114	100.0%

Our investments at fair value were included in the following geographic regions of the U.S. as of March 31, 2017 and September 30, 2016:

Geographic Region	March 31, 2017		September 30, 2016	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	\$136,782	43.6%	\$131,181	40.8%
West	84,948	27.1	57,786	17.9
Midwest	54,518	17.4	100,142	31.1
Northeast	37,269	11.9	33,005	10.2
Total Investments	\$313,517	100.0%	\$322,114	100.0%

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 March 31, 2017:

For the remaining six months ending September 30:	2017	\$ 19,277
For the fiscal year ending September 30:	2018	53,839
	2019	45,159
	2020	80,296
	2021	80,104
	Thereafter	66,220
	Total contractual repayments	\$344,895
	Equity investments	35,896
	Adjustments to cost basis on debt investments	(5,885)
	Cost basis of investments held at March 31, 2017:	\$374,906

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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 collection efforts have been exhausted and the receivables are deemed uncollectible. As of March 31, 2017 and September 30, 2016, we had gross receivables from portfolio companies of \$0.4 million. The allowance for uncollectible receivables was \$26 and \$0 at March 31, 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 12, 2016, our Board of Directors unanimously approved the annual renewal of the Advisory Agreement through August 31, 2017.

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.

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 March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Average total assets subject to base management fee (A)	\$310,628	\$311,200	\$312,800	\$330,300
Multiplied by prorated annual base management fee of 1.75%	0.4375%	0.4375%	0.875%	0.875%
Base management fee (B)	\$ 1,359	\$ 1,362	\$ 2,737	\$ 2,890
Portfolio company fee credit	(434)	(169)	(1,083)	(234)
Senior syndicated loan fee credit	(9)	(22)	(22)	(56)
Net Base Management Fee	<u>\$ 916</u>	<u>\$ 1,171</u>	<u>\$ 1,632</u>	<u>\$ 2,600</u>
Loan servicing fee (B)	955	973	1,938	1,981
Credit to base management fee - loan servicing fee (B)	(955)	(973)	(1,938)	(1,981)
Net Loan Servicing Fee	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Incentive fee (B)	1,070	1,064	2,363	2,182
Incentive fee credit	(1,077)	(661)	(1,114)	(949)
Net Incentive Fee	<u>\$ (7)</u>	<u>\$ 403</u>	<u>\$ 1,249</u>	<u>\$ 1,233</u>
Portfolio company fee credit	(434)	(169)	(1,083)	(234)
Senior syndicated loan fee credit	(9)	(22)	(22)	(56)
Incentive fee credit	(1,077)	(661)	(1,114)	(949)
Credits to Fees From Adviser - other (B)	<u>\$ (1,520)</u>	<u>\$ (852)</u>	<u>\$ (2,219)</u>	<u>\$ (1,239)</u>

(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*.

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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 \$18 and \$46 for the three and six months ended March 31, 2017 and \$36 and \$79 for the three and six months ended March 31, 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 senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations, for each of the six months ended March 31, 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);
- 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 March 31, 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

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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 since our inception through March 31, 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 six months ended March 31, 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 12, 2016, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2017.

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 \$0.5 million during the three and six months ended March 31, 2017, respectively, and \$0.1 million during the three and six months ended March 31, 2016.

Related Party Fees Due

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

	<u>March 31, 2017</u>	<u>September 30, 2016</u>
Base management fee due (from) to Adviser	\$ (39)	\$ 162
Loan servicing fee due to Adviser	255	236
Incentive fee due (from) to Adviser	(7)	824
Total fees due to Adviser	<u>209</u>	<u>1,222</u>
Fee due to Administrator	286	282
Total Related Party Fees Due	<u>\$ 495</u>	<u>\$ 1,504</u>

In addition to the above fees, other operating expenses due to the Adviser as of March 31, 2017 and September 30, 2016, totaled \$2 and \$10, respectively. In addition, other net co-investment expenses payable to Gladstone Investment (for reimbursement purposes) totaled \$27 and \$8 as of March 31, 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 March 31, 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.

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

	<u>March 31, 2017</u>	<u>September 30, 2016</u>
Commitment amount	\$ 170,000	\$ 170,000
Borrowings outstanding, at cost	54,100	71,300
Availability (A)	81,438	31,053

	<u>For the Three Months</u>		<u>For the Six Months</u>	
	<u>Ended March 31,</u>		<u>Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Weighted average borrowings outstanding, at cost	\$42,394	\$52,702	\$40,819	\$63,475
Weighted average interest rate (B)	5.5%	4.8%	5.6%	4.5%
Commitment (unused) fees incurred	\$ 160	\$ 149	\$ 326	\$ 270

(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 deemed 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 \$223.2 million as of March 31, 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.

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As of March 31, 2017, and as defined in the performance guaranty of our Credit Facility, we had a net worth of \$273.9 million, asset coverage on our “senior securities representing indebtedness” of 599.1%, 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 29 obligors in our Credit Facility’s borrowing base as of March 31, 2017. As of March 31, 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 March 31, 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 0.60% 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 March 31, 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*.

The following tables present our Credit Facility carried at fair value as of March 31, 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 six months ended March 31, 2017 and 2016:

	Total Recurring Fair Value Measurement Reported in Consolidated Statements of Assets and Liabilities Using Significant Unobservable Inputs (Level 3)	
	March 31, 2017	September 30, 2016
Credit Facility	\$ 53,989	\$ 71,300

	Fair Value Measurements Using Significant Unobservable Data Inputs (Level 3) Reported in Consolidated Statements of Assets and Liabilities	
	Three Months Ended March 31,	
	2017	2016
Fair value as of December 31, 2016 and 2015, respectively	\$ 27,987	\$ 57,500
Borrowings	46,100	21,500
Repayments	(20,200)	(21,700)
Net unrealized appreciation (A)	102	—
Fair Value as of March 31, 2017 and 2016, respectively	\$ 53,989	\$ 57,300
	Six Months Ended March 31,	
	2017	2016
Fair value as of September 30, 2016 and 2015, respectively	\$ 71,300	\$ 127,300
Borrowings	70,300	36,000
Repayments	(87,500)	(106,000)
Net unrealized depreciation (A)	(111)	—
Fair Value as of March 31, 2017 and 2016, respectively	\$ 53,989	\$ 57,300

(A) Included in net unrealized appreciation (depreciation) of other on our accompanying *Consolidated Statements of Operations* for the three and six months ended March 31, 2017 and 2016.

The fair value of the collateral under our Credit Facility was \$270.9 million and \$282.0 million as of March 31, 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.

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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 ratio 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 on or after June 30, 2017.

The asset coverage on our “senior securities that are stock” as of March 31, 2017 was 282.1%, 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 March 31, 2017, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2021 Term Preferred Stock.

We paid the following monthly dividends on our Series 2021 Term Preferred Stock for the six months ended March 31, 2017:

<u>Fiscal Year</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Series 2021 Term Preferred Share</u>
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
Six Months Ended March 31, 2017:				\$ 0.8437500

We paid the following monthly dividends on our Series 2021 Term Preferred Stock for the six months ended March 31, 2016:

<u>Fiscal Year</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Series 2021 Term Preferred Share</u>
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
Six Months Ended March 31, 2016:				\$ 0.8437500

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 as a liability, at cost, as of March 31, 2017 and September 30, 2016. The related distribution payments to our mandatorily redeemable preferred stockholders are treated as dividend expense on our statement of operations as of the ex-dividend date. For disclosure purposes, the fair value, based on the last quoted closing price, for our Series 2021 Term Preferred Stock as of March 31, 2017 and September 30, 2016, was approximately \$62.1 million and \$62.4 million, respectively. We consider our mandatorily redeemable preferred stock to be a Level 1 liability within the ASC 820 hierarchy.

Aggregate preferred stockholder dividends declared and paid on our Series 2021 Term Preferred Stock for the six months ended March 31, 2017 and 2016, was \$2.1 million. For federal income tax purposes, distributions paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

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. After our common stock offering in October 2016, we currently have the ability to issue up to \$282.7 million in securities under the Registration Statement.

[Table of Contents](#)*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 over-allotment 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.

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.

Pursuant to our prior registration statement, on February 27, 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 may 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. 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.

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 six months ended March 31, 2017.

NOTE 8. NET (DECREASE) INCREASE 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 six months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Numerator for basic and diluted net (decrease) increase in net assets resulting from operations per common share	\$ 4,656	\$ (6,139)	\$ 5,572	\$ (14,844)
Denominator for basic and diluted weighted average common shares	25,517,866	23,413,131	25,144,358	23,048,110
Basic and diluted net increase (decrease) in net assets resulting from operations per common share	\$ 0.18	\$ (0.26)	\$ 0.22	\$ (0.64)

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.

We paid the following monthly distributions to common stockholders for the six months ended March 31, 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
	Six Months Ended March 31, 2017:			
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
Six Months Ended March 31, 2016:				\$ 0.42

Aggregate distributions declared and paid to our common stockholders for the six months ended March 31, 2017 and 2016, were each approximately \$10.6 million and \$9.7 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 March 31, 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 six months ended March 31, 2017 and the fiscal year ended September 30, 2016, we recorded the following adjustments for book-tax differences to reflect tax character.

	Six Months Ended March 31, 2017	Year Ended September 30, 2016
(Over) under distributed net investment income	\$ (4,795)	\$ 5,818
Accumulated net realized losses	5,188	(7,754)
Capital in excess of par value	(393)	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 March 31, 2017 and September 30, 2016, we have not established reserves for such loss contingencies.

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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 March 31, 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 March 31, 2017 and September 30, 2016, which are not reflected as liabilities in the accompanying *Consolidated Statements of Assets and Liabilities* :

	<u>March 31, 2017</u>	<u>September 30, 2016</u>
Unused line of credit commitments	\$ 8,592	\$ 6,397
Delayed draw term loans	3,200	1,300
Uncalled capital commitment	1,581	2,004
Total	<u>\$ 13,373</u>	<u>\$ 9,701</u>

NOTE 11. FINANCIAL HIGHLIGHTS

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>Per Common Share Data (A):</u>				
Net asset value at beginning of period (A)	\$ 8.36	\$ 8.38	\$ 8.62	\$ 9.06
Net investment income (B)	0.21	0.21	0.42	0.42
Net realized and unrealized (loss) gain on investments (B)	(0.03)	(0.47)	(0.21)	(1.06)
Total from operations	0.18	(0.26)	0.21	(0.64)
Distributions to common stockholders (A)(C)	(0.21)	(0.21)	(0.42)	(0.42)
Repurchase of common stock	—	0.01	—	0.01
Offering costs for issuance of common stock	—	—	(0.03)	(0.05)
Dilutive effect of common stock issuance (D)	—	—	(0.06)	(0.05)
Other, net (E)	—	—	0.01	0.01
Net asset value at end of period (A)	\$ 8.33	\$ 7.92	\$ 8.33	\$ 7.92
Market value at beginning of period	\$ 9.39	\$ 7.31	\$ 8.13	\$ 8.13
Market value at end of period	9.49	7.45	9.49	7.45
Total return (F)	3.60%	5.11%	22.35%	(3.02)%
Common shares outstanding at end of period	25,517,866	23,385,836	25,517,866	23,385,836
<u>Statement of Assets and Liabilities Data:</u>				
Net assets at end of period	\$ 212,670	\$ 185,204	\$ 212,670	\$ 185,204
Average net assets (G)	213,141	191,008	213,597	198,066
<u>Senior Securities Data:</u>				
Borrowings under Credit Facility, at cost	54,100	57,300	54,100	57,300
Mandatorily redeemable preferred stock, at liquidation preference	59,536	61,000	59,536	61,000
<u>Ratios/Supplemental Data:</u>				
Ratio of net expenses to average net assets-annualized (H)(I)	6.45	9.51	7.68	9.94
Ratio of net investment income to average net assets-annualized (J)	10.06	10.30	9.89	9.77

- (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 six months ended March 31, 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.
- (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 8.48% and 8.73% for the three and six months ended March 31, 2017, respectively and 10.89% and 10.90% for the three and six months ended March 31, 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 8.05% and 8.86% for the three and six months ended March 31, 2017, respectively and 8.91% and 8.81% for the three and six months ended March 31, 2016, respectively.

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 six month periods ended March 31, 2017 and 2016. Accordingly, summarized, comparative financial information, in aggregate, is presented below for the six months ended March 31, 2017 and 2016 for our unconsolidated significant subsidiaries.

<u>Income Statement</u>	<u>Six Months Ended</u>	
	<u>March 31,</u>	
	<u>2017</u>	<u>2016</u>
Net sales	\$17,796	\$11,959
Gross profit	3,965	1,811
Net income	(1,242)	139

NOTE 13. SUBSEQUENT EVENTS*Portfolio Activity*

In April 2017, we invested \$22.0 million in secured second lien debt to a business that provides services to local governments.

Distributions to Stockholders

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

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Common Share</u>	<u>Distribution per Series 2021 Term Preferred Share</u>
April 21, 2017	April 28, 2017	\$ 0.07	\$ 0.140625
May 19, 2017	May 31, 2017	0.07	0.140625
June 21, 2017	June 30, 2017	0.07	0.140625
	Total for the Quarter:	\$ 0.21	\$ 0.421875

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," "seek," "possible," "potential," "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 March 31, 2017, our investment portfolio was made up of approximately 90.4% debt investments and 9.6% 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

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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 “Advisor”), an investment adviser registered with the SEC and an affiliate of ours, pursuant to an investment advisory and management agreement (the “Advisory Agreement”). The Advisor 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 Advisor, 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 six months ended March 31, 2017, we invested \$56.2 million in five new portfolio companies and extended \$5.7 million of investments to existing portfolio companies. In addition, during the six months ended March 31, 2017, we exited six portfolio companies through sales and early payoffs. We received a total of \$65.1 million in combined net proceeds and principal repayments from the aforementioned portfolio company exits as well as existing portfolio companies during the six months ended March 31, 2017. This activity resulted in a net reduction in our overall portfolio of one portfolio company to 44 and a net decrease of 1.8% 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. Since our initial public offering in August 2001 and through March 31, 2017, we have made 453 different loans to, or investments in, 211 companies for a total of approximately \$1.6 billion, before giving effect to principal repayments on investments and divestitures.

During the six months ended March 31, 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.

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- 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.

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 March 31, 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. 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 over the last year, 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 May 2, 2017, the closing market price of our common stock was \$9.86, an 18.4% premium to our March 31, 2017 NAV per share of \$8.33.

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 ratio (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 March 31, 2017, our asset coverage ratio on our “senior securities representing indebtedness” was 599.1% and our asset coverage ratio on our “senior securities that are stock” was 282.1%.

Recent Developments

Distributions

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

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Common Share</u>	<u>Distribution per Series 2021 Term Preferred Share</u>
April 21, 2017	April 28, 2017	\$ 0.07	\$ 0.140625
May 19, 2017	May 31, 2017	0.07	0.140625
June 21, 2017	June 30, 2017	0.07	0.140625
	Total for the Quarter:	\$ 0.21	\$ 0.421875

RESULTS OF OPERATIONS

Comparison of the Three Months Ended March 31, 2017, to the Three Months Ended March 31, 2016

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
INVESTMENT INCOME				
Interest income	\$ 8,588	\$ 8,668	\$ (80)	(0.9)%
Other income	205	788	(583)	(74.0)
Total investment income	<u>8,793</u>	<u>9,456</u>	<u>(663)</u>	<u>(7.0)</u>
EXPENSES				
Base management fee	1,359	1,362	(3)	(0.2)
Loan servicing fee	955	973	(18)	(1.8)
Incentive fee	1,070	1,064	6	0.6
Administration fee	286	277	9	3.2
Interest expense on borrowings	587	633	(46)	(7.3)
Dividend expense on mandatorily redeemable preferred stock	1,029	1,029	—	0.0
Amortization of deferred financing fees	274	273	1	0.4
Other expenses	349	752	(403)	(53.6)
Expenses, before credits from Adviser	5,909	6,363	(454)	(7.1)
Credit to base management fee – loan servicing fee	(955)	(973)	18	(1.8)
Credits to fees from Adviser - other	(1,520)	(851)	(669)	78.6
Total expenses, net of credits	<u>3,434</u>	<u>4,539</u>	<u>(1,105)</u>	<u>(24.3)</u>
NET INVESTMENT INCOME	<u>5,359</u>	<u>4,917</u>	<u>442</u>	<u>9.0</u>
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss) on investments	45	(5,460)	5,505	(100.8)
Net realized loss on other	—	(61)	61	100.0
Net unrealized depreciation of investments	(647)	(5,596)	4,949	88.4
Net unrealized (depreciation) appreciation of other	(101)	61	(162)	(265.6)
Net loss from investments and other	<u>(703)</u>	<u>(11,056)</u>	<u>10,353</u>	<u>93.6</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 4,656</u>	<u>\$ (6,139)</u>	<u>\$ 10,795</u>	<u>175.8</u>

NM = Not Meaningful

Investment Income

Interest income decreased slightly by 0.9% for the three months ended March 31, 2017, as compared to the prior year period. This decrease was due primarily to exits that occurred during the first quarter of fiscal year 2017. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended March 31, 2017, was \$305.7 million, compared to \$312.6 million for the prior year period, a decrease of 2.2%. 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 11.4% for the three months ended March 31, 2017, compared to 11.2% for the three months ended March 31, 2016, inclusive of any allowances on interest receivables made during those periods.

As of March 31, 2017, certain loans to two portfolio companies were on non-accrual status, with an aggregate debt cost basis of approximately \$24.4 million, or 7.2%, of the cost basis of all debt investments in our portfolio. As of March 31, 2016, certain loans to one portfolio company were on non-accrual status, with an aggregate debt cost basis of approximately \$22.6 million, or 6.1%, of the cost basis of all debt investments in our portfolio.

For the three months ended March 31, 2017, other income decreased by 74.0% as compared to the prior year period. For the three months ended March 31, 2017, other income consisted primarily of \$0.2 million in prepayment fees received. Other income for the three months ended March 31, 2016, consisted primarily of \$0.6 million in success fees recognized and \$0.2 million in dividend income received.

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

Company	As of March 31, 2017		Three Months Ended March 31, 2017	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
NetFortris Corp.	\$ 29,000	9.3%	\$ 291	3.3%
IA Tech, LLC	23,460	7.5	690	7.8
WadeCo Specialties, Inc.	18,332	5.8	476	5.4
United Flexible, Inc.	17,798	5.7	560	6.4
Lignetics, Inc.	14,165	4.5	420	4.8
Subtotal—five largest investments	102,755	32.8	2,437	27.7
Other portfolio companies	210,762	67.2	6,356	72.3
Total Investment Portfolio	\$ 313,517	100.0%	\$ 8,793	100.0%

Company	As of March 31, 2016		Three Months Ended March 31, 2016	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
WadeCo Specialties, Inc.	\$ 20,266	6.9%	\$ 514	5.4%
RBC Acquisition Corp.	20,685	7.0	752	8.0
United Flexible, Inc.	17,239	5.9	512	5.4
Francis Drilling Fluids, Ltd.	15,840	5.4	704	7.4
Lignetics, Inc.	16,121	5.5	425	4.5
Subtotal—five largest investments	90,151	30.7	2,907	30.7
Other portfolio companies	203,277	69.3	6,549	69.3
Total Investment Portfolio	\$ 293,428	100.0%	\$ 9,456	100.0%

Expenses

Expenses, net of any non-contractual, unconditional and irrevocable credits to fees from the Adviser, decreased by 24.3% for the three months ended March 31, 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 and shareholder related costs.

Interest expense on borrowings decreased by \$46, or 7.3%, during the three months ended March 31, 2017, as compared to the prior year period, due primarily to a decrease in the borrowings outstanding under our Credit Facility during the period due to the sales and payoffs discussed above. The weighted average balance outstanding under our Credit Facility during the three months ended March 31, 2017, was \$42.4 million, as compared to \$52.7 million in the prior year period, a decrease of 19.5%.

Net base management fee earned by the Adviser decreased by \$0.3 million, or 21.8%, during the three months ended March 31, 2017, as compared to the prior year period, resulting from an increase in portfolio company fee credits. Our Board of Directors accepted a non-contractual, unconditional and irrevocable credit of \$1.1 million from the Adviser to reduce the income-based incentive fee to the extent net investment income for the quarter ended March 31, 2017 did not cover 100.0% of the distributions to common stockholders during the period. The credit granted for the quarter ended March 31, 2016, was \$0.7 million.

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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	
	March 31,	
	2017	2016
Average total assets subject to base management fee (A)	\$ 310,628	\$ 311,200
Multiplied by prorated annual base management fee of 1.75%	0.4375%	0.4375%
Base management fee (B)	\$ 1,359	\$ 1,362
Portfolio company fee credit	(434)	(169)
Senior syndicated loan fee credit	(9)	(22)
Net Base Management Fee	\$ 916	\$ 1,171
Loan servicing fee (B)	955	973
Credit to base management fee - loan servicing fee (B)	(955)	(973)
Net Loan Servicing Fee	\$ —	\$ —
Incentive fee (B)	1,070	1,064
Incentive fee credit	(1,077)	(661)
Net Incentive Fee	\$ (7)	\$ 403
Portfolio company fee credit	(434)	(169)
Senior syndicated loan fee credit	(9)	(22)
Incentive fee credit	(1,077)	(661)
Credits to Fees From Adviser - other (B)	\$ (1,520)	\$ (852)

(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 three months ended March 31, 2017, we recorded a net realized gain on investments of \$45, which resulted primarily from escrow payments received from a previously exited investment. For the three months ended March 31, 2016, we recorded a net realized loss on investments of \$5.5 million, which resulted primarily from the restructure of our investment in Targus during the period.

[Table of Contents](#)Net Unrealized Appreciation (Depreciation) of Investments

The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the three months ended March 31, 2017, were as follows:

Portfolio Company	Three Months Ended March 31, 2017			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation	Net Gain (Loss)
SourceHOV, LLC	\$ —	\$ 1,492	\$ —	\$ 1,492
Defiance Integrated Technologies, Inc.	—	1,026	—	1,026
Lignetics, Inc.	—	357	—	357
New Trident Holdcorp, Inc.	—	328	—	328
Meridian Rack & Pinion Inc.	—	317	—	317
Edge Adhesives Holdings, Inc.	—	259	—	259
Vision Government Solutions, Inc.	—	224	—	224
The Mochi Ice Cream Company	—	148	—	148
WadeCo Specialties, Inc.	—	139	—	139
IA Tech, LLC	—	115	—	115
Vitera Healthcare Solutions, LLC	—	—	115	115
PIC 360, LLC	—	(184)	—	(184)
Sunshine Media Holdings	—	(221)	—	(221)
Targus Group International, Inc.	—	(357)	—	(357)
United Flexible, Inc.	—	(397)	—	(397)
Flight Fit N Fun LLC	—	(490)	—	(490)
Vertellus Specialties Inc.	—	(670)	—	(670)
Francis Drilling Fluids, Ltd.	—	(748)	—	(748)
LWO Acquisitions Company LLC	—	(791)	—	(791)
Alloy Die Cast, Co.	—	(1,244)	—	(1,244)
Other, net (<\$250)	45	31	(96)	(20)
Total:	\$ 45	\$ (666)	\$ 19	\$ (602)

The largest driver of our net unrealized depreciation for the three months ended March 31, 2017 was a decline in financial and operational performance on certain portfolio companies and, to a lesser extent, decreases in comparable multiples used in valuations, most notably, Alloy Die Cast, Co. (“ADC”) of \$1.2 million and LWO Acquisitions Company LLC of \$0.8 million. This depreciation was partially offset by the appreciation on SourceHOV, LLC (“Source”) of \$1.5 million and Defiance Integrated Technologies, Inc. (“Defiance”) of \$1.0 million.

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The net realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended March 31, 2016, were as follows:

Portfolio Company	Three Months Ended March 31, 2016			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation	Net Gain (Loss)
Behrens Manufacturing, LLC	\$ —	\$ 1,026	\$ —	\$ 1,026
Sunshine Media Holdings	—	457	—	457
Ashland Acquisitions, LLC	—	351	—	351
Meridian Rack & Pinion Inc.	—	310	—	310
Alloy Die Cast, Co.	—	275	—	275
Mikawaya	—	(221)	—	(221)
Lignetics, Inc.	—	(245)	—	(245)
AG Transportation Holdings, LLC	—	(272)	—	(272)
Flight Fit N Fun LLC	—	(293)	—	(293)
Vertellus Specialties Inc.	—	(532)	—	(532)
RBC Acquisition Corp.	—	(568)	—	(568)
Vision Government Solutions, Inc.	—	(575)	—	(575)
Southern Petroleum Laboratories, Inc.	—	(589)	—	(589)
Vitera Healthcare Solutions, LLC	—	(766)	—	(766)
Precision Acquisition Group Holdings, Inc.	—	(941)	—	(941)
WadeCo Specialties, Inc.	—	(1,039)	—	(1,039)
LWO Acquisitions Company LLC	—	(1,200)	—	(1,200)
SourceHOV, LLC	—	(1,307)	—	(1,307)
Targus Group International, Inc.	(5,500)	(32)	4,198	(1,334)
Francis Drilling Fluids, Ltd.	—	(1,575)	—	(1,575)
Defiance Integrated Technologies, Inc.	—	(1,772)	—	(1,772)
Other, net (<\$250)	40	(313)	27	(246)
Total:	\$ (5,460)	\$ (9,821)	\$ 4,225	\$ (11,056)

The largest driver of our net unrealized depreciation for the three months ended March 31, 2016 was a decline in financial and operational performance on several portfolio companies and, to a lesser extent, decreases in comparable multiples used in valuations, most notably, Defiance of \$1.8 million, Francis Drilling Fluids, Ltd. (“FDF”) of \$1.6 million, and Source of \$1.3 million. This depreciation was partially offset by the appreciation on Behrens of \$1.0 million and the reversal of previously recorded unrealized depreciation on Targus Group International, Inc. (“Targus”) upon restructure during the quarter.

Net Realized Loss on Other

During the three months ended March 31, 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 March 31, 2017.

Net Unrealized Appreciation on Other

During the three months ended March 31, 2017, we recorded \$0.1 million of net unrealized depreciation on our Credit Facility recorded at fair value. During the three months ended March 31, 2016, we reversed \$0.1 million of unrealized depreciation related to the expiration of our interest rate cap agreement in January 2016.

Comparison of the Six Months Ended March 31, 2017, to the Six Months Ended March 31, 2016

	For the Six Months Ended March 31,			
	2017	2016	\$ Change	% Change
INVESTMENT INCOME				
Interest income	\$17,221	\$ 17,854	\$ (633)	(3.5)%
Other income	1,546	1,664	(118)	(7.1)
Total investment income	<u>18,767</u>	<u>19,518</u>	<u>(751)</u>	<u>(3.8)</u>
EXPENSES				
Base management fee	2,737	2,890	(153)	(5.3)
Loan servicing fee	1,938	1,981	(43)	(2.2)
Incentive fee	2,363	2,182	181	8.3
Administration fee	586	612	(26)	4.2
Interest expense on borrowings	1,143	1,418	(275)	(19.4)
Dividend expense on mandatorily redeemable preferred stock	2,058	2,058	—	—
Amortization of deferred financing fees	547	528	19	3.6
Other expenses	986	1,392	(406)	(29.2)
Expenses, before credits from Adviser	12,358	13,061	(703)	(5.4)
Credits to base management fee – loan servicing fee	(1,938)	(1,981)	43	(2.2)
Credits to fees from Adviser – other	(2,219)	(1,239)	(980)	(79.1)
Total expenses, net of credits	<u>8,201</u>	<u>9,841</u>	<u>(1,640)</u>	<u>(16.7)</u>
NET INVESTMENT INCOME	<u>10,566</u>	<u>9,677</u>	<u>889</u>	<u>9.2</u>
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized (loss) gain on investments	(3,403)	9,920	(13,223)	(133.3)
Net realized loss on other	—	(63)	63	100.0
Net unrealized depreciation of investments	(1,702)	(34,439)	32,737	(95.1)
Net unrealized appreciation of other	111	61	50	82.0
Net loss from investments and other	<u>(4,994)</u>	<u>(24,521)</u>	<u>19,527</u>	<u>(79.6)</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 5,572</u>	<u>\$(14,844)</u>	<u>\$ 20,416</u>	<u>(137.5)%</u>

NM = Not Meaningful

Investment Income

Interest income, net decreased by 3.5% for the six months ended March 31, 2017, as compared to the prior year period. This decrease was due primarily to a lower weighted average principal balance for the six months ended March 31, 2017, as compared to the prior year period. The weighted average principal balance of our interest-bearing investment portfolio during the six months ended March 31, 2017 was \$302.2 million, compared to \$318.5 million for the prior year period, a decrease of 5.1%. 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 11.4% for the six months ended March 31, 2017 compared to 11.2% for the six months ended March 31, 2016 inclusive of any allowances on interest receivables made during that period.

Other income decreased by 7.1% during the six months ended March 31, 2017, as compared to the prior year period. For the six months ended March 31, 2017, other income consisted primarily of \$1.5 million in success fees recognized. For the six months ended March 31, 2016, other income consisted primarily of \$1.3 million in success fees recognized and \$0.3 million in dividend income received.

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

Company	As of March 31, 2017		Six Months Ended March 31, 2017	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
NetFortris Corp.	\$ 29,000	9.3%	\$ 291	1.6%
IA Tech, LLC	23,460	7.5	1,395	7.4
WadeCo Specialties, Inc.	18,332	5.8	953	5.1
United Flexible, Inc.	17,798	5.7	1,128	6.0
Lignetics, Inc.	14,165	4.5	849	4.5
Subtotal—five largest investments	102,755	32.8	4,616	24.6
Other portfolio companies	210,762	67.2	14,151	75.4
Total Investment Portfolio	\$ 313,517	100.0%	\$ 18,767	100.0%

Company	As of March 31, 2016		Six Months Ended March 31, 2016	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
WadeCo Specialties, Inc.	\$ 20,266	6.9%	\$ 1,038	5.3%
RBC Acquisition Corp.	20,685	7.0	1,536	7.8
United Flexible, Inc.	17,239	5.9	988	5.1
Francis Drilling Fluids, Ltd.	15,840	5.4	1,346	6.9
Lignetics, Inc.	16,121	5.5	854	4.4
Subtotal—five largest investments	90,151	30.7	5,762	29.5
Other portfolio companies	203,277	69.3	13,756	70.5
Total Investment Portfolio	\$ 293,428	100.0%	\$ 19,518	100.0%

Expenses

Expenses, net of any non-contractual, unconditional and irrevocable credits to fees from the Adviser, decreased for the six months ended March 31, 2017 by 16.7%, as compared to the prior year period. This decrease was primarily due to decreases in net base management fee, interest expense on borrowings, and professional fees and shareholder related costs.

Interest expense decreased by \$0.3 million, or 19.4%, during the six months ended March 31, 2017, as compared to the prior year period, primarily due to decreased borrowings outstanding throughout the period on our Credit Facility. The weighted average balance outstanding under our Credit Facility during the six months ended March 31, 2017, was approximately \$40.8 million, as compared to \$63.5 million in the prior year period, a decrease of 35.7%.

Net base management fee earned by the Adviser decreased by \$1.0 million, or 37.2%, during the six months ended March 31, 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 \$1.1 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 six months ended March 31, 2017. The credits granted during the six months ended March 31, 2016, totaled \$0.9 million.

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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:

	Six Months Ended	
	March 31,	
	2017	2016
Average total assets subject to base management fee (A)	\$312,800	\$330,300
Multiplied by prorated annual base management fee of 1.75%	0.875%	0.875%
Base management fee (B)	\$ 2,737	\$ 2,890
Portfolio company fee credit	(1,083)	(234)
Senior syndicated loan fee credit	(22)	(56)
Net Base Management Fee	\$ 1,632	\$ 2,600
Loan servicing fee (B)	1,938	1,981
Credits to base management fee - loan servicing fee (B)	(1,938)	(1,981)
Net Loan Servicing Fee	\$ —	\$ —
Incentive fee (B)	2,363	2,182
Incentive fee credit	(1,114)	(949)
Net Incentive Fee	\$ 1,249	\$ 1,233
Portfolio company fee credit	(1,083)	(234)
Senior syndicated loan fee credit	(22)	(56)
Incentive fee credit	(1,114)	(949)
Credit to Fees From Adviser - other (B)	\$ (2,219)	\$ (1,239)

(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 six months ended March 31, 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, partially offset by the sale of Behrens for a \$2.5 million realized gain and a \$1.3 million realized gain related to an additional earn-out from Funko, LLC (“Funko”), which was exited in the prior year.

For the six months ended March 31, 2016, we recorded a net realized gain on investments of \$9.9 million, which resulted primarily from a realized gain of \$17.0 million from the sale of Funko, partially offset by a realized loss of \$5.5 million recognized from the restructure of Targus and a realized loss of \$2.4 million from the sale of Heartland Communications Group LLC during the period.

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Net Unrealized Appreciation (Depreciation) of Investments

The net realized gain (losses) and unrealized appreciation (depreciation) across our investments for the six months ended March 31, 2017, were as follows:

<u>Portfolio Company</u>	<u>Six Months Ended March 31, 2017</u>			
	<u>Realized Gain (Loss)</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Reversal of Unrealized Depreciation (Appreciation)</u>	<u>Net Gain (Loss)</u>
SourceHOV, LLC	\$ —	\$ 1,733	\$ —	\$ 1,733
Funko, LLC	1,251	(7)	—	1,244
Edge Adhesives Holdings, Inc.	—	925	—	925
Meridian Rack & Pinion, Inc.	—	922	—	922
The Mochi Ice Cream Company	—	424	—	424
Vitera Healthcare Solutions, Inc.	—	213	115	328
Defiance Integrated Technologies, Inc.	—	316	—	316
IA Tech, LLC	—	230	—	230
Drumcree, LLC	—	154	—	154
Vision Government Solutions, Inc.	—	150	—	150
TWS Acquisition Corporation	—	103	—	103
WadeCo Specialties, Inc.	—	103	—	103
Leeds Novamark Capital I, L.P.	—	101	—	101
AG Transportation Holdings, LLC	—	98	—	98
Autoparts Holdings Limited	1	—	90	91
B+T Group Acquisition Inc.	—	90	—	90
Merlin International, Inc.	—	88	—	88
United Flexible, Inc.	—	(296)	—	(296)
Targus Group International, Inc.	—	(521)	—	(521)
Sunshine Media Holdings	(5,000)	763	3,612	(625)
Lignetics, Inc.	—	(655)	—	(655)
Behrens Manufacturing, LLC	2,544	—	(3,211)	(667)
LWO Acquisitions Company LLC	—	(696)	—	(696)
Flight Fit N Fun LLC	—	(727)	—	(727)
Vertellus Holdings LLC	109	(1,244)	—	(1,135)
RBC Acquisition Corp.	(2,330)	—	1,119	(1,211)
Alloy Die Casting, Corp.	—	(1,215)	—	(1,215)
Francis Drilling Fluids, Ltd.	—	(4,546)	—	(4,546)
Other, net (<\$250)	22	187	(120)	89
Total:	\$ (3,403)	\$ (3,307)	\$ 1,605	\$ (5,105)

The largest driver of our net unrealized depreciation for the six months ended March 31, 2017 was derived from a decline in financial and operation performance of certain portfolio companies, most notably FDF of \$4.5 million, Vertellus Holdings LLC of \$1.2 million, ADC of \$1.2 million, and the reversal of previously recorded unrealized appreciation on Behrens upon exit. This depreciation was partially offset by the appreciation on Source of \$1.7 million and Edge Adhesives Holdings, Inc. of \$0.9 million and the reversal of previously recorded depreciation on our investment in Sunshine upon partial write-off.

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The net realized gain (losses) and unrealized appreciation (depreciation) across our investments for the six months ended March 31, 2016, were as follows:

Portfolio Company	Six Months Ended March 31, 2016			
	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	—	1,421	—	1,421
Funko, LLC	17,039	55	(16,009)	1,085
J. America, Inc.	—	482	—	482
Triple H Food Processors	—	376	—	376
Heartland Communications Group, LLC	(2,355)	—	2,390	35
Lindmark Acquisition LLC	(317)	—	297	(20)
GFRC Holdings, LLC	—	(250)	—	(250)
United Flexible, Inc.	—	(351)	—	(351)
Flight Fit N Fun LLC	—	(404)	—	(404)
AG Transportation Holdings, LLC	—	(681)	—	(681)
Vision Solutions, Inc.	—	(768)	—	(768)
Vitera Healthcare Solutions, Inc.	—	(924)	—	(924)
Southern Petroleum Laboratories, Inc.	—	(1,034)	—	(1,034)
Vision Government Solutions, Inc.	—	(1,136)	—	(1,136)
Vertellus Specialties, Inc.	—	(1,251)	—	(1,251)
WadeCo Specialties, Inc.	—	(1,263)	—	(1,263)
Sunburst Media – Louisiana, LLC	—	(1,293)	—	(1,293)
SourceHOV, LLC	—	(1,365)	—	(1,365)
Precision Acquisition Group Holdings, Inc.	—	(1,879)	—	(1,879)
LWO Acquisitions Company LLC	—	(1,997)	—	(1,997)
RBC Acquisition Corp.	1,207	(4,415)	—	(3,208)
Targus Group International, Inc.	(5,500)	(2,192)	4,198	(3,494)
Defiance Integrated Technologies, Inc.	—	(4,177)	—	(4,177)
Francis Drilling Fluids, Ltd.	—	(4,275)	—	(4,275)
Other, net (<\$250)	(154)	(1,095)	217	(1,032)
Total:	\$ 9,920	\$ (25,559)	\$ (8,880)	\$ (24,519)

The largest driver of our net unrealized depreciation for the six months ended March 31, 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 RBC of \$4.4 million, FDF of \$4.3 million and Defiance of \$4.2 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 appreciation on Behrens of \$1.4 million and Legend Communications of Wyoming, LLC 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 six months ended March 31, 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 six months ended March 31, 2017.

Net Unrealized Appreciation of Other

During the six months ended March 31, 2017, we recorded \$0.1 million of net unrealized appreciation on our Credit Facility recorded at fair value. During the six months ended March 31, 2016, we reversed \$0.1 million of unrealized depreciation related to the expiration of our interest rate cap agreement in January 2016.

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 provided by operating activities for the six months ended March 31, 2017 was \$10.2 million as compared to \$63.5 million for the six months ended March 31, 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 \$59.7 million during the six months ended March 31, 2017 compared to \$25.9 million during the prior year period. Net unrealized depreciation totaled \$1.6 million during the six months ended March 31, 2017 compared to \$34.4 million during the prior year period.

As of March 31, 2017, we had loans to, syndicated participations in or equity investments in 44 private companies, with an aggregate cost basis of approximately \$374.9 million. As of March 31, 2016, we had loans to, syndicated participations in or equity investments in 44 private companies, with an aggregate cost basis of approximately \$372.2 million.

The following table summarizes our total portfolio investment activity during the six months ended March 31, 2017 and 2016:

	Six Months Ended March 31,	
	2017	2016
Beginning investment portfolio, at fair value	\$322,114	\$365,891
New investments	56,241	22,300
Disbursements to existing portfolio companies	3,417	3,568
Scheduled principal repayments	(2,319)	(738)
Unscheduled principal repayments	(54,436)	(57,385)
Net proceeds from sales	(8,311)	(19,913)
Net unrealized depreciation	(3,307)	(25,559)
Reversal of prior period depreciation (appreciation)	1,605	(8,880)
Net realized (loss) gain	(3,403)	9,920
Increase in investments due to PIK (A) or other	2,289	3,739
Cost adjustments on non-accrual loans	—	388
Net change in premiums, discounts and amortization	(373)	97
Investment Portfolio, at Fair Value	\$313,517	\$293,428

(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 March 31, 2017:

		Amount
For the remaining six months ending September 30:	2017	\$ 19,277
For the fiscal year ending September 30:	2018	53,839
	2019	45,159
	2020	80,296
	2021	80,104
	Thereafter	66,220
	Total contractual repayments	\$344,895
	Equity investments	35,896
	Adjustments to cost basis on debt investments	(5,885)
	Cost basis of investments held at March 31, 2017:	\$374,906

Financing Activities

Net cash used in financing activities totaled \$11.4 million for the six months ended March 31, 2017 and consisted primarily of net repayments on our Credit Facility of \$17.2 million and \$10.6 million of distributions to common stockholders, partially offset by \$16.5 million in net proceeds from our common stock offering during the six months ended March 31, 2017. Net cash used in financing activities totaled \$61.5 million for the six months ended March 31, 2016 and consisted primarily of net repayments on our Credit Facility of \$70.0 million and \$9.7 million of distributions to common stockholders, partially offset by \$18.5 million in net proceeds from our common stock offering during the six months ended March 31, 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 deemed 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 six months ended March 31, 2017 and 2016, which totaled an aggregate of \$10.6 million and \$9.7 million, respectively. In April 2017, our Board of Directors declared a monthly distribution of \$0.07 per common share for each of April, May and June 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

We paid monthly cash dividends of \$0.140625 per share of our Series 2021 Term Preferred Stock for each month during the six months ended March 31, 2017 and 2016, which totaled an aggregate of \$2.1 million. In April 2017, our Board of Directors declared a monthly distribution of \$0.140625 per share of Series 2021 Term Preferred stock for each of April, May, and June 2017. For federal income tax purposes, distributions paid by us to preferred stockholders generally constitute ordinary income to the extent our current and accumulated earnings and profits have been characterized as ordinary income to our preferred stockholders.

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. We currently have the ability to issue up to \$282.7 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 overallocation 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 six months ended March 31, 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.

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Pursuant to our prior registration statement, on February 27, 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 may 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. 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.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the 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 May 2, 2017, the closing market price of our common stock was \$9.86, an 18.4% premium to our March 31, 2017 NAV per share of \$8.33.

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 ratio 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 on or after June 30, 2017. The asset coverage on our “senior securities that are stock” (thus, our Series 2021 Term Preferred Stock) as of March 31, 2017 was 282.1%.

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 March 31, 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 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.

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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 deemed 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 \$223.2 million as of March 31, 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 March 31, 2017, and as defined in the performance guaranty of our Credit Facility, we had a net worth of \$273.9 million, asset coverage on our "senior securities representing indebtedness" of 599.1% and an active status as a BDC and RIC. In addition, we had 29 obligors in our Credit Facility's borrowing base as of March 31, 2017. As of March 31, 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 March 31, 2017 and September 30, 2016, we had off-balance sheet success fee receivables on our accruing debt investments of \$2.9 million and \$3.4 million (or approximately \$0.12 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.

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 March 31, 2017 and September 30, 2016 to be immaterial. The following table shows our contractual obligations as of March 31, 2017, at cost:

<u>Contractual Obligations</u> (A)	Payments Due by Fiscal Years				Total
	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	
Credit Facility (B)	\$ —	\$ 54,100	\$ —	\$ —	\$ 54,100
Series 2021 Term Preferred Stock	—	—	61,000	—	61,000
Interest expense on debt obligations (C)	3,519	16,247	3,088	—	22,854
Total	\$ 3,519	\$ 70,347	\$ 64,088	\$ —	\$137,954

(A) Excludes unused line of credit commitments, unused delayed draw term loans and uncalled capital commitments to our portfolio companies in the aggregate principal amount of \$13.4 million as of March 31, 2017.

(B) Principal balance of borrowings under our Credit Facility as of March 31, 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 March 31, 2017. Distribution payments on our Series 2021 Term Preferred Stock assume quarterly distribution declarations and monthly distributions to stockholders 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.

The following table reflects risk ratings for all proprietary loans in our portfolio at March 31, 2017 and September 30, 2016, representing approximately 91.2% and 90.0%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of March 31, 2017	As of September 30, 2016
Highest	9.0	8.0
Average	5.3	5.3
Weighted Average	5.4	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 March 31, 2017 and September 30, 2016, representing approximately 6.9% and 7.3%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of March 31, 2017	As of September 30, 2016
Highest	5.0	5.0
Average	4.0	3.9
Weighted Average	3.8	4.0
Lowest	3.0	2.0

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The following table reflects the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO at March 31, 2017 and September 30, 2016, representing approximately 1.9% and 2.7%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of March 31, 2017	As of September 30, 2016
Highest	8.0	5.0
Average	5.5	4.0
Weighted Average	4.8	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.

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 March 31, 2017, our portfolio of debt investments on a principal basis consisted of the following:

Variable rates	88.8%
Fixed rates	11.2
Total:	<u>100.0%</u>

There have been no material changes in the quantitative and qualitative market risk disclosures for the six months ended March 31, 2017 from that disclosed in our Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

As of March 31, 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 March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

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: May 3, 2016

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
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	Bylaws, 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 Bylaws, 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 Bylaws, 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 Bylaws, 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.
11	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.

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David Gladstone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gladstone Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2017

/s/ David Gladstone

David Gladstone

Chief Executive Officer and

Chairman of the Board of Directors

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Nicole Schaltenbrand, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gladstone Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2017

/s/ Nicole Schaltenbrand

Nicole Schaltenbrand
Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Chief Executive Officer and Chairman of the Board of Gladstone Capital Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 ("Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 3, 2017

/s/ David Gladstone

David Gladstone
Chief Executive Officer and
Chairman of the Board of Directors

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Chief Financial Officer of Gladstone Capital Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 ("Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 3, 2017

/s/ Nicole Schaltenbrand

Nicole Schaltenbrand
Chief Financial Officer and Treasurer