GLADSTONE CAPITAL CORP
Form 497
August 11, 2017
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Filed Pursuant to Rule 497

Securities Act File No. 333-208637

Supplement No. 1, dated August 11, 2017

to

Prospectus Supplement, dated May 22, 2017

This supplement contains information which amends, supplements or modifies certain information contained in the Prospectus of Gladstone Capital Corporation (the Company), dated February 6, 2017 as supplemented by the Prospectus Supplement dated May 22, 2017. Capitalized terms used but not defined herein shall have the same meaning given them in the Prospectus Supplement or Prospectus, as applicable.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value (NAV). If our shares trade at a discount to our NAV, it will likely increase the risk of loss for purchasers in this offering. Investing in shares of our common stock involves a high degree of risk. Before investing, you should read the material risks described in the Risk Factors section beginning on page S-11 of the Prospectus Supplement and beginning on page 8 of the Prospectus before you decide to invest.

STATUS OF THE OFFERING

In February 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or the Sales Agreements) with KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., each a Sales Agent, under which we had the ability to issue and sell, from time to time, through the Sales Agents, up to an aggregate offering price of $50.0 million shares of our common stock. In May 2017, we terminated the Sales Agreement with KeyBanc Capital Markets Inc. and amended the Sales Agreement with Cantor Fitzgerald & Co. to reference our current registration statement. All other material terms of the Sales Agreement with Cantor Fitzgerald & Co. remained unchanged.

The gross proceeds raised, the related sales agent commissions, the offering expenses and the average price at which these shares were issued pursuant to the ATM program from the period from May 22, 2017 through August 10, 2017 are as follows:

Fiscal Year 2017 Issuance of Common Stock	Number of Shares	Gross Proceeds	Sales Commission	Offering Expenses	Average Offering Price
Third Quarter ended June 30, 2017	362,600	$ 3,587,444	$ 53,812	$ 130,096	$ 9.89
Fourth Quarter (through August 10, 2017)	235,004	2,321,883	34,828		9.88
Total	597,604	$ 5,909,327	$ 88,640	$ 130,096	$ 9.89

The aforementioned shares sold under the ATM Program were all sold at a premium to the then estimated NAV per share.

FILING OF OUR FORM 10-Q

On August 2, 2017, we filed our Quarterly Report on Form 10-Q (Form 10-Q) for the quarter ended June 30, 2017 with the Securities and Exchange Commission. We have attached the Form 10-Q to this supplement as Annex A.

Cantor Fitzgerald & Co

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Annex A

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one):

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

OR

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

COMMISSION FILE NUMBER: 814-00237

GLADSTONE CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND **(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		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

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

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GLADSTONE CAPITAL CORPORATION

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

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

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

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

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

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

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

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

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

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

	5,589	4,155

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

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

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

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

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

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

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

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

(F) Debt security has a fixed interest rate.

(G) Security is non-income producing.

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

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

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

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

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

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

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

(O) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power

to vote, more than 25.0% of the issued and outstanding voting securities.

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

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

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

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

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

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

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

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

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

(G) Debt security has a fixed interest rate.

(H) Investment is non-income producing.

(I) Investment is on non-accrual status.

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

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

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

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

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

(O)

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

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

(Q) This investment does not have a stated interest rate that is payable thereon.

(R) Fair value was based on the expected exit or payoff amount, where such event has occurred or is expected to occur imminently.

(S) Fair value was based on net asset value provided by the fund as a practical expedient.

(T) One of our affiliated funds, Gladstone Investment Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.

(U) Cumulative gross unrealized depreciation for federal income tax purposes is $75.3 million; cumulative gross unrealized appreciation for federal income tax purposes is $8.8 million. Cumulative net unrealized depreciation is $66.5 million, based on a tax cost of $388.6 million.

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

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2017

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

NOTE 1. ORGANIZATION

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

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

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

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

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

information regarding these arrangements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

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

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

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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, as a result, we continue to present debt issuance costs related to line of credit arrangements as assets.

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

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

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

Investment Valuation Policy

Accounting Recognition

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

Board Responsibility

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

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

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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 generally allocates the TEV to the portfolio company s securities based on the facts and circumstances of the securities, which typically results in the allocation of fair value to securities based on the order of their relative priority in the capital structure. Generally, the Valuation Team uses TEV to value our equity investments and, in the circumstances where we have the ability to effectuate a sale of a portfolio company, our debt investments.

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

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

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

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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 June 30, 2017) are generally valued at original cost basis.

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

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

Revenue Recognition Policy

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 June 30, 2017, certain loans to two portfolio companies, Sunshine Media Holdings and Alloy Die Casting Corp., were on non-accrual status with an aggregate debt cost basis of $27.9 million, or 7.6% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $7.5 million, or 2.3% of the fair value of all debt investments in our portfolio. At September 30, 2016, certain loans to two portfolio companies, Sunshine Media Holdings and Vertellus Specialties, Inc. were on non-accrual status with an aggregate debt cost basis of $26.5 million, or 7.7% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $5.9 million, or 1.9% of the fair value of all debt investments in our portfolio.

We currently hold, and we expect to hold in the future, some loans in our portfolio that contain OID or PIK provisions. We recognize OID for loans originally issued at discounts and recognize the income over the life of the

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

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

Other Income Recognition

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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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 June 30, 2017 and September 30, 2016, all of our investments were valued using Level 3 inputs and during the three and nine months ended June 30, 2017 and 2016, there were no investments transferred into or out of Levels 1, 2 or 3.

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

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

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

Quantitative Information about Level 3 Fair Value Measurements

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

[A] Fair value as of September 30, 2016 includes one new proprietary debt investment and two restructured proprietary debt investments totaling $12.6 million, which were valued at cost, and two proprietary debt

investments totaling $38.8 million, which were valued at the expected exit amount.

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

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

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

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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 nine months ended June 30, 2017 and 2016 for all investments for which the Adviser determines fair value using unobservable (Level 3) factors.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

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

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

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

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

(C)

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

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Investment Activity

Proprietary Investments

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

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

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

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

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

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

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

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

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

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

Syndicated Investments

As of June 30, 2017 and September 30, 2016, we held 13 syndicated investments with an aggregate fair value of $36.4 million and $30.8 million, or 10.5% and 9.6% of the total portfolio at fair value, respectively. The following

significant syndicated investment transactions occurred during the nine months ended June 30, 2017:

- In October 2016, RP Crown Parent, LLC paid off at par for proceeds of $2.0 million.
- In October 2016, our $3.9 million secured first lien debt investment in Vertellus Specialties, Inc. was restructured. As a result of the restructure, we received a new $1.1 million secured second lien debt investment in Vertellus Holdings LLC and common equity with a cost basis of $3.0 million.
- In December 2016, Autoparts Holdings Limited paid off at par for proceeds of $0.7 million.
- In December 2016, we invested $5.0 million in LDiscovery, LLC through secured second lien debt.
- In February 2017, Vitera Healthcare Solutions, LLC paid off at par for proceeds of $4.5 million.
- In May 2017, we invested $4.0 million in Keystone Acquisition Corp. through secured second lien debt.
- In June 2017, we invested $3.0 million in Medical Solutions Holdings, Inc. through secured second lien debt.

Investment Concentrations

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

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

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

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

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

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

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

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

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

Investment Principal Repayments

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

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

Receivables from Portfolio Companies

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

NOTE 4. RELATED PARTY TRANSACTIONS

Transactions with the Adviser

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

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

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

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

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

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

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

Base Management Fee

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

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

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

Incentive Fee

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

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

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

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

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

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

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

Loan Servicing Fee

The Adviser also services the loans held by Business Loan (the borrower under the Credit Facility), in return for which the Adviser receives a 1.5% annual fee payable monthly based on the aggregate outstanding balance of loans

pledged under our Credit Facility (defined in Note 5 *Borrowings*). As discussed in the notes to the table above, we treat payment of the loan servicing fee pursuant to our line of credit as a pre-payment of the base management fee under the Advisory Agreement. Accordingly, these loan servicing fees are 100% voluntarily, irrevocably and unconditionally credited back to us by the Adviser.

Transactions with the Administrator

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

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

Other Transactions

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

Related Party Fees Due

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

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

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

NOTE 5. BORROWINGS

Revolving Credit Facility

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

the revolving period end date). Subject to certain terms and conditions, our Credit Facility may be expanded up to a total of $250.0 million through additional commitments of new or existing lenders. We incurred fees of approximately $1.1 million in connection with this amendment, which are being amortized through our Credit Facility s revolving period end date of January 19, 2019.

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value

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

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

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

Fair Value Measurements Using Significant

Unobservable Data Inputs (Level 3)

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

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

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

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

NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK

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

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

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

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

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

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

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

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

In accordance with ASC 480, *Distinguishing Liabilities from Equity*, mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet and we have recorded our mandatorily redeemable preferred stock at cost, as of June 30, 2017 and September 30, 2016. The related dividend payments to our mandatorily

redeemable preferred stockholders are treated as dividend expense on our statement of operations as of the ex-dividend date. Aggregate preferred stockholder dividends declared and paid on our Series 2021 Term Preferred Stock for the nine months ended June 30, 2017 and 2016, was $3.1 million.

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

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

Registration Statement

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

Common Stock Offerings

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

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

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

Share Repurchases

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

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

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

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

NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS

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

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

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

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

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

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

NOTE 10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

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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 June 30, 2017 and September 30, 2016 to be immaterial.

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

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

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NOTE 11. FINANCIAL HIGHLIGHTS

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

Ratio of net investment income to average net assets-annualized[J]

[A] Based on actual common shares outstanding at the end of the corresponding period.

[B] Based on weighted average basic per common share data for the corresponding period.

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

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

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

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

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

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

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

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

NOTE 12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

In accordance with the SEC s Regulation S-X, we do not consolidate portfolio company investments. Further, in accordance with ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

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

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

NOTE 13. SUBSEQUENT EVENTS

Portfolio Activity

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

Distributions and Dividends

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

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

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

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

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

OVERVIEW

General

We were incorporated under the Maryland General Corporation Law on May 30, 2001. We operate as an externally managed, closed-end, non-diversified management investment company, and have elected to be treated as a business

development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for federal income tax purposes we have elected to be treated as a registered investment company (RIC) under Subchapter M of the Internal Revenue Code (the Code). As a BDC and a RIC, we are subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

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

We focus on investing in lower middle market companies (which we generally define as companies with annual earnings before interest, taxes, depreciation and amortization of $3 million to $15 million) in the U.S. that meet certain criteria, including, but not limited to, the following: the sustainability of the business free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, reasonable capitalization of the borrower, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples and, to a lesser extent,

the potential to realize appreciation and gain liquidity in our equity position, if any. We lend to borrowers that need funds for growth capital or to finance acquisitions or recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity and have opportunistically made several co-investments with our affiliate Gladstone Investment Corporation, a BDC also managed by our Advisor, pursuant to an exemptive order granted by the SEC. We believe this ability to co-invest will continue to enhance our ability to further our investment objectives and strategies. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

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

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

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

Business

Portfolio and Investment Activity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Raising

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

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

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

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

Regulatory Compliance

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

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Recent Developments

Distributions and Dividends

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

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

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RESULTS OF OPERATIONS

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

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

NM = Not Meaningful

Investment Income

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

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

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

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

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

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

(A) New investment during the applicable period.

Expenses

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

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

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

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

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

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

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

Net Realized and Unrealized Gain (Loss)

Net Realized Gain (Loss) on Investments

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

Net Unrealized Appreciation (Depreciation) of Investments

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

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

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

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

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

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

Net Realized Loss on Other

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

Net Unrealized Depreciation on Other

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

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

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

NM = Not Meaningful

Investment Income

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

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

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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:

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

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

(A) New investment during the applicable period.

Expenses

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

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

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

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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:

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

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

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

Net Realized and Unrealized Gain (Loss)

Net Realized Gain (Loss) on Investments

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

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

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Net Unrealized Appreciation (Depreciation) of Investments

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

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

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

upon partial write-off.

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

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

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

Net Realized Loss on Other

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

Net Unrealized Depreciation of Other

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

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

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

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

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

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

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

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

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Financing Activities

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

Distributions and Dividends to Stockholders

Common Stock Distributions

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

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

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

Preferred Stock Dividends

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

Equity

Registration Statement

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

Common Stock

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

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

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

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

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

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

Term Preferred Stock

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

Our Series 2021 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend rate equal to 6.75% per year, payable monthly (which equates in total to approximately $4.1 million per year). We are required to redeem all of the outstanding Series 2021 Term Preferred Stock on June 30, 2021 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions on

such share accumulated to (but excluding) the date of redemption (the Redemption Price). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2021 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control, and (2) if we fail to maintain an asset coverage of at least 200% on our senior securities that are stock (which, currently is only the Series 2021 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report. We may also voluntarily redeem all or a portion of the Series 2021 Term Preferred Stock at our option at the Redemption Price at any time after June 30, 2017. The asset coverage on our senior securities that are stock (thus, our Series 2021 Term Preferred Stock) as of June 30, 2017 was 249.6%.

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

Revolving Credit Facility

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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

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Contractual Obligations

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Investment Valuation

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

<u>Credit Monitoring and Risk Rating</u>

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.

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

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

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

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

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

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

Tax Status

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

Revenue Recognition

Interest Income Recognition

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

Other Income Recognition

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

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

Recent Accounting Pronouncements

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

Variable rates	89.3%
Fixed rates	10.7
Total:	100.0%

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

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

As of June 30, 2017 (the end of the period covered by this report), our management, including our chief executive officer and chief financial officer, evaluated the effectiveness and design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective at a reasonable assurance level in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in periodic SEC filings. However, in evaluation of the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

b) Changes in Internal Control over Financial Reporting

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

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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.

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SIGNATURE

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

GLADSTONE CAPITAL CORPORATION

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

Date: August 2, 2017

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EXHIBIT INDEX

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

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

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

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Filed pursuant to Rule 497
Registration Statement No. 333-208637

PROSPECTUS SUPPLEMENT

(To Prospectus Dated February 6, 2017)

Up to $50,000,000

Common Stock

We are an externally managed specialty finance company that provides capital to lower middle market U.S. businesses (which we define as companies with annual earnings before interest, taxes, depreciation and amortization of $3 million to $15 million). We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. For federal income tax purposes, we have elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code.

We are party to an equity distribution agreement, as amended on the date hereof, or the Sales Agreement, with Cantor Fitzgerald & Co., or Cantor Fitzgerald, relating to the shares of our common stock, par value $0.001 per share, offered pursuant to this prospectus supplement and the accompanying prospectus. The Sales Agreement provides that we may offer and sell shares of our common stock having an aggregate offering price of up to $50,000,000 from time to time through the Sales Agreement and a previous equity distribution agreement with another sales agent, or the KCM Agreement, which has been terminated as of the date of this prospectus supplement. As of the date of this prospectus supplement, we have not sold any shares of our common stock under the Sales Agreement and have sold 131,462 shares with an aggregate offering price of $1.2 million under the KCM Agreement, leaving an aggregate offering price of up to $48.8 million available under the Sales Agreement as of the date of this prospectus supplement. Subject to terms of the Sales Agreement, Cantor Fitzgerald is not required to sell any specific number or dollar amounts of securities but will act as our sales agent using commercially reasonable efforts consistent with its normal trading and sales practices, on mutually agreed terms between Cantor Fitzgerald and us. There is no arrangement for funds to be received in any escrow, trust or similar arrangement.

Cantor Fitzgerald will be entitled to compensation under the terms of the Sales Agreement at a commission of up to 2.0% of the gross sales price per share sold. In connection with the sale of our common stock on our behalf, Cantor Fitzgerald will be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of Cantor Fitzgerald will be deemed to be underwriting commissions or discounts. We have also agreed to provide

indemnification and contribution to Cantor Fitzgerald against certain civil liabilities, including liabilities under the Securities Act.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by transactions that are deemed to be part of an at the market offering as defined in Rule 415(a)(4) promulgated under the Securities Act of 1933, as amended, or the Securities Act, by means of ordinary brokers transactions that qualify for delivery of a prospectus to the NASDAQ Global Select Market, or NASDAQ, in accordance with Rule 153 under the Securities Act, or such other sales as may be agreed by us and Cantor Fitzgerald, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. The offering of shares of common stock pursuant to the Sales Agreement will terminate upon the earlier of (1) the sale of shares having an aggregate offering price of $50,000,000 or (2) the termination of the Sales Agreement. See Plan of Distribution beginning on page S-43 of this prospectus supplement.

Our common stock is traded on NASDAQ under the symbol GLAD. On May 19, 2017 the last reported sale price of our common stock on NASDAQ was $9.87 per share. The net asset value, or NAV, per share of our common stock on March 31, 2017 (the last date prior to the date of this prospectus supplement as of which we determined NAV) was $8.33. You are urged to obtain current market quotations of our common stock. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less Cantor Fitzgerald s commission, will not be less than the NAV per share of our common stock at the time of such sale.

The securities in which we invest generally would be rated below investment grade if they were rated by rating agencies. Below investment grade securities, which are often referred to as junk, have predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal. They may also be difficult to value and are illiquid.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV. If our shares trade at a discount to our NAV, it will likely increase the risk of loss for purchasers in this offering. Investing in shares of our common stock involves a high degree of risk. Before investing, you should read the material risks described in the Risk Factors section beginning on page S-11 of this prospectus supplement and beginning on page 12 of the accompanying prospectus.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our common stock, including information about risks. Please read it before you invest and retain it for future reference. Additional information about us, including our annual, quarterly and current reports, has been filed with the Securities and Exchange Commission, or the SEC, and can be accessed at its website at *www.sec.gov*. This information is also available free of charge by calling us collect at (703) 287-5893 or on our corporate website located at *www.gladstonecapital.com*. You may also call us collect at this number to request other information or to make a shareholder inquiry. See Where You Can Find More Information on page S-45 of this prospectus supplement. **The SEC has not approved or disapproved these securities or passed upon the adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus supplement is May 22, 2017

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is presented in two parts. The first part is comprised of this prospectus supplement, which describes the specific terms of this common stock at-the-market offering and certain other matters relating to us. The second part, the accompanying prospectus, contains a description of our common stock and provides more general information, some of which does not apply to this offering, regarding securities that we may offer from time to time. To the extent that the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus, the information in this prospectus supplement will supersede such information.

This prospectus supplement is part of a registration statement on Form N-2 (Registration No. 333-208637) that we have filed with the SEC relating to the securities offered hereby. This prospectus supplement does not contain all of the information that we have included in the registration statement and the accompanying exhibits and schedules thereto in accordance with the rules and regulations of the SEC, and we refer you to such omitted information. It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying prospectus before making your investment decision. You should also read and consider the additional information incorporated by reference into this prospectus supplement and the accompanying prospectus. See Where You Can Find More Information in this prospectus supplement.

The distribution of this prospectus supplement and the accompanying prospectus and this offering of the securities may be restricted by law in certain jurisdictions. This prospectus supplement and the accompanying prospectus are not an offer to sell or a solicitation of an offer to buy shares of our common stock in any jurisdiction where such offer or any sale would be unlawful. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves of and observe any such restrictions.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus in making an investment decision. We have not, and Cantor Fitzgerald has not, authorized any other person to provide you with information that is different or additional. If anyone provides you with different or additional information, you should not rely on it. We do not, and Cantor Fitzgerald and its affiliates do not, take any responsibility for, and can provide no assurances as to, the reliability of any information that others may provide to you. You should not assume that the information in this prospectus supplement or the accompanying prospectus is accurate as of any date other than their respective dates, regardless of the time of delivery of this prospectus supplement, the accompanying prospectus or any sales of our common stock. Our business, financial condition, liquidity, results of operations, funds from operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that you may want to consider. You should review the more detailed information contained elsewhere in this prospectus supplement and in the accompanying prospectus prior to making an investment in our common stock, and especially the information set forth under the heading Risk Factors in this prospectus supplement and the accompanying prospectus.

In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the Company, we, us or our refers to Gladstone Capital Corporation; Adviser refers to Gladstone Management Corporation and Administrator refers to Gladstone Administration, LLC.

Gladstone Capital Corporation

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001 and completed our initial public offering on August 24, 2001. We are externally managed and operate as a closed-end, non-diversified management investment company and have elected to be treated as a BDC under the 1940 Act. For federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Code. We intend to continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment by meeting certain requirements, including minimum distribution requirements.

Gladstone Financial Corporation, or 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, through Gladstone Financial, to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies. As of March 31, 2017, we had not made any investments in portfolio companies through Gladstone Financial.

Investment Objectives and Strategy

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States. 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 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% in debt investments and 10.0% in 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 United States that meet certain criteria, including, but not limited to, the following: the sustainability of the business free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, reasonable capitalization of the borrower, including an ample equity contribution

or cushion based on prevailing enterprise valuation multiples and, to a lesser extent, the potential to realize appreciation and gain liquidity in our equity position, if any. We lend to borrowers that need

funds for growth capital or to finance acquisitions or recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity and have opportunistically made several co-investments with our affiliate Gladstone Investment Corporation, a BDC also managed by our Adviser, pursuant to an exemptive order granted by the SEC in July 2012. 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.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the one-month London Interbank Offered Rate, or LIBOR) or, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, and which may include a yield enhancement, such as a success fee or deferred interest provision and are primarily interest only with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due upon a change of control of the portfolio company. Some debt securities have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid together with the principal at maturity. This form of deferred interest is often called paid-in-kind, or PIK, interest. Typically, our equity investments take the form of preferred or common stock, limited liability company interests, or warrants or options to purchase the foregoing. Often, these equity investments occur in connection with our original investment, recapitalizing a business, or refinancing existing debt.

As of March 31, 2017, our investment portfolio consisted of investments in 44 companies located in 21 states in 22 different industries with an aggregate fair value of $313.5 million. From our initial public offering in 2001 through March 31, 2017, we have invested in 211 different companies, while making 170 consecutive monthly or quarterly cash distributions to common stockholders totaling approximately $286.9 million. We expect that our investment portfolio will primarily include the following four categories of investments in private companies operating in the United States:

Senior Secured Debt Securities: We seek to invest a portion of our assets in senior secured debt securities also known as senior loans, secured first lien loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses senior debt to cover a substantial portion of the funding needs of its business. The senior secured debt security usually takes the form of first priority liens on all, or substantially all, of the assets of the business. Senior secured debt securities may include investments sourced from the syndicated loan market.

Senior Secured Subordinated Debt Securities: We seek to invest a portion of our assets in secured second lien debt securities, also known as senior subordinated loans and senior subordinated notes. These secured second lien debts rank junior to the borrowers senior debt and may be secured by a first priority lien on a portion of the assets of the business and may be designated as second lien notes (including our participation and investment in syndicated second lien loans). Additionally, we may receive other yield enhancements, such as success fees, in connection with these senior secured subordinated debt securities.

Junior Subordinated Debt Securities: We seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior

subordinated debts may be secured by certain assets of the borrower or unsecured loans. Additionally, we may receive other yield enhancements in addition to or in lieu of success fees, such as warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.

Preferred and Common Equity/Equivalents: In some cases we will purchase equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to

acquire such securities, and are in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of the businesses in which we invest.

Additionally, pursuant to the 1940 Act, we must maintain at least 70.0% of our total assets in qualifying assets, which generally include each of the investment types listed above. Therefore, the 1940 Act permits us to invest up to 30.0% of our assets in other non-qualifying assets. See Regulation as a Business Development Company Qualifying Assets in the accompanying prospectus for a discussion of the types of qualifying assets in which we are permitted to invest pursuant to Section 55(a) of the 1940 Act.

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered higher risk, as compared to investment-grade debt instruments. In addition, many of the debt securities we hold typically do not amortize prior to maturity. With the exception of our policy to conduct our business as a BDC, these investment policies are not fundamental and may be changed without stockholder approval. See Business Investment Process included in the accompanying prospectus for additional information on our investment practices.

Our Investment Adviser and Administrator

We are externally managed by the Adviser under an investment advisory and management agreement, or the Advisory Agreement. The Administrator, another of our affiliates, provides administrative services to us pursuant to a contractual agreement, or the Administration Agreement. Each of the Adviser and Administrator are privately-held companies that are indirectly owned and controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone and Terry Brubaker, our vice chairman and chief operating officer, also serve on the board of directors of the Adviser, the board of managers of the Administrator, and serve as executive officers of the Adviser and the Administrator. The Administrator employs, among others, our chief financial officer and treasurer, chief valuation officer, chief compliance officer, general counsel and secretary (who also serves as the president of the Administrator) and their respective staffs. The Adviser and Administrator have extensive experience in our lines of business and also provide investment advisory and administrative services, respectively, to our affiliates, including Gladstone Commercial Corporation, a publicly-traded real estate investment trust; Gladstone Investment Corporation, a publicly-traded BDC and RIC; and Gladstone Land Corporation, a publicly-traded real estate investment trust. In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Adviser also has offices in other states. 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.

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Recent Developments

Distributions to Stockholders

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

Record Date	Payment Date	Distribution per Common Share	Distribution per Series 2021 Term Preferred Share
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**

Portfolio Activity

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

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

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THE OFFERING

Common stock offered	Shares with an aggregate offering price of up to $48,800,000.
Common stock outstanding prior to this offering	25,517,866 shares.
Plan of Distribution	At the market offering that may be made from time to time through our sales agent, Cantor Fitzgerald. See Plan of Distribution beginning on page S-43 of this prospectus supplement. On February 27, 2015, we established the at-the-market program to which this prospectus supplement relates and entered into separate equity distribution agreements with Cantor Fitzgerald and KeyBanc Capital Markets Inc., which we refer to collectively as the Sales Agents . On May 22, 2017, we amended and restated the Sales Agreement with Cantor Fitzgerald to continue the at-the-market program. Effective May 22, 2017, we terminated the KCM Agreement pursuant to which KeyBanc Capital Markets Inc. previously also served as our sales agent in connection with this at-the-market program. Through the date of this prospectus supplement, 131,462 shares of common stock with an aggregate offering price of $1.2 million were issued and sold pursuant to the KCM Agreement; and no shares were issued and sold pursuant to the Sales Agreement. An aggregate offering price of up to $48.8 million of our common stock remains available for sale under this at-the-market offering.
Use of Proceeds	If we sell shares of our common stock with an aggregate offering price of $48.8 million, which is what remains available under the Sales Agreement, we anticipate that our net proceeds, after deducting Cantor Fitzgerald s maximum commissions and estimated offering expenses payable by us, will be approximately $47.6 million. We intend to use the net proceeds from this offering to repay outstanding indebtedness under the Fifth Amended and Restated Credit Agreement, as further amended, or the Credit Facility, with KeyBank National Association, or KeyBank, as administrative agent, lead arranger and a lender, to fund new investment opportunities, and for other general corporate purposes. See Use of Proceeds on page S-15 of this

	prospectus supplement.
NASDAQ symbol	GLAD

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Distributions on common stock	We have paid monthly distributions to the holders of our common stock since October 2003 (and prior to that quarterly distributions since January 2002) and generally intend to continue to do so. The amount of monthly distributions on our common stock is generally determined by our Board of Directors on a quarterly basis and is based on management s estimate of the fiscal year s taxable income. See Price Range of Common Stock and Distributions beginning on page S-16 of this prospectus supplement. Because our distributions to common stockholders are based on estimates of taxable income that may differ from actual results, future distributions payable to our common stockholders may also include, and past distributions have included, a return of capital. Such return of capital distributions may increase an investor s tax liability for capital gains upon the sale of our shares by reducing the investor s tax basis for such shares. See Risk Factors Risks Related to an Investment in Our Securities Distributions to our stockholders have included and may in the future include a return of capital in the accompanying prospectus. Certain additional amounts may be deemed as distributed to common stockholders for income tax purposes and may also constitute a return of capital.
Tax matters	See Material U.S. Federal Income Tax Considerations beginning on page 114 of the accompanying prospectus for a discussion of material U.S. federal income tax considerations applicable to an investment in shares of our common stock.
Risk Factors	Investing in shares of our common stock involves substantial risks. Please carefully read and consider the information described under Risk Factors beginning on page S-11 of this prospectus supplement and beginning on page 12 of the accompanying prospectus before making an investment decision.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Capital, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital. The following percentages for annual expenses are annualized and have been calculated based on actual expenses incurred in the quarter ended March 31, 2017 and average net assets attributable to common stockholders for the quarter ended March 31, 2017.

Stockholder Transaction Expenses:	
Sales load or other commission (as a percentage of offering price)(1)	2.00%
Offering expenses (as a percentage of offering price)(2)	0.36%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.36%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Base management fees(5)	2.55%
Loan Servicing fees(6)	1.79%
Incentive fees (20% of realized capital gains and 20% of pre-incentive fee net investment income)(7)	2.01%
Interest payments on borrowed funds(8)	1.45%
Dividend expense on mandatorily redeemable preferred stock(9)	2.10%
Other expenses(10)	1.19%
Total annual expenses(10)(11)	11.09%

(1) Represents the estimated commission with respect to the shares of common stock being sold in this offering. Cantor Fitzgerald will be entitled to compensation up to 2.0% of the gross proceeds of the sale of any shares of our common stock under the Sales Agreement, with the exact amount of such compensation to be mutually agreed upon by us and Cantor Fitzgerald from time to time. There is no guarantee that there will be any additional sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The percentage reflects estimated offering expenses of approximately $175,000 and assumes we sell all $48.8 million of common stock remaining under the Sales Agreement.

(3) The expenses of the reinvestment plan are included in stock record expenses, a component of other expenses. The participants in the dividend reinvestment plan will bear a pro rata share of brokerage commissions incurred with respect to open market purchases, if any. See Dividend Reinvestment Plan in the accompanying prospectus for information on the dividend reinvestment plan.

(4) The percentages presented in this table are gross of credits to any fees.

(5) In accordance with the Advisory Agreement, our annual base management fee is 1.75% (0.4375% quarterly) of our average gross assets, which are defined as our total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. In accordance with the requirements of the SEC, the table above shows our base management fee as a percentage of average net assets attributable to common shareholders. For purposes of the table, the gross base management fee has been converted to 2.55% of the average net assets as of March 31, 2017 by dividing the total dollar amount of the management fee by our average net assets. The base management fee for the quarter ended March 31, 2017 before application of any credits was $1.4 million.

Under the Advisory Agreement, the Adviser has provided and continues to provide managerial assistance to our portfolio companies. It may also provide services other than managerial assistance to our portfolio companies and receive fees therefor. 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. Generally, at the end of each quarter, 100.0% of these fees are voluntarily, irrevocably and unconditionally credited against the base management fee that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser. For the quarter ended March 31, 2017, the base management fee credit was $0.4 million. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus.

(6) In addition, the Adviser services, administers and collects on the loans held by Gladstone Business Loan, LLC, or Business Loan, in return for which the Adviser receives a 1.5% annual loan servicing fee payable monthly by Business Loan based on the monthly aggregate balance of loans held by Business Loan in accordance with the Credit Facility. For the three months ended March 31, 2017, the total loan servicing fee was $1.0 million. The entire loan servicing fee paid to the Adviser by Business Loan is generally voluntarily, irrevocably and unconditionally credited against the base management fee otherwise payable to the Adviser since Business Loan is a consolidated subsidiary of the Company, 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. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus and footnote 7 below.

(7) In accordance with our Advisory Agreement, the incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20.0% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100.0% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125.0% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide the Adviser with 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125.0% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 1.75% base management fee (see footnote 5 above). The capital gains-based incentive fee equals 20.0% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year. We have not recorded any capital gains-based incentive fee from our inception through March 31, 2017. The income-based incentive fee for the quarter ended March 31, 2017 before application of any credits was $1.1 million.

From time to time, the Adviser has voluntarily, irrevocably and unconditionally agreed to waive a portion of the incentive fees, to the extent net investment income did not cover 100.0% of the distributions to common stockholders during the period. For the quarter ended March 31, 2017, the incentive fee credit was $1.1 million. There can be no guarantee that the Adviser will continue to credit any portion of the fees under the Advisory Agreement in the future

Examples of how the incentive fee would be calculated are as follows:

Assuming pre-incentive fee net investment income of 0.55%, there would be no income-based incentive fee because such income would not exceed the hurdle rate of 1.75%.

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Assuming pre-incentive fee net investment income of 2.00%, the income-based incentive fee would be as follows:

= 100.0% × (2.00% - 1.75%)

= 0.25%

Assuming pre-incentive fee net investment income of 2.30%, the income-based incentive fee would be as follows:

= (100.0% × (catch-up : 2.1875% - 1.75%)) + (20.0% × (2.30% - 2.1875%))

= (100.0% × 0.4375%) + (20.0% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains-based incentive fee would be as follows:

= 20.0% × (6.0% - 1.0%)

= 20.0% × 5.0%

= 1.0%

For a more detailed discussion of the calculation of the two-part incentive fee, see Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus.

(8) Includes amortization of deferred financing costs. As of March 31, 2017, we had $54.1 million in borrowings outstanding under our Credit Facility.

(9) Includes amortization of deferred financing costs related to our 6.75% Series 2021 Term Preferred Stock, or the Series 2021 Term Preferred Stock, as well as amounts paid to preferred stockholders during the three months ended March 31, 2017. See Description of Our Securities Preferred Stock Series 2021 Term Preferred Stock in the accompanying prospectus for additional information.

(10) Includes our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement. See Management Certain Transactions Administrator Compensation in the accompanying prospectus.

(11) Total annualized gross expenses, based on actual amounts incurred for the quarter ended March 31, 2017, would be $23.6 million. After all voluntary, unconditional and irrevocable credits described in footnote 5, footnote 6 and footnote 7 above are applied to the base management fee and loan servicing fee, total annualized expenses after fee credits, based on actual amounts incurred for the quarter ended March 31, 2017, would be $13.7 million or 6.44% as a percentage of net assets.

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Examples

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our gross annual operating expenses would remain at the levels set forth in the table above and are gross of any credits to any fees. **The examples below and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, incentive fees, if any, and other expenses) may be greater or less than those shown. While the example assumes, as required by the SEC, a 5.00% annual return, our performance will vary and may result in a return greater or less than 5.00%.**

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment:				
assuming a 5% annual return consisting entirely of ordinary income[(1)(2)]	$ 117	$ 327	$ 510	$ 872
assuming a 5% annual return consisting entirely of capital gains[(2)(3)]	$ 125	$ 349	$ 540	$ 904

(1) For purposes of this example, we have assumed that the entire amount of the assumed 5.0% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5.0% annual return is significantly below the hurdle rate of 7.0% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5.0% annual return on our investments.

(2) While the example assumes reinvestment of all dividends and distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the average cost of shares of our common stock purchased in the open market in the period beginning on or before the payment date of the distribution and ending when the plan agent has expended for such purchases all of the cash that would have been otherwise payable to participants. See Dividend Reinvestment Plan in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

(3) For purposes of this example, we have assumed that the entire amount of the assumed 5.0% annual return would constitute capital gains and that no accumulated capital losses or unrealized depreciation would have to be overcome first before a capital gains based incentive fee is payable.

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RISK FACTORS

You should carefully consider the risks described below and all other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our Shares. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our Securities and NAV of our common stock could decline, and you may lose all or part of your investment.

Our management will have broad discretion in the use of the net proceeds from this offering and may allocate the net proceeds from this offering in ways that you and other stockholders may not approve.

Our management will have broad discretion in the use of the net proceeds, including for any of the purposes described in the section entitled Use of Proceeds, and you will not have the opportunity as part of your investment decision to assess whether the net proceeds are being used in ways with which you may not agree or may not otherwise be considered appropriate. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. The failure of our management to use these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

We may be unable to invest a significant portion of the net proceeds of this offering on acceptable terms.

Delays in investing the net proceeds raised in an offering or from exiting an investment, prepayment of an investment or other capital source may cause our performance to be worse than that of other fully invested BDCs or other lenders or investors pursuing comparable investment strategies. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds from any offering, from exiting an investment, prepayment of an investment or other capital source on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

Market interest rates may have an effect on the value of our common stock.

One of the factors that will influence the price of our common stock will be the distribution yield on our common stock (as a percentage of the price of our common stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common stock to expect a higher distribution yield and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common stock to decrease.

Our most recent NAV was calculated on March 31, 2017 and our NAV when calculated as of June 30, 2017 may be higher or lower.

As of March 31, 2017, our NAV per share was $8.33, which was based on the fair value our investments that were reviewed and approved by the Valuation Committee and Board of Directors. NAV per share as of June 30, 2017, and following quarters, may be higher or lower than $8.33 based on potential changes in valuations, issuances of

securities, or distributions paid and earnings for the quarter then ended. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis, and if our June 30, 2017 fair value is less than the March 31, 2017 fair value, we will record an unrealized loss on our investment portfolio. If the fair value is greater, we will record an unrealized gain on our investment portfolio. Upon publication of our next

quarterly NAV per share determination (generally in our next quarterly report on Form 10-Q), the market price of our common stock may fluctuate materially.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV, which may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount from NAV. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our NAV.

Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our common stockholders and our independent directors. At our 2017 Annual Meeting of Stockholders, we did not seek stockholder approval to issue shares of our common stock below NAV. Thus, for as long as our common stock may trade below NAV, we will be subject to significant constraints on our ability to raise capital through the issuance of common stock, including shares of common stock offered under this prospectus supplement. Although we have been able to secure access to additional liquidity, including through the Credit Facility and equity offerings, our inability to issue shares of common stock below NAV may limit our ability to raise capital needed to grow and achieve our investment objectives.

Additionally, when our common stock is trading below its NAV per share, our dividend yield may exceed the weighted average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional shares in such circumstances. Therefore, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

Rising interest rates may negatively impact our investments and have an adverse effect on our business, financial condition, results of operations, and cash flows.

In December 2016, the Federal Reserve again raised the federal funds rate by 0.25%, with additional gradual increases expected to occur over the next year. A substantial portion of our debt investments have variable interest rates that reset periodically and are generally based on LIBOR with a floor, so an increase in interest rates above the applicable floor may make it more difficult for our portfolio companies to meet their debt servicing obligations to us, which could result in a default under their loan documents with us. To the extent that interest rates increase, this may negatively impact the operating performance of our portfolio companies as they shift cash from other productive uses to the payment of interest or may cause our portfolio companies to refinance or otherwise repay our debt investments earlier than they otherwise would, requiring us to incur management time and expense to re-deploy such proceeds, including on terms that may not be as favorable as our existing loans. There can be no guarantee the Federal Reserve will raise rates at the gradual pace they originally proposed.

The current U.S. presidential administration, or the Administration, may make substantial changes to certain regulations that may adversely affect our business.

The Administration has called for substantial change to fiscal and tax policies, which may include comprehensive tax reform, including significant changes to taxation of business entities and the deductibility of interest expense.

On February 3, 2017, President Trump signed an executive order calling for the Administration to review U.S. financial laws and regulations in order to determine their consistency with a set of core principles identified in the order. Some areas identified as subject to potential change, amendment or repeal include the Dodd-Frank Act, the Consumer Protection Act, the Volcker Rule, credit risk retention requirements and the authorities of the Fed and the Financial Stability Oversight Council. We cannot predict which, if any, of these or other actions will be taken or, if taken, their effect on the financial stability of the credit market in which we operate. Such actions could have a significant adverse effect on our business, financial condition, results of operations, and cash flows.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to future events or our future performance or financial condition. 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, 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:

- the recurrence of adverse changes in the economy and the capital markets, including stock price volatility;
- risks associated with negotiation and consummation of pending and future transactions;
- the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker or Robert L. Marcotte;
- changes in our investment objective and strategy;
- availability, terms (including the possibility of interest rate volatility) and deployment of capital;
- changes in our industry, interest rates, exchange rates or the general economy;
- our business prospects and the prospects of our portfolio companies;
- the degree and nature of our competition;
- our ability to maintain our qualification as a RIC and as a BDC; and
- those factors described in the Risk Factors section of this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus supplement or the accompanying prospectus. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by the Private

Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act.

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USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may by transactions that are deemed to be part of an at the market offering as defined in Rule 415(a)(4) under the Securities Act, by means of ordinary brokers transactions that qualify for delivery of a prospectus to NASDAQ in accordance with Rule 153 under the Securities Act or such other sales as may be agreed by us and Cantor Fitzgerald, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at other negotiated prices. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. However, assuming the sale of the remaining $48.8 million of common stock offered under this prospectus supplement and the accompanying prospectus, we anticipate that our net proceeds from this offering will be approximately $47.6 million, after deducting the maximum estimated sales commission payable to Cantor Fitzgerald and our estimated offering expenses of $175,000. Through the date of this prospectus supplement, shares of common stock with an aggregate offering price of $1.2 million have been issued and sold pursuant to this at-the-market program, and net proceeds to us (net of sales agent commissions and other offering expenses borne by us) from our at-the-market program were approximately $1.0 million.

We intend to use the net proceeds from this offering to repay a portion of the amount outstanding under the Credit Facility, to fund new investment opportunities, and for other general corporate purposes. As of the date of this prospectus supplement, we had $80.2 million outstanding under the Credit Facility. Advances under the Credit Facility generally bear interest at a 30-day LIBOR plus 3.25% per annum, with a commitment fee of 0.5% per annum on undrawn amounts. The Credit Facility has a revolving period end date of January 19, 2019. 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.

We intend to re-borrow under our Credit Facility to make investments in portfolio companies in accordance with our investment objectives depending on the availability of appropriate investment opportunities consistent with our investment objectives and market conditions.

Pending such uses, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objectives.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash dividends, for each taxable year, a minimum of 90% of our annual ordinary income and short-term capital gains, if any, to our stockholders in the form of monthly dividends. We intend to retain long-term capital gains and treat them as deemed distributions for tax purposes. We report the estimated tax characterization of each dividend when declared while the actual tax characterization of dividends for each calendar year are reported to each stockholder on IRS Form 1099-DIV. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of record of common stock, all cash distributions paid with respect to our common stock can be reinvested automatically under our dividend reinvestment plan in additional whole and fractional shares of our common stock. A stockholder whose shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in a dividend reinvestment plan. See Risk Factors Risks Related to Our Regulation and Structure We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

Our common stock is quoted on NASDAQ under the symbol GLAD. Our common stock has historically traded at prices both above and below its NAV. There can be no assurance that any premium to NAV will be attained or maintained. As of May 19, 2017 there were 39 stockholders of record, meaning individuals or entities that we carry in our records as the registered holder (although not necessarily the beneficial owner) of our common stock.

The following table sets forth the range of high and low intraday sale prices of our common stock as reported on the NASDAQ and the distributions declared by us for the last two completed fiscal years and the current fiscal year through May 19, 2017.

Common Share Price Data

	NAV(1)	High	Low	Distributions Declared	(Discount) or Premium of High Sales Price to NAV(2)	(Discount) or Premium of Low Sales Price to NAV(2)
Fiscal Year ended September 30, 2015						
First Quarter	$ 9.31	$ 9.41	$ 8.02	$ 0.21	1.1%	(13.9)%
Second Quarter	9.55	9.10	7.25	0.21	(4.7)	(24.1)
Third Quarter	9.49	8.99	7.84	0.21	(5.3)	(17.4)
Fourth Quarter	9.06	9.25	7.58	0.21	2.1	(16.3)
Fiscal Year ended September 30, 2016						
First Quarter	8.38	9.09	6.39	0.21	8.5	(23.8)
Second Quarter	7.92	7.59	4.71	0.21	(4.2)	(40.5)
Third Quarter	7.95	7.67	6.80	0.21	(3.5)	(14.5)
Fourth Quarter	8.62	8.75	7.24	0.21	1.5	(16.0)
Fiscal Year ending September 30, 2017						

First Quarter	8.36	9.62	7.33	0.21	15.1	(12.3)
Second Quarter	8.33	9.92	8.67	0.21	19.1	4.1
Third Quarter (through May 19, 2017)	*	10.12	9.15	0.21	*	*

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(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low intraday sale prices. The NAV per shares shown are based on outstanding shares at the end of each period.

(2) The (discounts) premiums to NAV per share set forth in these columns represent the high or low, as applicable, intraday sale price per share for the relevant quarter minus the NAV per share as of the end of such quarter, and therefore may not reflect the (discount) premium to NAV per share on the date of the high and low intraday sale prices.

* Not yet available, as the NAV per share as of the end of this quarter has not yet been determined.

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CONSOLIDATED SELECTED FINANCIAL DATA

The following consolidated selected financial data for the fiscal years ended September 30, 2016, 2015, 2014, 2013 and 2012 are derived from our audited consolidated financial statements. The consolidated selected financial data for the six months ended March 31, 2017 and 2016 are derived from our unaudited consolidated financial statements included in this prospectus supplement. The other data included in the second table below is also unaudited. The data should be read in conjunction with our Consolidated Financial Statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and the accompanying prospectus.

(dollar amounts in thousands, except per share data)

	Six Months Ended March 31,		Year Ended September 30,				
	2017	**2016**	**2016**	**2015**	**2014**	**2013**	**2012**
Statement of Operations Data:							
Total Investment Income	**$ 18,767**	$ 19,518	**$ 39,112**	$ 38,058	$ 36,585	$ 36,154	$ 40,322
Total Expenses, Net of Credits from Adviser	**8,201**	9,841	**19,625**	20,358	18,217	17,768	21,278
Net Investment Income	**10,566**	9,677	**19,487**	17,700	18,368	18,386	19,044
Net Realized and Unrealized (Loss) Gain on Investments, Borrowings and Other	**(4,994)**	(24,521)	**(8,120)**	(9,216)	(7,135)	13,833	(27,052)
Net Increase (Decrease) in Net Assets Resulting from Operations	**$ 5,572**	$ (14,844)	**$ 11,367**	$ 8,484	$ 11,233	$ 32,219	$ (8,008)
Per Share Data:							
Net Investment Income per Common Share Basic and Diluted[(A)]	**$ 0.42**	$ 0.42	**$ 0.84**	$ 0.84	$ 0.87	$ 0.88	$ 0.91
Net Increase (Decrease) in Net	**0.22**	(0.64)	**0.49**	0.40	0.53	1.53	(0.38)

Assets Resulting from Operations per Common Share Basic and Diluted[(A)]							
Distributions Declared Per Common Share[(B)]	**0.42**	0.42	**0.84**	0.84	0.84	0.84	0.84
Statement of Assets and Liabilities Data:							
Total Assets	**$ 328,637**	$ 311,000	**$ 337,178**	$ 382,482	$ 301,429	$ 295,091	$ 293,402
Net Assets	**212,670**	185,204	**201,207**	191,444	199,660	205,992	188,564
Net Asset Value Per Common Share	**8.33**	7.92	**8.62**	9.06	9.81	9.81	8.98
Common Shares Outstanding	**25,517,866**	23,385,836	**23,344,422**	21,131,622	21,000,160	21,000,160	21,000,160
Weighted Common Shares Outstanding Basic and Diluted	**25,144,358**	23,048,110	**23,200,642**	21,066,844	21,000,160	21,000,160	21,011,123
Senior Securities Data:							
Borrowings under Credit Facility, at cost[(C)]	**$ 54,100**	$ 57,300	**$ 71,300**	$ 127,300	$ 36,700	$ 46,900	$ 58,800
Mandatorily redeemable preferred stock[(C)]	**61,000**	61,000	**61,000**	61,000	61,000	38,497	38,497

(A) Per share data is based on the weighted average common stock outstanding for both basic and diluted.

(B) The tax character of our distributions is determined on an annual basis.

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(C) See Management s Discussion and Analysis of Financial Condition and Results of Operations for more information regarding our level of indebtedness.

	Six Months Ended March 31,		Year Ended September 30,				
	2017	**2016**	**2016**	**2015**	**2014**	**2013**	**2012**
Other Unaudited Data:							
Number of Portfolio Companies at Period End	**44**	44	**45**	48	45	47	50
Average Size of Portfolio Company Investment at Cost	**$ 8,521**	$ 8,460	**$ 8,484**	$ 8,547	$ 7,762	$ 7,069	$ 7,300
Principal Amount of New Investments	**56,241**	22,300	**79,401**	102,299	81,731	80,418	45,050
Proceeds from Loan Repayments and Investments Sold	**65,067**	78,036	**121,144**	40,273	72,560	117,048	73,857
Weighted Average Yield on Investments(D)	**11.4%**	11.2%	**11.1%**	10.93%	11.47%	11.63%	11.25%
Total Return(E)	**22.35**	(3.02)	**11.68**	2.40	9.62	9.90	41.39

(D) Weighted average yield on investments equals interest income on investments divided by the weighted average interest-bearing principal balance throughout the period.

(E) Total return equals the change in the ending market value of our common stock from the beginning of the period, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account 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 elsewhere in the accompanying prospectus.

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SELECTED QUARTERLY FINANCIAL DATA

(UNAUDITED)

The following tables set forth certain quarterly financial information for each of the eight quarters in the two years ended September 30, 2016 and the first two quarters of the fiscal year ending September 30, 2017. The information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

	Quarter Ended	
	December 31, 2016	**March 31, 2017**
Total investment income	$ 9,974	$ 8,793
Net investment income	5,207	5,359
Net increase (decrease) in net assets resulting from operations	916	4,656
Net increase (decrease) in net assets resulting from operations per weighted average common share (basic and diluted)	$ 0.04	$ 0.18

	Quarter Ended			
	December 31, 2015	**March 31, 2016**	**June 30, 2016**	**September 30, 2016**
Total investment income	$ 10,060	$ 9,456	$ 9,844	$ 9,750
Net investment income	4,759	4,917	4,907	4,905
Net increase (decrease) in net assets resulting from operations	(8,704)	(6,139)	5,516	20,697
Net increase (decrease) in net assets resulting from operations per weighted average common share (basic and diluted)	$ (0.38)	$ (0.26)	$ 0.24	$ 0.89

	Quarter Ended			
	December 31, 2014	**March 31, 2015**	**June 30, 2015**	**September 30, 2015**
Total investment income	$ 8,726	$ 9,223	$ 9,935	$ 10,174
Net investment income	3,691	3,693	4,836	5,480
Net increase (decrease) in net assets resulting from operations	331	9,542	3,307	(4,696)
Net increase (decrease) in net assets resulting from operations per weighted average common share (basic and diluted)	$ 0.02	$ 0.45	$ (0.16)	$ (0.22)

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the notes thereto contained elsewhere in this prospectus supplement and the accompanying prospectus. 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 or unless otherwise indicated, dollar amounts in the tables included herein are in thousands.

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 BDC under the 1940 Act. In addition, for federal income tax purposes we have elected to be treated as a RIC under Subchapter M of 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 United States. 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 United States that meet certain criteria, including, but not limited to, the following: the sustainability of the business free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, reasonable capitalization of the borrower, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples and, to a lesser extent, the potential to realize appreciation and gain liquidity in our equity position, if any. We lend to borrowers that need funds for growth capital or to finance acquisitions or recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity and have opportunistically made several co-investments with our affiliate Gladstone Investment Corporation, a BDC also managed by our Adviser, 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 the Adviser, an investment adviser registered with the SEC and an affiliate of ours, pursuant to the Advisory Agreement. The Adviser manages our investment activities. We have also entered into the Administration Agreement with the Administrator, an affiliate of ours and the Adviser, whereby we pay separately for administrative services.

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Additionally, since February 2011, Gladstone Securities, LLC, or 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 the Series 2021 Term Preferred Stock are traded on 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., or 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, or Behrens, which resulted in success fee income of $0.4 million and a realized gain of $2.5 million. In connection with the sale, we received net cash proceeds of $8.2 million, including the repayment of our debt investment of $4.3 million at par.

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

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

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

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

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

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

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

Subsequent to March 31, 2017, the following significant transactions occurred:

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

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

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 19, 2017, the closing market price of our common stock was $9.87, an 18.5% 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:

Record Date	Payment Date	Distribution per Common Share	Distribution per Series 2021 Term Preferred Share
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	**8,793**	9,456	(663)	(7.0)
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	**3,434**	4,539	(1,105)	(24.3)
NET INVESTMENT INCOME	**5,359**	4,917	442	9.0
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	**(703)**	(11,056)	10,353	93.6
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$ 4,656**	$ (6,139)	$ 10,795	175.8

NM = Not Meaningful

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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.

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

	As of March 31, 2017		Three Months Ended March 31, 2017	
Company	**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%**

	As of March 31, 2016		Three Months Ended March 31, 2016	
Company	**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%**

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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 $46,000, 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.

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 Consolidated Financial Statements found elsewhere in this prospectus supplement 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 Consolidated Statements of Operations found elsewhere in this prospectus supplement.

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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 $45,000, 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 Group International, Inc., or Targus, during the period.

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:

	Three Months Ended March 31, 2017			
Portfolio Company	**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., or 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, or Source, of $1.5 million and Defiance Integrated Technologies, Inc., or 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:

	Three Months Ended March 31, 2016			
Portfolio Company	**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., or 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 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.

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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	**18,767**	19,518	(751)	(3.8)
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	**8,201**	9,841	(1,640)	(16.7)
NET INVESTMENT INCOME	**10,566**	9,677	889	9.2
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	**(4,994)**	(24,521)	19,527	(79.6)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$ 5,572**	$ (14,844)	$ 20,416	(137.5)%

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:

	As of March 31, 2017		Six Months Ended March 31, 2017	
Company	**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%**

	As of March 31, 2016		Six Months Ended March 31, 2016	
Company	**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 Consolidated Financial Statements found elsewhere in this prospectus supplement 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 Consolidated Statements of Operations found elsewhere in this prospectus supplement.

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 Media Holdings, or 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, or 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:

	Six Months Ended March 31, 2017			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
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:

	Six Months Ended March 31, 2016			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
Legend Communications of Wyoming, LLC	$	$ 2,857	$ 27	$ 2,884
Behrens Manufacturing, LLC		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.

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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] 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.

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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.

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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 overallotment option to purchase an additional 173,444 shares of our common stock. Gross proceeds totaled $17.3 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately $16.4 million. The net proceeds of this offering were used to repay borrowings under our Credit Facility.

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

Pursuant to our prior registration statement, on February 27, 2015, we entered into equity distribution agreements with the Sales Agents 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 19, 2017, the closing market price of our common stock was $9.87, an 18.5% 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.

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 *Consolidated Financial Statements* included elsewhere in this prospectus supplement 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.

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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:

	Payments Due by Fiscal Years				
Contractual Obligations[(A)]	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Credit Facility[(B)]	$	$ 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) 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 Consolidated Financial Statements included elsewhere in this prospectus supplement 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, or 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

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 Consolidated Financial Statements included elsewhere in this prospectus supplement 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 original issue discount, 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 Consolidated Statements of Operations included elsewhere in this prospectus supplement.

Refer to Note 2 *S*ummary of Significant Accounting Policies in the notes to our Consolidated Financial Statements included elsewhere in this prospectus supplement for additional information regarding revenue recognition.

Recent Accounting Pronouncements

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

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.

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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:	100.0%

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 Management s Discussion and Analysis of Financial condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk in the accompanying prospectus.

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PLAN OF DISTRIBUTION

We have entered into the Sales Agreement with Cantor Fitzgerald, pursuant to which we may issue and sell shares of our common stock, par value $0.001 per share, from time to time through Cantor Fitzgerald acting as agent that have an aggregate offering price (together with sales through the KCM Agreement) of up to $50.0 million. As of the date of this prospectus supplement, we have not sold any shares of our common stock under the Sales Agreement and have sold 131,462 shares with an aggregate offering price of $1.2 million under the KCM Agreement, leaving an aggregate offering price of up to $48.8 million available under the Sales Agreement as of the date of this prospectus supplement. The KCM Agreement was terminated effective May 22, 2017.

Upon delivery of a placement notice and subject to the terms and conditions of the Sales Agreement, Cantor Fitzgerald will use its commercially reasonable efforts consistent with its sales and trading practices to sell by any method permitted by law deemed to be part of an at the market offering as defined in Rule 415(a)(4) promulgated under the Securities Act, by means of ordinary brokers transactions that qualify for delivery of a prospectus to NASDAQ in accordance with Rule 153 under the Securities Act or such other sales as may be agreed by us and Cantor Fitzgerald, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. We will instruct Cantor Fitzgerald as to the amount of common stock to be sold. We may instruct Cantor Fitzgerald not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. We or Cantor Fitzgerald may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Cantor Fitzgerald will provide written confirmation of a sale to us no later than the opening of the trading day on NASDAQ following each trading day in which shares of our common stock are sold under the Sales Agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to Cantor Fitzgerald in connection with the sales.

Cantor Fitzgerald will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through it as sales agent under the Sales Agreement. We estimate that the total expenses for the offering, excluding compensation payable to Cantor Fitzgerald under the terms of the Sales Agreement, will be approximately $175,000, which includes our legal, accounting and printing costs and various other fees associated with the offering.

In addition, as shares of common stock sold under the Sales Agreement and KCM Agreement during the first 18 months of this offering had an aggregate offering price of less than $25.0 million, in September 2016, we reimbursed an aggregate of $32,033 to the Sales Agents for certain out-of-pocket expenses, including the fees and disbursements of counsel, incurred by the Sales Agents in connection with this offering.

Settlement for sales of shares of common stock will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by the Company and Cantor Fitzgerald in connection with a particular transaction, in each case in accordance with applicable rules and regulations, in return for payment of the net proceeds to the Company. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

In connection with the sale of the common stock on our behalf, Cantor Fitzgerald will be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of Cantor Fitzgerald will be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to Cantor Fitzgerald against certain civil liabilities, including liabilities under the Securities Act and the 1940 Act.

The offering of our shares of common stock pursuant to the Sales Agreement will terminate upon the earlier of (i) the sale of all common stock subject to the Sales Agreement or (ii) the termination of the Sales Agreement in accordance with its terms. The Sales Agreement may be terminated by us in our sole discretion under the

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circumstances specified in the Sales Agreement by giving five days notice to Cantor Fitzgerald. In addition, Cantor Fitzgerald may terminate the Sales Agreement under the circumstances specified in such Sales Agreement by giving five days notice to us.

Cantor Fitzgerald and its affiliates may in the future provide various investment banking, commercial banking and other financial services for us and our affiliates, for which services they may in the future receive customary fees. In addition, in the ordinary course of their business activities, Cantor Fitzgerald and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers.

The principal business address of Cantor Fitzgerald & Co. is 499 Park Avenue, New York, New York 10022.

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CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND PAYING AGENT

The custodian of our assets is The Bank of New York Mellon Corp. The custodian s address is: 500 Ross Street, Suite 935, Pittsburgh, PA 15262. Our assets are held under bank custodianship in compliance with the 1940 Act. Securities held through our wholly owned subsidiary, Gladstone Business Loan, are held under a custodian agreement with The Bank of New York Mellon Corp., which acts as collateral custodian pursuant to the Credit Facility with Branch Banking and Trust Company and certain other parties. The address of the collateral custodian is 500 Ross Street, Suite 935, Pittsburgh, PA 15262. Computershare acts as our transfer and dividend paying agent and registrar. The principal business address of Computershare Inc. is 250 Royall Street, Canton, Massachusetts 02021, telephone number 781-575-2000. Computershare also maintains an internet website at www.computershare.com.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. Certain matters of Maryland law, including the validity of the common stock to be issued in connection with this offering, will be passed upon for us by Venable LLP, Baltimore, Maryland. Cantor Fitzgerald & Co. is being represented in connection with this offering by Cooley LLP, New York, New York. Bass, Berry & Sims PLC and Cooley LLP may rely as to certain matters of Maryland law upon the opinion of Venable LLP.

EXPERTS

The financial statements as of September 30, 2016 and September 30, 2015 and for each of the three years in the period ended September 30, 2016 and management s assessment of the effectiveness of internal control over financial reporting (which is included in the Report of Management on Internal Controls) as of September 30, 2016 included in the accompanying prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1943, as amended, or the Exchange Act, and are required to file reports, proxy statements and other information with the SEC. These documents may be inspected and copied for a fee at the SEC s public reference room, 100 F Street, N.E., Washington, D.C. 20549.

This prospectus supplement and the accompanying prospectus do not contain all of the information in our registration statement, including amendments, exhibits and schedules. Statements in this prospectus supplement and in the accompanying prospectus about the contents of any contract or other document are not necessarily complete and, in each instance, reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

Additional information about the Company may be found in our registration statement on Form N-2 (including the related amendments, exhibits and schedules thereto) filed with the SEC. The SEC maintains a web site (*http://www.sec.gov*) that contains our registration statement, other documents incorporated by reference in the registration statement and other information that we have filed electronically with the SEC, including proxy statements and reports filed under the Exchange Act.

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(unaudited)

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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.

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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	**8,588**	8,668	**17,221**	17,854
Other income				
Non-Control/Non-Affiliate investments	**205**	788	**404**	1,289
Affiliate investments			**1,142**	
Control investments				375
Total other income	**205**	788	**1,546**	1,664
Total investment income	**8,793**	9,456	**18,767**	19,518
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	**5,909**	6,363	**12,358**	13,061
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	**3,434**	4,539	**8,201**	9,841

NET INVESTMENT INCOME		**5,359**		4,917		**10,566**		9,677
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)		**45**		(5,521)		**(3,403)**		9,857
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		**(748)**		(5,535)		**(1,591)**		(34,378)
Net realized and unrealized (loss) gain		**(703)**		(11,056)		**(4,994)**		(24,521)
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**4,656**	$	(6,139)	**$**	**5,572**	$	(14,844)
BASIC AND DILUTED PER COMMON SHARE:								
Net investment income	**$**	**0.21**	$	0.21	**$**	**0.42**	$	0.42
Net increase (decrease) in net assets resulting from operations	**$**	**0.18**	$	(0.26)	**$**	**0.22**	$	(0.64)
Distributions declared and paid	**$**	**0.21**	$	0.21	**$**	**0.42**	$	0.42
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: Basic and Diluted		**25,517,866**		23,413,131		**25,144,358**		23,048,110

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

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

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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.

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Six Months Ended March 31,	
	2017	**2016**
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	**10,246**	63,466
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		**(11,384)**		(61,472)
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.

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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)	$ 13,000	$ 13,000	$ 13,098
		Member Profit Participation (18.0% ownership)(F)(H)		1,000	
		Profit Participation Warrants (7.0% ownership)(F)(H)		244	
				14,244	13,098
Alloy Die Casting Corp.(S)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018)(D)(I)	5,235	5,235	4,188
		Secured First Lien Debt (13.5%, Due 10/2018)(D)(I)	75	75	60
		Secured First Lien Debt (Due 10/2018)(D)(Q)	390	390	314
		Preferred Stock (2,102 shares)(F)(H)		2,102	
		Common Stock (270 shares)(F)(H)	&n		