GLADSTONE CAPITAL CORP
Form 497
February 13, 2019
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Filed pursuant to Rule 497
Registration Statement No. 333-228720

PROSPECTUS SUPPLEMENT

(To Prospectus dated February 5, 2019)

Up to $50,000,000

Common Stock

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). For federal income tax purposes, we have elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established lower middle market companies 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.

We have entered into an equity distribution agreement (the Sales Agreement) with Jefferies LLC (Jefferies) relating to the sale of 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 Jefferies, as sales agent.

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 (the Securities Act), at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. Jefferies is not required to sell any specific amount, but will act as our sales agent using commercially reasonable efforts consistent with its normal trading and sales practices. There is no arrangement for funds to be received in any escrow, trust or similar arrangement.

Jefferies will be entitled to compensation at a commission rate of up to 2.0% of the gross sales price of the shares sold under the Sales Agreement. See Plan of Distribution beginning on page S-35 for additional information regarding the compensation to be paid to Jefferies. In connection with the sale of common shares on our behalf, Jefferies will be deemed to be an underwriter within the meaning of the Securities Act and the compensation of Jefferies will be deemed to be underwriting commissions or discounts. We have also agreed to provide indemnification and contribution to Jefferies with respect to certain liabilities, including civil liabilities under the Securities Act.

Our common stock is traded on Nasdaq under the symbol GLAD. On February 12, 2019, the last reported sale price of our common stock on Nasdaq was $8.77 per share. The net asset value (NAV) per share of our common stock on December 31, 2018 (the last date prior to the date of this prospectus supplement as of which we determined NAV) was $7.98. 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 Jefferies 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, beginning on page 13 of the accompanying prospectus and in any reports and information that we file from time to time with the Securities and Exchange Commission (the SEC), which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

This prospectus supplement and the accompanying prospectus, including any documents incorporated by reference herein, 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 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 the investor relations section of 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-39 of this prospectus supplement. **The SEC has not approved or disapproved of these securities or passed upon the adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

Jefferies

The date of this prospectus supplement is February 13, 2019

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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 or incorporated by reference into this prospectus supplement differs or varies from the information contained in or incorporated by reference into the accompanying prospectus, the information in or incorporated by reference into this prospectus supplement will supersede such information.

This prospectus supplement is part of a registration statement on Form N-2 (Registration No. 333-228720) 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 or incorporated by reference 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 or incorporated by reference into this prospectus supplement and the accompanying prospectus before making your investment decision. 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 or incorporated by reference in this prospectus supplement and the accompanying prospectus in making an investment decision. We have not, and Jefferies 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 Jefferies 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 or incorporated by reference 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. We will update these documents to reflect material changes only as required by law.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights some of the information contained in or incorporated by reference into 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 read the entire prospectus supplement and the accompanying prospectus carefully, including the sections entitled Risk Factors in this prospectus supplement and the accompanying prospectus, and the documents incorporated by reference herein and therein. Except where the context suggests otherwise, the terms we, us, our, the Company and Gladstone Capital refer 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 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 the Code. To continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements.

Our Investment Objectives and Strategy

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 lower middle market 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 December 31, 2018, our investment portfolio was made up of approximately 89.6% debt investments and 10.4% 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 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. In July 2012, the SEC granted us an exemptive order (the Co-Investment Order) that expanded our ability to co-invest, under certain circumstances, with certain of our affiliates, including Gladstone Investment Corporation, a BDC also managed by the Adviser, and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser, or any combination of the foregoing, subject to the conditions in the Co-Investment Order. Since 2012, we have opportunistically made several co-investments with Gladstone Investment

Corporation pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced 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 (generally based on the one-month London Interbank Offered Rate (LIBOR)) and, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, may have 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 a portfolio company, typically from an exit or sale. 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 (PIK) interest.

Typically, our equity investments consist of common stock, preferred stock, limited liability company interests, or warrants to purchase the foregoing. Often, these equity investments occur in connection with our original investment, recapitalizing a business, or refinancing existing debt.

During the three months ended December 31, 2018, we invested $49.9 million in six new portfolio companies and extended $9.4 million of investments to existing portfolio companies. In addition, during the three months ended December 31, 2018, we exited two portfolio companies through sales and early payoffs. We received a total of $8.9 million in combined net proceeds and principal repayments from the aforementioned portfolio company exits as well as existing portfolio companies during the three months ended December 31, 2018. This activity resulted in a net increase in our overall portfolio by four portfolio companies to 54 and a net increase of $23.9 million in our portfolio at cost since September 30, 2018. From our initial public offering in August 2001 through December 31, 2018, we have made 513 different loans to, or investments in, 233 companies for a total of approximately $1.8 billion, before giving effect to principal repayments on investments and divestitures. We expect that our investment portfolio will primarily include the following categories of investments in private companies operating in the U.S.:

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

Second Lien Secured Debt Securities: We seek to invest a portion of our assets in second lien secured debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These second lien secured debt securities rank junior to the borrowers first lien secured debt securities and may be secured by second priority liens on all or a portion of the assets of the business. 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 second lien secured debt securities. Second lien debt securities may include investments sourced from the syndicated loan market.

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.

Under the 1940 Act, we may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets and generally include each of the investment types listed above, unless, at the time the acquisition is made, qualifying assets represent at least 70.0% of our total 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. 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, an affiliate of ours, under an investment advisory and management agreement (the Advisory Agreement) and the Administrator, another of our affiliates, provides administrative services to us pursuant to a contractual agreement (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 Lee 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, general counsel and secretary 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 an SEC 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.

Recent Developments

Distributions to Stockholders

In January 2019, 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 SHARE OF SERIES 2024 TERM PREFERRED STOCK	
January 18, 2019	January 31, 2019	$	0.07	$	0.125
February 20, 2019	February 28, 2019		0.07		0.125
March 20, 2019	March 29, 2019		0.07		0.125
	Total for the Quarter:	**$**	**0.21**	**$**	**0.375**

Termination of Cantor Sales Agreement

On February 13, 2019, we terminated our equity distribution agreement with Cantor Fitzgerald & Co., as sales agent, under which we had the ability to issue and sell, from time to time, through Cantor Fitzgerald & Co., up to an aggregate offering price of $50.0 million shares of our common stock in an   at the market   offering.

THE OFFERING

Common Stock Offered

Shares with an aggregate offering price of up to $50,000,000.

Common Stock Outstanding as of February 13, 2019

28,504,745 shares.

Plan of Distribution

At the market offering that may be made from time to time through Jefferies, as sales agent, using commercially reasonable efforts consistent with its normal trading and sales practices. See *Plan of Distribution* beginning on page S-35 of this prospectus supplement.

On February 13, 2019, we established the at the market program to which this prospectus supplement relates and entered into an equity distribution agreement with Jefferies.

Use of Proceeds

If we sell shares of our common stock with an aggregate offering price of $50.0 million, we anticipate that our net proceeds, after deducting Jefferies maximum commissions and estimated offering expenses payable by us, will be approximately $48.8 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 (the Credit Facility), with KeyBank National Association (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-13 of this prospectus supplement.

Nasdaq Symbol

GLAD

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-14 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 116 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, beginning on page 13 of the accompanying prospectus and in the other documents incorporated by reference into this prospectus supplement and the accompanying prospectus before making an investment decision.

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 supplement 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 December 31, 2018 and average net assets attributable to common stockholders for the quarter ended December 31, 2018.

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]	0.32%
Dividend reinvestment plan expenses (per sales transaction fee) [3]	Up to $ 25.00 Transaction fee
Total stockholder transaction expenses (as a percentage of offering price)	2.32%
Annual expenses (as a percentage of net assets attributable to common stock) [4]:	
Base management fee [5]	3.12%
Loan Servicing fee [6]	2.16%
Incentive fees (20% of realized capital gains and 20% of pre-incentive fee net investment income) [7]	2.32%
Interest payments on borrowed funds [8]	3.64%
Dividend expense on mandatorily redeemable preferred stock [9]	1.44%
Other expenses [10]	1.60%
Total annual expenses [10][11]	14.28%

[1] Represents the maximum commission with respect to the shares of common stock being sold in this offering. Jefferies will be entitled to compensation of 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 Jefferies from time to time. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

[2] The percentage reflects estimated offering expenses of approximately $160,000 and assumes we sell all $50.0 million of common stock under the Sales Agreement.

[3] The expenses of the dividend reinvestment plan, if any, are included in stock record expenses, a component of other expenses. If a participant elects by written notice to the plan agent prior to termination of his or her account to have the plan agent sell part or all of the shares held by the plan agent in the participant s account and remit the proceeds to the participant, the plan agent is authorized to deduct a transaction fee, plus per share brokerage commissions, from the proceeds. 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 our Advisory Agreement, our annual base management fee is 1.75% (0.4375% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, 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. In accordance with the requirements of the SEC, the table above shows Gladstone Capital s 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 3.12% of the average net assets as of December 31, 2018 by dividing the total dollar amount of the management fee by our average net assets. The base management fee for the quarter ended December 31, 2018 before application of any credits was $1.8 million.

From time to time, the Adviser has non-contractually, unconditionally and irrevocably agreed to reduce the 1.75% 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 the quarter ended December 31, 2018, this credit to the base management fee was $0.1 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: (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 non-contractually, 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 December 31, 2018, the base management fee credit was $0.6 million. See *Management Certain Transactions Investment Advisory and Management Agreement* in the accompanying prospectus.

[6] The Adviser services, administers and collects on the loans held by Gladstone Business Loan, LLC (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 December 31, 2018, the total loan servicing fee was $1.3 million. The entire loan servicing fee paid to the Adviser by Business Loan is generally non-contractually, unconditionally and irrevocably 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 December 31, 2018. The income-based incentive fee for the quarter ended December 31, 2018 before application of any credits was $1.4 million.

From time to time, the Adviser has non-contractually, 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 December 31, 2018, the incentive fee credit was $0.5 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%.

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 December 31, 2018, we had $102.2 million in borrowings outstanding under our Credit Facility.

[9] Includes amortization of deferred financing costs related to our Series 2024 Term Preferred Stock, as well as amounts paid to preferred stockholders during the three months ended December 31, 2018. See *Description of Our Securities Preferred Stock Series 2024 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 estimated to be incurred by the Administrator in performing its obligations under the Administration Agreement for the current fiscal year. See *Management Certain Transactions Administrator Compensation* in the accompanying prospectus.

[11] Total annualized gross expenses, based on actual amounts incurred for the quarter ended December 31, 2018, would be $33.4 million. After all non-contractual, unconditional and irrevocable credits described in footnote 5, footnote 6 and footnote 7 above are applied to the base management fee, the loan servicing fee, and the incentive fee, total annualized expenses after fee credits, based on actual amounts incurred for the quarter ended December 31, 2018, would be $23.7 million or 10.12% as a percentage of net assets.

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]	$ 135	$ 373	$ 571	$ 936
assuming a 5% annual return consisting entirely of capital gains [2][3]	$ 144	$ 393	$ 597	$ 961

[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 or incorporated by reference into this prospectus supplement and the accompanying prospectus before making a decision to purchase shares of our common stock. The risks and uncertainties described below, in the Risk Factors section of the accompanying prospectus and in the other documents incorporated by reference into this prospectus supplement and the accompanying prospectus are not the only risks we face. 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 or NAV of our common stock could decline, and you may lose all or part of your investment. We believe the risk factors described below are the principal risk factors associated with an investment in our common stock as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with 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, project, would, if, seek, possible, potential, likely or the negative or other variations of such terms or comparable tern 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;
- 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, Robert L. Marcotte or Terry Lee Brubaker;
- changes in our investment objectives and strategy;
- availability, terms (including the possibility of interest rate volatility) and deployment of capital;
- changes in our industry, interest rates, exchange rates, regulation or the general economy;
- our business prospects and the prospects of our portfolio companies;
- the degree and nature of our competition;
- changes in governmental regulations, tax rates and similar matters;
- our ability to exit an investment in a timely manner;

- 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 and in the other documents incorporated by reference into this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statement, which speak only as of the date made. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from our historical performance. Except 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. 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 we have filed, or in the future may file with the SEC, including subsequent annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements contained or incorporated by reference 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.

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, including sales made directly on or through Nasdaq, or any other existing trading market for our common stock, 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 $50.0 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 $48.8 million, after deducting the maximum sales commission payable to Jefferies and our estimated offering expenses of $160,000.

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 $82.6 million outstanding under the Credit Facility, which matures on April 15, 2022 and bears interest at a rate of 30-day LIBOR plus 2.85% per annum. 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 may 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 90.0% of our annual ordinary income plus the excess of net short-term capital gains over net long-term capital losses, if any, to our stockholders in the form of monthly dividends. We intend to retain some or all of our realized capital gains first to the extent we have available capital loss carryforwards and second, through treating the retained amount as a deemed distribution 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 shares of common stock and mandatorily redeemable preferred stock are traded on the Nasdaq under the trading symbols GLAD and GLADN, respectively, and our 6.125% Notes due 2023 (the 2023 Notes) trade on Nasdaq under the trading symbol GLADD. There can be no assurance that any premium to NAV will be attained or maintained. As of January 14, 2019, there were 38 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 February 12, 2019.

COMMON SHARE PRICE DATA

		SALES PRICE			PREMIUM	PREMIUM
				DECLARED	(DISCOUNT) OF	(DISCOUNT) OF
				COMMON	HIGH TO	LOW TO
	NAV[1]	HIGH	LOW	DISTRIBUTIONS	NAV [2]	NAV [2]
Fiscal Year ended 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	8.38	10.12	9.15	0.21	20.8	9.2
Fourth Quarter	8.40	9.95	8.98	0.21	18.5	6.9
Fiscal Year ended September 30, 2018						
First Quarter	8.48	9.92	8.95	0.21	17.0	5.5
Second Quarter	8.62	9.50	7.80	0.21	10.2	(9.5)
Third Quarter	8.86	9.29	8.57	0.21	4.9	(3.3)
Fourth Quarter	8.32	9.87	9.02	0.21	18.6	8.4
Fiscal Year ending September 30, 2019						
First Quarter	7.98	9.65	6.41	0.21	20.9	(19.7)
Second Quarter (through February 12, 2019)	*	8.97	7.21	0.21	*	*

[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 share 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.

The following are our outstanding classes of securities as of December 31, 2018.

(1)TITLE OF CLASS	(2)AMOUNT AUTHORIZED	(3)AMOUNT HELD BY US OR FOR OUR ACCOUNT	(4)AMOUNT OUTSTANDING EXCLUSIVE OF AMOUNT SHOWN UNDER COLUMN(3)
Common Stock	44,560,000 shares		28,504,745 shares
6.00% Series 2024 Term Preferred Stock	5,440,000 shares		2,070,000 shares
6.125% Notes due 2023	$ 57,500,000		$ 57,500,000

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CONSOLIDATED SELECTED FINANCIAL DATA

The following consolidated selected financial data for the fiscal years ended September 30, 2018, 2017, 2016, 2015 and 2014 are derived from our audited consolidated financial statements. The consolidated selected financial data for the three months ended December 31, 2018 and 2017 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.

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30,				
(dollar amounts in thousands, except per share data)	**2018**	**2017**	**2018**	**2017**	**2016**	**2015**	**2014**
Statement of Operations Data:							
Total Investment Income	**$ 11,909**	$ 10,859	**$ 45,581**	$ 39,233	$ 39,112	$ 38,058	$ 36,585
Total Expenses, Net of Credits from Adviser	**5,923**	5,282	**22,493**	17,800	19,625	20,358	18,217
Net Investment Income	**5,986**	5,577	**23,088**	21,433	19,487	17,700	18,368
Net Realized and Unrealized (Loss) Gain on Investments, Borrowings and Other	**(9,694)**	1,583	**(4,440)**	(4,253)	(8,120)	(9,216)	(7,135)
Net Increase (Decrease) in Net Assets Resulting from Operations	**(3,708)**	7,160	**18,648**	17,180	11,367	8,484	11,233
Per Share Data:							
Net Investment Income per Common	**$ 0.21**	$ 0.21	**$ 0.85**	$ 0.84	$ 0.84	$ 0.84	$ 0.87

Share Basic and Diluted (A)							
Net Increase (Decrease) in Net Assets Resulting from Operations per Common Share Basic and Diluted (A)	**(0.13)**	0.27	**0.69**	0.67	0.49	0.40	0.53
Distributions Declared Per Common Share (B)	**0.21**	0.21	**0.84**	0.84	0.84	0.84	0.84
Statement of Assets and Liabilities Data:							
Total Assets	**$ 438,424**	$ 409,722	**$ 399,508**	$ 365,860	$ 337,178	$ 382,482	$ 301,429
Net Assets	**227,426**	225,717	**237,092**	219,650	201,207	191,444	199,660
Net Asset Value Per Common Share	**7.98**	8.48	**8.32**	8.40	8.62	9.06	9.81
Common Shares Outstanding	**28,504,745**	26,632,182	**28,501,980**	26,160,684	23,344,422	21,131,622	21,000,160
Weighted Common Shares Outstanding Basic and Diluted	**28,504,715**	26,522,788	**27,104,077**	25,495,117	23,200,642	21,066,844	21,000,160
Senior Securities Data:							
Borrowings under Credit Facility, at cost (C)	**$ 102,200**	$ 130,500	**$ 110,000**	$ 93,000	$ 71,300	$ 127,300	$ 36,700
Mandatorily redeemable preferred stock (C)(D)	**51,750**	51,750	**51,750**	51,750	61,000	61,000	61,000
Notes payable, at cost	**57,500**						

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

[B] The tax character of distributions is determined on an annual basis in accordance with accounting principles generally accepted in the U.S. (GAAP). For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders* included elsewhere in the accompanying prospectus.

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

[D] Represents the aggregate liquidation preference of our mandatorily redeemable preferred stock.

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30,				
	2018	**2017**	**2018**	**2017**	**2016**	**2015**	**2014**
Other Unaudited Data:							
Number of Portfolio Companies at Period End	**54**	51	**50**	47	45	48	45
Average Size of Portfolio Company Investment at Cost	**$ 8,359**	$ 8,826	**$ 8,549**	$ 8,754	$ 8,484	$ 8,547	$ 7,762
Principal Amount of New Investments	**49,865**	56,336	**67,936**	99,241	79,401	102,299	81,731
Proceeds from Loan Repayments and Investments Sold and Exits [E]	**8,855**	19,843	**67,944**	83,444	121,144	40,273	72,560
Weighted Average Yield on Investments, excluding loans on non-accrual status [F]	**13.3%**	11.96%	**11.08%**	11.57%	11.08%	10.93%	11.47%
Weighted Average Yield on Investments, including loans on non-accrual status [G]	**13.3**	10.94	**10.72**	10.61	10.27	9.84	9.99
Total Return[H]	**(21.28)**	(0.91)	**9.53**	27.90	11.68	2.40	9.62

(E) Includes non-cash reductions in cost basis.

(F) Weighted average yield on investments, excluding loans on non-accrual status, equals interest income on investments divided by the weighted average interest-bearing principal balance throughout the fiscal year.

(G) Weighted average yield on investments, including loans on non-accrual status, equals interest income on investments divided by the weighted average total principal balance throughout the fiscal year.

(H) Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account dividends reinvested in accordance with the terms of the 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, refer to Note 9 *Distributions to Common Stockholders* elsewhere in the accompanying prospectus.

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, 2018 and the first quarter of the fiscal year ending September 30, 2019. The information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full fiscal year or for any future quarter.

(dollar amounts in thousands, except per share data)	**QUARTER ENDED DECEMBER 31, 2018**
Total investment income	$ 11,909
Net investment income	5,986
Net decrease in net assets resulting from operations	(3,708)
Net decrease in net assets resulting from operations per weighted average common share (basic and diluted)	$ (0.13)

	QUARTER ENDED			
	DECEMBER 31, 2017	**MARCH 31, 2018**	**JUNE 30, 2018**	**SEPTEMBER 30, 2018**
Total investment income	**$ 10,859**	**$ 11,086**	**$ 12,379**	**$ 11,257**
Net investment income	**5,577**	**5,613**	**5,996**	**5,902**
Net increase (decrease) in net assets resulting from operations	**7,160**	**9,304**	**12,093**	**(9,909)**
Net increase (decrease) in net assets resulting from operations per weighted average common share (basic and diluted)	**$ 0.27**	**$ 0.35**	**$ 0.45**	**$ (0.35)**

	QUARTER ENDED			
	DECEMBER 31, 2016	MARCH 31, 2017	JUNE 30, 2017	SEPTEMBER 30, 2017
Total investment income	$ 9,974	$ 8,793	$ 9,632	$ 10,834
Net investment income	5,207	5,359	5,379	5,488
Net increase in net assets resulting from operations	916	4,656	6,163	5,445
Net increase in net assets resulting from operations per weighted average common share (basic and diluted)	$ 0.04	$ 0.18	$ 0.24	$ 0.21

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 the Code. To continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements.

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 lower middle market 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 December 31, 2018, our investment portfolio was made up of approximately 89.6% debt investments and 10.4% 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 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. In July 2012, the SEC granted us the Co-investment Order that expanded our ability to co-invest, under certain circumstances, with certain of our affiliates, including Gladstone Investment Corporation, a BDC also managed by the Adviser, and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser, or any combination of the foregoing, subject to the conditions in the Co-Investment Order. Since 2012, we have opportunistically made several co-investments with Gladstone Investment Corporation pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced 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.

Additionally, Gladstone Securities, LLC, 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.

Business

Portfolio and Investment Activity

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (generally based on the one-month LIBOR) and, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, may have 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 a portfolio company, typically from an exit or sale. 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 PIK interest.

Typically, our equity investments consist of common stock, preferred stock, limited liability company interests, or warrants to purchase the foregoing. Often, these equity investments occur in connection with our original investment, recapitalizing a business, or refinancing existing debt.

During the three months ended December 31, 2018, we invested $49.9 million in six new portfolio companies and extended $9.4 million of investments to existing portfolio companies. In addition, during the three months ended December 31, 2018, we exited two portfolio companies through sales and early payoffs. We received a total of $8.9 million in combined net proceeds and principal repayments from the aforementioned portfolio company exits as well as existing portfolio companies during the three months ended December 31, 2018. This activity resulted in a net increase in our overall portfolio by four portfolio companies to 54 and a net increase of $23.9 million in our portfolio at cost since September 30, 2018. From our initial public offering in August 2001 through December 31, 2018, we have made 513 different loans to, or investments in, 233 companies for a total of approximately $1.8 billion, before giving effect to principal repayments on investments and divestitures.

During the three months ended December 31, 2018, the following significant transactions occurred:

- In October 2018, TWS Acquisition Corporation paid off at par for net proceeds of $2.0 million.

- In October, November and December 2018, we invested a total of $3.7 million in 8th Avenue Food & Provisions, Inc. through secured second lien debt.

In November 2018, we invested $16.7 million in Antenna Research Associates, Inc. through a combination of secured first lien debt and equity.

In November 2018, we invested $2.0 million in GOBP Holdings, Inc. through secured second lien debt.

In November 2018, Red Ventures, LLC paid off at par for net proceeds of $3.1 million.

In December 2018, we invested $20.0 million in R2i Holdings, LLC through secured first lien debt.

In December 2018, we invested $6.5 million in DKI Ventures, LLC through secured first lien debt.

In December 2018, our investment in Francis Drilling Fluids, Ltd (FDF) was restructured upon emergence from Chapter 11 bankruptcy protection. As part of the restructure, our existing $27.0 million debt investment in FDF was converted to $1.35 million of preferred equity and common equity units in a new entity, FES Resources Holdings, LLC (FES Resources). We also invested an additional $5.0 million in FES Resources through a combination of preferred equity and common equity units. In conjunction with the restructure, we recorded a net realized loss of $26.9 million associated with our investment in FDF.

In December 2018, we invested $1.0 million in CPM Holdings, Inc. through secured second lien debt.

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 of common and preferred stock and public debt offerings. We have successfully extended the Credit Facility s revolving period multiple times, most recently to January 2021, and currently have a total commitment amount of $190.0 million. In September 2017, we issued 2.1 million shares of our 6.00% Series 2024 Term Preferred Stock, par value $0.001 per share (Series 2024 Term Preferred Stock), at a public offering price of $25 per share, for gross proceeds of $51.8 million. Additionally, during the three months ended December 31, 2018, we sold 2,765 shares of our common stock under our at the market (ATM) program at a weighted-average price of $9.60 per share and raised $28 thousand of gross proceeds. During the year ended September 30, 2018, we sold 2,341,296 shares of our common stock under our ATM program at a weighted-average price of $9.39 per share and raised $22.0 million of gross proceeds. Most recently, in November 2018, we completed a public debt offering of $57.5 million aggregate principal amount of the 2023 Notes. Refer to *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of the Credit Facility, *Liquidity and Capital Resources Notes Payable* for further discussion of our public debt, and *Liquidity and Capital Resources Equity* for further discussion of our common stock and mandatorily redeemable preferred stock.

Although we were able to access the capital markets historically and in recent years, we believe uncertain market conditions could affect the trading price of our capital stock and thus may inhibit our ability to finance new investments through the issuance of equity. When our common stock trades below NAV per common share, as it has often done in previous 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.

On December 31, 2018, the closing market price of our common stock was $7.30, an 8.5% discount to our December 31, 2018 NAV per share of $7.98.

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% (currently) or 150% (effective April 10, 2019) on our senior securities representing indebtedness and our senior securities that are stock.

On April 10, 2018, our Board of Directors, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) thereof, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Small Business Credit Availability Act. As a result, the Company s asset coverage requirements for senior securities will be changed from 200% to 150%, effective one year after the date of the Board of Directors approval; or April 10, 2019. Under the current 200% asset coverage standard, we may borrow debt or issue senior securities in the amount of $1.00 for every $1.00 of equity in the Company. Starting from April 10, 2019, under the 150% asset coverage standard, we may borrow debt or issue senior securities in the amount of $2.00 for every $1.00 of equity in the Company. Notwithstanding the modified asset coverage requirement under the 1940 Act described above, we are separately subject to a minimum asset coverage requirement of 200% with respect to certain provisions of our Credit Facility and our Series 2024 Term Preferred Stock.

As of December 31, 2018, our asset coverage on our senior securities representing indebtedness was 270.8% and our asset coverage on our senior securities that are stock was 204.8%.

Recent Developments

Portfolio and Investment Activity

In January 2019, our investment in Merlin International, Inc. paid off, which resulted in success fee income of $0.6 million and a prepayment fee of $0.3 million. In connection with the payoff, we received net cash proceeds of $20.9 million, including the repayment of our debt investment of $20.0 million at par.

Distributions and Dividends

In January 2019, 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 SHARE OF SERIES 2024 TERM PREFERRED STOCK
January 18, 2019	January 31, 2019	$ 0.07	$ 0.125
February 20, 2019	February 28, 2019	0.07	0.125
March 20, 2019	March 29, 2019	0.07	0.125
	Total for the Quarter:	**$0.21**	**$0.375**

RESULTS OF OPERATIONS

Comparison of the Three Months Ended December 31, 2018, to the Three Months Ended December 31, 2017

	THREE MONTHS ENDED DECEMBER 31,			
	2018	2017	$ CHANGE	% CHANGE
INVESTMENT INCOME				
Interest income	**$ 11,687**	$ 10,670	$ 1,017	9.5%
Other income	**222**	189	33	17.5
Total investment income	**11,909**	10,859	1,050	9.7
EXPENSES				
Base management fee	**1,828**	1,676	152	9.1
Loan servicing fee	**1,262**	1,186	76	6.4
Incentive fee	**1,360**	1,373	(13)	(0.9)

Administration fee	**345**	272	73	26.8
Interest expense on borrowings and notes payable	**1,898**	1,231	667	54.2
Dividend expense on mandatorily redeemable preferred stock	**776**	776		
Amortization of deferred financing fees	**300**	248	52	21.0
Other expenses	**590**	547	43	7.9
Expenses, before credits from Adviser	**8,359**	7,309	1,050	14.4
Credit to base management fee loan servicing fee	**(1,262)**	(1,186)	(76)	6.4
Credits to fees from Adviser other	**(1,174)**	(841)	(333)	39.6
Total expenses, net of credits	**5,923**	5,282	641	12.1
NET INVESTMENT INCOME	**5,986**	5,577	409	7.3
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized (loss) gain on investments and other	**(26,863)**	441	(27,304)	NM
Net unrealized appreciation (depreciation) of investments	**17,169**	1,360	15,809	NM
Net unrealized appreciation of other		(218)	218	NM
Net (loss) gain from investments and other	**(9,694)**	1,583	(11,277)	NM
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ (3,708)**	$ 7,160	$ (10,868)	NM

NM = Not Meaningful

Investment Income

Interest income increased by 9.5% for the three months ended December 31, 2018, as compared to the prior year. The increase was due primarily to an increase in the weighted average yield on our interest bearing portfolio and an increase in the weighted average principal balance of our interest bearing portfolio. The weighted average yield on our interest-bearing investments is based on the current stated interest rate on interest-bearing investments, which increased to 12.3% for the three months ended December 31, 2018, compared to 12.0% for the three months ended December 31, 2017, inclusive of any allowances on interest receivables made during those periods. The weighted average principal balance of our interest-bearing investment portfolio for the three months ended December 31, 2018, was $375.5 million, compared to $353.4 million for the three months ended December 31, 2017, an increase of $22.1 million, or 6.3%.

As of December 31, 2018, there were no investments on non-accrual status. As of December 31, 2017, two portfolio companies, Sunshine Media Holdings and Alloy Die Casting Co. were on non-accrual status, with an aggregate debt cost basis of approximately $27.9 million, or 6.8% of the cost basis of all debt investments in our portfolio.

Other income increased by 17.5% during the three months ended December 31, 2018, as compared to the prior year period due to an increase in dividend income and success fees received period over period.

As of December 31, 2018 and September 30, 2018, no single investment represented greater than 10% of the total investment portfolio at fair value. Investment income, generally consisting of interest, dividends, success fees, and prepayment fees can fluctuate upon repayment or sale of an investment and in any given period can be highly concentrated among several investments. For the three months ended December 31, 2018 and 2017, no individual investment produced investment income that exceeded 10% of total investment income.

Expenses

Expenses, net of any non-contractual, unconditional and irrevocable credits to fees from the Adviser, increased $0.6 million, or 12.1%, for the three months ended December 31, 2018 as compared to the prior year period. This increase was primarily due to a $0.7 million increase in interest expense on borrowings, partially offset by a $0.2 million decrease in our net base management and incentive fees to the Adviser.

Interest expense increased by 54.2% during the three months ended December 31, 2018, as compared to the prior year period, due primarily to the issuance of $57.5 million aggregate principal amount of the 2023 Notes in November 2018. We incurred $0.5 million in interest expense related to the notes issuance during the quarter ended December 31, 2018 versus no such amounts in the prior year period. The weighted average balance outstanding on our Credit Facility decreased slightly during the three months ended December 31, 2018 compared to the prior year period with the issuance of the 2023 Notes; however, this decrease was largely offset by borrowings in December 2018 to fund new investments. The weighted average balance outstanding on our Credit Facility during the three months ended December 31, 2018 was $88.9 million, as compared to $98.2 million in the prior year period, a decrease of 9.5%. The effective interest rate on our Credit Facility, including unused commitment fees incurred but excluding the impact of deferred financing costs, was 6.1% during the three months ended December 31, 2018, compared to 5.0% during the prior year period. The increase in the effective interest rate was driven by an increase in LIBOR as compared to the prior year period and an increase in unused commitment fees paid in the current year period, offset by a decrease in the marginal interest rate on our Credit Facility effective March 9, 2018.

The net base management fee earned by the Adviser increased by $0.3 million, or 30.5%, during the three months ended December 31, 2018, as compared to the prior year period, resulting from an increase in average total assets subject to the base management fee and a decrease in credits from the Adviser year over year.

The income-based incentive fee decreased slightly for the three months ended December 31, 2018, as compared to the prior year period, due to lower pre-incentive fee net investment income, partially offset by an increase in net assets, which drives the hurdle, over the respective periods. Our Board of Directors accepted non-contractual, unconditional and irrevocable credits from the Adviser of $0.5 million and $0.1 million, to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of our distributions to common stockholders during the three months ended December 31, 2018 and 2017, respectively.

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 Consolidated Financial Statements* and are summarized in the following table:

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
Average total assets subject to base management fee (A)	**$ 417,829**	$ 383,086
Multiplied by prorated annual base management fee of 1.75%	**0.4375%**	0.4375%
Base management fee (B)	**$ 1,828**	$ 1,676
Portfolio company fee credit	**(544)**	(664)
Senior syndicated loan fee credit	**(83)**	(92)
Net Base Management Fee	**$ 1,201**	$ 920
Loan servicing fee (B)	**1,262**	1,186
Credit to base management fee loan servicing fee(B)	**(1,262)**	(1,186)
Net Loan Servicing Fee	**$**	$
Incentive fee (B)	**1,360**	1,373
Incentive fee credit	**(547)**	(85)
Net Incentive Fee	**$ 813**	$ 1,288
Portfolio company fee credit	**(544)**	(664)
Senior syndicated loan fee credit	**(83)**	(92)
Incentive fee credit	**(547)**	(85)
Credits to Fees From Adviser other(B)	**$ (1,174)**	$ (841)

(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*.

Net Realized and Unrealized Gain (Loss)

Net Realized Gain (Loss) on Investments

For the three months ended December 31, 2018, we recorded a net realized loss on investments of $26.9 million, which resulted primarily from the restructuring of our investment in FDF.

For the three months ended December 31, 2017, we recorded a net realized gain on investments of $0.6 million, which resulted primarily from the sale of our investment in Flight Fit N Fun LLC in October 2017 for a $0.6 million realized gain.

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Net Unrealized Appreciation (Depreciation) of Investments

During the three months ended December 31, 2018, we recorded net unrealized appreciation of investments in the aggregate amount of $17.2 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2018, were as follows:

	THREE MONTHS ENDED DECEMBER 31, 2018			
PORTFOLIO COMPANY	**REALIZED GAIN (LOSS)**	**UNREALIZED APPRECIATION (DEPRECIATION)**	**REVERSAL OF UNREALIZED (APPRECIATION) DEPRECIATION**	**NET GAIN (LOSS)**
Lignetics, Inc.	$	$ 1,663	$	$ 1,663
Alloy Die Casting, Co.		1,118		1,118
GFRC Holdings, LLC		574		574
Precision International, LLC		517		517
The Mochi Ice Cream Company		377		377
Targus Cayman HoldCo, Ltd.		307		307
Gray Matter Systems, LLC		(153)		(153)
Vision Government Solutions, Inc.		(184)		(184)
WadeCo Specialties, Inc.		(236)		(236)
Belnick, Inc.		(250)		(250)
Meridian Rack & Pinion, Inc.		(269)		(269)
Travel Sentry, Inc.		(290)		(290)
Funko Acquisition Holdings, LLC		(299)		(299)
NetFortris Corp.		(322)		(322)
EL Academies, Inc.		(466)		(466)
Arc Drilling Holdings LLC		(478)		(478)
IA Tech, LLC		(600)		(600)
Merlin International, Inc.		(600)		(600)
Impact! Chemical Technologies, Inc.		(619)		(619)
LWO Acquisitions Company LLC		(848)		(848)
Edge Adhesives Holdings, Inc.		(2,053)		(2,053)
Francis Drilling Fluids, Ltd.	(26,850)		20,379	(6,471)
Other, net (<$250)	(13)	20	(119)	(112)
Total:	**$ (26,863)**	**$ (3,092)**	**$ 20,261**	**$ (9,694)**

The primary driver of net unrealized appreciation of $17.2 million for the three months ended December 31, 2018 was the reversal of previously recorded unrealized depreciation upon the restructure of FDF partially offset by the decline in the financial and operational performance of certain of our other portfolio companies, including most notably, Edge Adhesives Holdings, Inc. of $2.1 million.

During the three months ended December 31, 2017, we recorded net unrealized appreciation of investments in the aggregate amount of $1.4 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2017, were as follows:

	THREE MONTHS ENDED DECEMBER 31, 2017			
PORTFOLIO COMPANY	**REALIZED GAIN (LOSS)**	**UNREALIZED APPRECIATION (DEPRECIATION)**	**REVERSAL OF UNREALIZED (APPRECIATION) DEPRECIATION**	**NET GAIN (LOSS)**
Francis Drilling Fluids, Ltd.	$	$ 2,429	$	$ 2,429
LWO Acquisitions Company LLC		1,012		1,012
Edge Adhesives Holdings, Inc.		482		482
NetFortris Corp.		430		430
WadeCo Specialties, Inc.		227		227
United Flexible, Inc.		186		186
Vision Government Solutions, Inc.		178		178
Canopy Safety Brands, LLC		147		147
TapRoot Partners, Inc.		110		110
Alloy Die Casting, Co.		86		86
Flight Fit N Fun LLC	582		(725)	(143)
Lignetics, Inc.		(206)		(206)
Defiance Integrated Technologies, Inc.		(212)		(212)
Targus Cayman HoldCo, Ltd.		(249)		(249)
Vacation Rental Pros		(252)		(252)
Meridian Rack & Pinion, Inc.		(303)		(303)
Sunshine Media Holdings		(318)		(318)
L Discovery		(555)		(555)
New Trident Holdcorp, Inc.		(1,221)		(1,221)
Other, net (<$250)	(8)	201	(87)	106
Total:	**$ 574**	**$ 2,172**	**$ (812)**	**$ 1,934**

The primary driver of net unrealized appreciation for the three months ended December 31, 2017 was improvement in the financial and operational performance of certain portfolio companies, most notably FDF of $2.4 million and LWO Acquisitions Company LLC of $1.0 million. This appreciation was partially offset by the decline in the financial and operational performance of New Trident Holdcorp, Inc. of $1.2 million.

Net Unrealized (Appreciation) Depreciation of Other

During the three months ended December 31, 2017, we recorded $0.2 million of unrealized appreciation related to a change in the fair value of our Credit Facility. No such amounts were recorded during the three months ended December 31, 2018.

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 and notes payable, make distributions to our stockholders, pay management and administrative fees to the Adviser and Administrator, and for other operating expenses. Net cash used in operating activities for the three months ended December 31, 2018 was $43.4 million as compared to $36.9 million for the three months ended December 31, 2017. The increase in net cash used in operating activities was primarily driven by a decrease in principal repayments on investments period over period. Principal repayments from sales were $8.9 million during the three months ended December 31, 2018 compared to $18.6 million during the three months ended December 31, 2017.

As of December 31, 2018, we had loans to, syndicated participations in or equity investments in 54 companies, with an aggregate cost basis of approximately $451.4 million. As of December 31, 2017, we had loans to, syndicated participations in or equity investments in 51 private companies, with an aggregate cost basis of approximately $450.1 million.

The following table summarizes our total portfolio investment activity during the three months ended December 31, 2018 and 2017:

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
Beginning investment portfolio, at fair value	**$ 390,046**	$ 352,373
New investments	**49,865**	56,336
Disbursements to existing portfolio companies	**9,363**	602
Scheduled principal repayments on investments	**(1,640)**	(2,529)
Unscheduled principal repayments on investments	**(7,228)**	(16,040)
Net proceeds from sale of investments	**13**	(1,274)
Net unrealized (depreciation) appreciation of investments	**(3,092)**	2,172
Reversal of prior period depreciation (appreciation) of investments on realization	**20,261**	(812)
Net realized (loss) gain on investments or other	**(26,863)**	574
Increase in investments due to PIK[A]	**314**	983
Net change in premiums, discounts and amortization	**108**	45
Investment Portfolio, at Fair Value	**$ 431,147**	$ 392,430

[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.

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of December 31, 2018:

		AMOUNT
For the remaining nine months ending September 30:	2019	$ 30,851
For the fiscal years ending September 30:	2020	54,131
	2021	69,066
	2022	56,235
	2023	116,837
	Thereafter	78,064
	Total contractual repayments	**$ 405,184**
	Adjustments to cost basis of debt investments	(570)
	Investments in equity securities	46,785
	Investments held as of December 31, 2018 at Cost:	**$ 451,399**

Financing Activities

Net cash provided by financing activities for the three months ended December 31, 2018 was $41.8 million, which consisted primarily of $57.5 million in gross proceeds from the issuance of long term debt, partially offset by $7.8 million in net repayments on our Credit Facility and $6.0 million in distributions to common stockholders.

Net cash provided by financing activities for the three months ended December 31, 2017 was $36.4 million, which consisted primarily of $37.5 million in net borrowings on our Credit Facility and $5.6 million in distributions to common stockholders, partially offset by $4.5 million in proceeds from the issuance of common stock, net of underwriting costs.

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, among other requirements, to distribute to our stockholders on an annual basis at least 90.0% of our taxable ordinary income plus the excess of our net short-term capital gains over net long-term capital losses (Investment Company Taxable Income), determined without regard to the dividends paid deduction. 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 three months ended December 31, 2018 and 2017, which totaled an aggregate of $6.0 million and $5.6 million, respectively. In January 2019, our Board of Directors declared a monthly distribution of $0.07 per common share for each of January, February, and March 2019. Our Board of Directors declared these distributions to our stockholders based on our estimates of our Investment Company Taxable Income for the fiscal year ending September 30, 2019.

For the year ended September 30, 2018, 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 $0.3 million of the first common distributions paid in fiscal year 2019 as having been paid in the prior year.

The characterization of the common stockholder distributions declared and paid for the fiscal year ending September 30, 2019 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 $0.125 per share of our Series 2024 Term Preferred Stock for each of the three months ended December 31, 2018. In January 2019, our Board of Directors declared monthly cash dividends of $0.125 per share to holders of our Series 2024 Term Preferred Stock for each of January, February, and March 2019. In accordance with GAAP, we treat these monthly dividends as an operating expense. For federal income tax purposes, the dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

Dividend Reinvestment Plan

Our common stockholders who hold their shares through our transfer agent, Computershare, Inc. (Computershare), have the option to participate in a dividend reinvestment plan offered by Computershare, as the plan agent. This is an opt in dividend reinvestment plan, meaning that common stockholders may elect to have their cash distributions automatically reinvested in additional shares of our common stock. Common stockholders who do not make such election will receive their distributions in cash. Common stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. The common stockholder generally will have an adjusted basis in the additional common shares purchased through the plan equal to the dollar amount that would have been received if the common stockholder had received the dividend or distribution in cash. The additional shares will have a new holding period commencing on the day following the date on which the shares are credited to the common stockholder s account. Computershare purchases shares in the open market in connection with the obligations under the plan. The Computershare dividend reinvestment plan is not open to holders of our preferred stock.

Equity

Registration Statement

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 December 31, 2018, we had the ability to issue up to $300.0 million in securities under the registration statement.

Common Stock

In February 2015, we entered into an equity distribution agreement (the Cantor Agreement) with Cantor Fitzgerald & Co. under which we had the ability to issue and sell, from time to time, up to an aggregate offering price of $50.0 million shares of our common stock under our program. During the three months ended December 31, 2018, we sold 2,765 shares of our common stock under the Cantor Agreement, at a weighted-average price of $9.60 per share and raised $28 thousand of gross proceeds. Due to rounding, net proceeds, after deducting commissions and offering costs borne by us, were also approximately $28 thousand. During the three months ended December 31, 2017, we sold 471,498 shares of our common stock under the Cantor Agreement at a weighted-average price of $9.69 per share and raised $4.6 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately $4.5 million.

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.

On December 31, 2018, the closing market price of our common stock was $7.30, an 8.5% discount to our December 31, 2018 NAV per share of $7.98.

Term Preferred Stock

In September 2017, we completed a public offering of approximately 2.1 million shares of our Series 2024 Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $51.8 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were approximately $49.8 million. We incurred approximately $1.9 million in total underwriting discounts and offering costs related to the issuance of the Series 2024 Term Preferred Stock, which have been recorded as discounts to the liquidation value on our *Consolidated Statements of Assets and Liabilities* and are being amortized over the period from issuance through September 30, 2024, the mandatory redemption date. The offering proceeds plus borrowings under our Credit Facility were used to voluntarily redeem all 2.4 million outstanding shares of our then existing 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share. In connection with the voluntary redemption of our Series 2021 Term Preferred Stock, we incurred a loss on extinguishment of debt of $1.3 million, which has been reflected in Realized loss on other in our *Consolidated Statement of Operations* and which is primarily comprised of the unamortized deferred issuance costs at the time of redemption.

The shares of our Series 2024 Term Preferred Stock are traded under the ticker symbol GLADN on the Nasdaq. Our Series 2024 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.00% per year, payable monthly (which equates in total to approximately $3.1 million per year). We are required to redeem all of the outstanding Series 2024 Term Preferred Stock on September 30, 2024 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions per 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 2024 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, or (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 2024 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next quarterly or annual report filed with the SEC. The asset coverage on our senior securities that are stock as of December 31, 2018 was 204.8%, calculated in accordance with Sections 18 and 61 of the 1940 Act.

We may also voluntarily redeem all or a portion of the Series 2024 Term Preferred Stock at our option at the Redemption Price at any time after September 30, 2019. If we fail to redeem our Series 2024 Term Preferred Stock pursuant to the mandatory redemption required on September 30, 2024, or in any other circumstance in which we are required to mandatorily redeem our Series 2024 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of December 31, 2018, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2024 Term Preferred Stock.

Revolving Credit Facility

On March 9, 2018, we, through Business Loan, entered into Amendment No. 4 to our Credit Facility with KeyBank, which increased the commitment amount from $170.0 million to $190.0 million, extended the revolving period end date by approximately two years to January 15, 2021, decreased the marginal interest rate added to 30-day LIBOR from 3.25% to 2.85% per annum, and changed the unused commitment fee from 0.50% of the total unused commitment amount to 0.50% when the average unused commitment amount for the reporting period is less than or equal to 50%, 0.75% when the average unused commitment amount for the reporting period is greater than 50% but less than or equal to 65%, and 1.00% when the average unused commitment amount for the reporting period is greater than 65%. If our Credit Facility is not renewed or extended by January 15, 2021, all principal and interest will be due and payable on April 15, 2022 (15 months after the revolving period end date). Subject to certain terms and conditions, our Credit Facility may be expanded up to a total of $265.0 million through additional commitments of new or existing lenders. We incurred fees of approximately $1.2 million in connection with this amendment, which are being amortized through our Credit Facility s revolving period end date of January 15, 2021.

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 25 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 $261.5 million as of December 31, 2018, (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 December 31, 2018, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $331.8 million, asset coverage on our senior securities representing indebtedness of 270.8% and an active status as a BDC and RIC. In addition, we had 35 obligors in our Credit Facility s borrowing base as of December 31, 2018. As of December 31, 2018, 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 this prospectus supplement for additional information regarding our Credit Facility.

Notes Payable

In November 2018, we completed a public debt offering of $57.5 million aggregate principal amount of the 2023 Notes, inclusive of the overallotment, for net proceeds of $55.4 million after deducting underwriting discounts, commissions and offering expenses borne by us. We incurred approximately $2.1 million in total underwriting discounts and offering costs related to the issuance of the 2023 Notes, which have been recorded as discounts to the principal amount on our *Consolidated Statements of Assets and Liabilities* and are being amortized from issuance through November 1, 2023, the maturity date. The offering proceeds were used to pay down borrowings under our Credit Facility.

The 2023 Notes are traded under the ticker symbol GLADD on the Nasdaq. The 2023 Notes will mature on November 1, 2023, and may be redeemed in whole or in part at any time or from time to time at the Company s option on or after November 1, 2020. The 2023 Notes bear interest at a rate of 6.125% per year payable quarterly on February 1, May 1, August 1, and November 1 of each year, commencing February 1, 2019 (which equates to approximately $3.5 million per year). The 2023 Notes are recorded at the principal amount, less discounts, on our *Consolidated Statements of Assets and Liabilities* as of December 31, 2018 and September 30, 2018.

The indenture relating to the 2023 Notes contains certain covenants, including (i) an inability to incur additional debt or issue additional debt or preferred securities unless the Company s asset coverage meets the threshold specified in the 1940 Act after such borrowing, (ii) an inability to declare any dividend or distribution unless the Company s asset coverage meets the threshold specified in the 1940 Act at the time of such declaration, and (iii) if, at any time, we are not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), we will provide the holders of the Notes and the trustee with audited annual consolidated financial statements and unaudited interim consolidated financial statements.

Off-Balance Sheet Arrangements

We generally recognize success fee income when the payment has been received. As of December 31, 2018 and September 30, 2018, we had off-balance sheet success fee receivables on our accruing debt investments of $5.7 million and $5.1 million (or approximately $0.20 per common share and $0.18 per common share), respectively, that would be owed to us, generally upon a change of control of the portfolio companies. Consistent with GAAP, we generally have not recognized our success fee receivables and related income in our Consolidated Financial Statements until earned. Due to the contingent nature of our success fees, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

Contractual Obligations

We have lines of credit, delayed draw term loans, and an uncalled capital commitment with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit, the unused delayed draw term loans and the uncalled capital commitment as of December 31, 2018 and September 30, 2018 to be immaterial.

The following table shows our contractual obligations as of December 31, 2018, at cost:

	PAYMENTS DUE BY PERIOD				
CONTRACTUAL OBLIGATIONS [A]	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Credit Facility [B]	$	$	$ 102,200	$	$ 102,200
Mandatorily Redeemable Preferred Stock				51,750	51,750
Notes Payable			57,500		57,500
Interest expense on debt obligations [C]	12,644	25,287	14,422	2,329	54,681
Total	**$ 12,644**	**$ 25,287**	**$ 174,122**	**$ 54,079**	**$ 266,131**

[A] Excludes our unused line of credit commitments, an unused delayed draw term loan and uncalled capital commitments to our portfolio companies in an aggregate amount of $19.9 million, at cost, as of December 31, 2018.

[B] Principal balance of borrowings outstanding under our Credit Facility, based on the maturity date following the current contractual revolver period end date.

[C] Includes estimated interest payments on our Credit Facility and 2023 Notes and dividend obligations on our Series 2024 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and balances as of December 31, 2018. Dividend payments on our Series 2024 Term Preferred Stock assume quarterly dividend declarations and monthly dividend distributions 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, which is described in Note 2 *Summary of Significant Accounting Policies* in the *Notes to Consolidated Financial Statements* included elsewhere in this prospectus supplement. Additionally, refer to Note 3 *Investments* in the *Notes to Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding fair value measurements and our application of Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures.* We have also identified our revenue recognition policy as a critical accounting policy, which is described in Note 2 *Summary of Significant Accounting Policies* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus supplement.

Investment Valuation

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 an SEC registered Nationally Recognized Statistical Rating Organization (NRSRO), 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 would 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 as of December 31, 2018 and September 30, 2018, representing approximately 91.8% and 92.3%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

RATING	**AS OF DECEMBER 31, 2018**	**AS OF SEPTEMBER 30, 2018**
Highest	**10.0**	10.0
Average	**7.1**	6.7
Weighted Average	**7.2**	6.8
Lowest	**1.0**	0.0

The following table reflects the risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO as of December 31, 2018 and September 30, 2018, representing approximately 6.3% and 5.7%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

RATING	**AS OF DECEMBER 31, 2018**	**AS OF SEPTEMBER 30, 2018**
Highest	**5.0**	6.0
Average	**3.9**	3.7
Weighted Average	**3.7**	4.0
Lowest	**1.0**	1.0

The following table reflects the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO as of December 31, 2018 and September 30, 2018, representing approximately 1.9% and 2.0%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

RATING	**AS OF DECEMBER 31, 2018**	**AS OF SEPTEMBER 30, 2018**
Highest	**5.0**	5.0
Average	**4.0**	4.3
Weighted Average	**4.2**	4.7
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. As a RIC, we generally are not subject to federal income tax on the portion of our taxable income and gains distributed to our stockholders. To maintain our qualification as a RIC, we must maintain our status as a BDC and meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must distribute to stockholders at least 90% of our Investment Company Taxable Income, determined without regard to the dividends paid deduction. Our policy generally is to make distributions to our stockholders in an amount up to 100% of our Investment Company Taxable Income. We may retain some or all of our net long-term capital gains, if any, and designate them as deemed distributions, or distribute such gains to stockholders in cash.

In order to avoid a 4% federal excise tax on undistributed amounts of income, we must distribute to stockholders, during each calendar year, an amount at least equal to the sum of: (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gain net income (both long-term and short-term) for the one-year period ending on October 31 of the calendar year, and (3) any income realized, but not distributed, in the preceding year (to the extent that income tax was not imposed on such amounts) less certain over-distributions in prior years. Under the RIC Modernization Act, we are permitted to carryforward any capital losses that we may incur for an unlimited period, and such capital loss carryforwards will retain their character as either short-term or long-term capital losses.

Recent Accounting Pronouncements

Refer to Note 2 *Summary of Significant Accounting Policies* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere 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.

All of our variable-rate debt investments have rates generally associated with either the current LIBOR or prime rate. As of December 31, 2018, our portfolio of debt investments on a principal basis consisted of the following:

Variable rates	91.0%
Fixed rates	9.0
Total:	100.0%

There have been no material changes in the quantitative and qualitative market risk disclosures for the three months ended December 31, 2018 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.

PLAN OF DISTRIBUTION

We have entered into the Sales Agreement with Jefferies under which we may issue and sell shares of our common stock from time to time up to an aggregate offering price of $50.0 million through Jefferies. Sales of our common stock, if any, under this prospectus supplement may be made by any method that is deemed an at the market offering as defined in Rule 415(a)(4) under the Securities Act, including sales made directly on or through Nasdaq, or any other existing trading market for our common stock, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices.

When requested by us, Jefferies will offer the shares of common stock subject to the terms and conditions of the Sales Agreement, which may be on a daily basis for periods of time, or as we may otherwise agree with Jefferies. We will designate the maximum amount of shares of common stock to be sold through Jefferies when we request Jefferies to do so. Jefferies has agreed, subject to the terms and conditions of the Sales Agreement, to use its commercially reasonable efforts to execute our orders to sell, as our sales agent and on our behalf, shares of our common stock submitted to Jefferies from time to time by us, consistent with its normal sales and trading practices. We may instruct Jefferies not to place shares of common stock at or below a price designated by us. We or Jefferies may suspend the offering of shares of common stock under the Sales Agreement upon proper notice to the other party.

If we and Jefferies so agree, Jefferies may act as principal in connection with the placement of the securities offered hereby.

We will pay Jefferies a commission of up to 2.0% of the gross proceeds of any shares sold through it pursuant to this prospectus supplement. The estimated offering expenses payable by us, in addition to such commission and reimbursement of expenses, are approximately $160,000, which includes legal, accounting and printing costs and various other fees associated with registering the shares of common stock and the fees and expenses (including reasonable legal fees and disbursements) incident to securing any required review by the Financial Industry Regulatory Authority, Inc. of the terms of the sale of our common stock in this offering in an amount not to exceed $7,500. The remaining sale proceeds, after deducting any other transaction fees, will equal our net proceeds from the sale of such shares.

Jefferies will provide written confirmation to us before the open on Nasdaq on the day following each day on which shares of common stock are sold under the Sales Agreement. Each confirmation will include the number of shares sold on that day, the aggregate gross proceeds of such sales, the proceeds to us and compensation payable to Jefferies. Settlement for sales of common stock will occur, unless otherwise agreed, on the second business day (that is also a trading day) following the date on which such sales were made.

In connection with the sale of our common stock on our behalf, Jefferies will be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of Jefferies will be deemed to be underwriting commissions or discounts. We have agreed to indemnify Jefferies against certain liabilities, including liabilities under the Securities Act. We have also agreed to contribute to payments Jefferies may be required to make in respect of such liabilities.

The offering of shares of common stock pursuant to the Sales Agreement will terminate upon the earlier of (i) the sale of all shares of common stock subject to the Sales Agreement and this prospectus supplement and (ii) the termination of the Sales Agreement according to its terms by either Jefferies or us.

Jefferies and its affiliates may in the future provide various investment banking, commercial banking, financial advisory and other services to us and our affiliates and may in the future receive customary fees. In the course of its business, Jefferies may actively trade our securities for its own account or for the accounts of customers, and, accordingly, Jefferies may at any time hold long or short positions in such securities.

The principal business address of Jefferies is 520 Madison Avenue, New York, New York 10022.

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, Pennsylvania 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 KeyBank and certain other parties. The address of the collateral custodian is 500 Ross Street, Suite 935, Pittsburgh, Pennsylvania 15262. Computershare acts as our transfer and dividend paying agent and registrar. The principal business address of Computershare is 250 Royall Street, Canton, Massachusetts 02021, telephone number 781-575-2000. Computershare also maintains an internet website at *www.computershare.com*.

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LEGAL MATTERS

Certain legal matters will be passed upon for us by Proskauer Rose LLP, Washington, D.C. 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. Jefferies LLC is being represented in connection with this offering by Cooley LLP, New York, New York. Proskauer Rose LLP and Cooley LLP may rely as to certain matters of Maryland law upon the opinion of Venable LLP.

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INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

Commencing March 24, 2019, we will be allowed to incorporate by reference the information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference into this prospectus supplement and the accompanying prospectus is considered to comprise a part of this prospectus supplement and the accompanying prospectus from the date we file that document. Any reports filed by us with the SEC on or after March 24, 2019 and prior to the completion of this offering will automatically update and, where applicable, supersede any information contained in this prospectus supplement and the accompanying prospectus.

We incorporate by reference into this prospectus supplement additional documents that we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, from March 24, 2019 until all of the securities offered by this prospectus supplement have been sold or the offering of these securities is otherwise terminated; provided, however, that information furnished under Item 2.02 or Item 7.01 of Form 8-K or other information furnished to the SEC which is not deemed filed is not incorporated by reference in this prospectus supplement or the accompanying prospectus. Information that we file with the SEC subsequent to March 23, 2019 will automatically update and may supersede information in this prospectus supplement, the accompanying prospectus and information previously filed with the SEC.

You may request a copy of these filings (other than exhibits, unless the exhibits are specifically incorporated by reference into these documents) at no cost by writing or calling Investor Relations at the following address and telephone number:

Investor Relations

Gladstone Capital Corporation

1521 Westbranch Drive, Suite 100

McLean, Virginia 22102

1-866-366-5745

WHERE YOU CAN FIND MORE INFORMATION

We also file reports, proxy statements and other information with the SEC under the Exchange Act. Copies of such reports and amendments to those reports, if any, filed or furnished pursuant to the Exchange Act are available free of charge through our website at *www.GladstoneCapital.com* as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. Information on our website should not be considered part of this prospectus supplement. A request for any of these reports may also be submitted to us by sending a written request addressed to Investor Relations, Gladstone Capital Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102, or by calling our toll-free investor relations line at 1-866-366-5745. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *www.sec.gov*.

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.

INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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Consolidated Statements of Operations for the three months ended December 31, 2018 and 2017 S-F-3

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Consolidated Statements of Cash Flows for the three months ended December 31, 2018 and 2017 S-F-5

Consolidated Schedules of Investments as of December 31, 2018 and September 30, 2018 S-F-6

Notes to Consolidated Financial Statements S-F-24

GLADSTONE CAPITAL CORPORATION

Consolidated Statements of Assets and Liabilities

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	DECEMBER 31, 2018	SEPTEMBER 30, 2018
ASSETS		
Investments, at fair value:		
Non-Control/Non-Affiliate investments (Cost of **$387,068** and $359,304, respectively)	**$ 373,038**	$ 325,567
Affiliate investments (Cost of **$34,671** and $54,667, respectively)	**33,064**	48,856
Control investments (Cost of **$29,660** and $13,496 respectively)	**25,045**	15,623
Cash and cash equivalents	**271**	1,971
Restricted cash and cash equivalents	**127**	33
Interest receivable, net	**2,880**	2,601
Due from administrative agent	**2,137**	2,807
Deferred financing costs, net	**1,195**	1,363
Other assets, net	**667**	687
TOTAL ASSETS	**$ 438,424**	$ 399,508
LIABILITIES		
Borrowings, at fair value (Cost of **$102,200** and $110,000, respectively)	**$ 102,200**	$ 110,000
Notes payable, net (Cost of **$57,500** as of December 31, 2018)	**55,433**	
Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **5,440,000** and 5,440,000 shares authorized, respectively, and **2,070,000** and 2,070,000 shares issued and outstanding, respectively, net	**50,146**	50,077
Accounts payable and accrued expenses	**553**	290
Interest payable	**864**	330
Fees due to Adviser [(A)]	**1,048**	1,084
Fee due to Administrator [(A)]	**345**	317
Other liabilities	**409**	318
TOTAL LIABILITIES	**$ 210,998**	$ 162,416
Commitments and contingencies [(B)]		

NET ASSETS

Common stock, $0.001 par value per share, **44,560,000** and 44,560,000 shares authorized, respectively, and **28,504,745** and 28,501,980 shares issued and outstanding, respectively	**$**	**29**	$	29
Capital in excess of par value		**343,033**		343,076
Cumulative net unrealized depreciation of investments		**(20,252)**		(37,421)
Cumulative net unrealized depreciation of other				
Overdistributed net investment income		**(180)**		(219)
Accumulated net realized losses		**(95,204)**		(68,373)
Total distributable loss		**(115,636)**		(106,013)
TOTAL NET ASSETS	**$**	**227,426**	$	237,092
NET ASSET VALUE PER COMMON SHARE	**$**	**7.98**	$	8.32

[A] Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

[B] Refer to Note 10 *Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* 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 DECEMBER 31,	
	2018	**2017**
INVESTMENT INCOME		
Interest income		
Non-Control/Non-Affiliate investments	**$ 9,572**	$ 7,684
Affiliate investments	**1,175**	1,111
Control investments	**512**	687
Cash and cash equivalents	**16**	12
Total interest income (excluding PIK interest income)	**11,275**	9,494
PIK interest income		
Non-Control/Non-Affiliate investments	**337**	1,106
Affiliate investments	**49**	70
Control investments	**26**	
Total PIK interest income	**412**	1,176
Total interest income	**11,687**	10,670
Other income	**222**	189
Total investment income	**11,909**	10,859
EXPENSES		
Base management fee [(A)]	**1,828**	1,676
Loan servicing fee [(A)]	**1,262**	1,186
Incentive fee [(A)]	**1,360**	1,373
Administration fee [(A)]	**345**	272
Interest expense on borrowings and notes payable	**1,898**	1,231
Dividends on mandatorily redeemable preferred stock	**776**	776
Amortization of deferred financing costs and discounts	**300**	248
Professional fees	**267**	255
Other general and administrative expenses	**323**	292
Expenses before credits from Adviser	**8,359**	7,309

Credit to base management fee loan servicing fee[A]	**(1,262)**	(1,186)
Credit to fees from Adviser other[A]	**(1,174)**	(841)
Total expenses, net of credits	**5,923**	5,282
NET INVESTMENT INCOME	**5,986**	5,577
NET REALIZED AND UNREALIZED (LOSS) GAIN		
Net realized (loss) gain:		
Non-Control/Non-Affiliate investments	**(26,856)**	602
Affiliate investments	**2**	
Control investments	**(9)**	(28)
Other		(133)
Total net realized (loss) gain	**(26,863)**	441
Net unrealized appreciation (depreciation):		
Non-Control/Non-Affiliate investments	**19,707**	908
Affiliate investments	**4,204**	1,040
Control investments	**(6,742)**	(588)
Other		(218)
Total net unrealized appreciation	**17,169**	1,142
Net realized and unrealized (loss) gain	**(9,694)**	1,583
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ (3,708)**	$ 7,160
BASIC AND DILUTED PER COMMON SHARE:		
Net investment income	**$ 0.21**	$ 0.21
Net (decrease) increase in net assets resulting from operations	**$ (0.13)**	$ 0.27
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: Basic and Diluted	**28,504,715**	26,522,788

[A] Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

GLADSTONE CAPITAL CORPORATION

Consolidated Statements of Changes in Net Assets

(In thousands)

(Unaudited)

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
OPERATIONS		
Net investment income	**$ 5,986**	$ 5,577
Net realized (loss) gain on investments	**(26,863)**	574
Realized loss on other		(133)
Net unrealized appreciation of investments	**17,169**	1,360
Net unrealized appreciation of other		(218)
Net (decrease) increase in net assets resulting from operations	**(3,708)**	7,160
DISTRIBUTIONS		
Distributions to common stockholders from net investment income	**(5,986)**	(5,577)
Net decrease in net assets from distributions	**(5,986)**	(5,577)
CAPITAL TRANSACTIONS		
Issuance of common stock	**28**	4,567
Discounts, commissions and offering costs for issuance of common stock		(83)
Net increase in net assets resulting from capital transactions	**28**	4,484
NET (DECREASE) INCREASE IN NET ASSETS	**(9,666)**	6,067
NET ASSETS, BEGINNING OF PERIOD	**237,092**	219,650
NET ASSETS, END OF PERIOD	**$ 227,426**	$ 225,717

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

GLADSTONE CAPITAL CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets resulting from operations	**$ (3,708)**	$ 7,160
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	**(59,228)**	(56,938)
Principal repayments on investments	**8,868**	18,569
Net proceeds from sale of investments	**(13)**	1,274
Increase in investments due to paid-in-kind interest	**(314)**	(983)
Net change in premiums, discounts and amortization	**(108)**	(45)
Net realized loss (gain) on investments	**26,863**	(574)
Net unrealized appreciation of investments	**(17,169)**	(1,360)
Net unrealized appreciation of other		218
Changes in assets and liabilities:		
Amortization of deferred financing fees	**300**	248
Increase in interest receivable, net	**(279)**	(468)
Decrease (increase) in funds due from administrative agent	**670**	(4,332)
Decrease in other assets, net	**20**	256
Increase (decrease) in accounts payable and accrued expenses	**74**	(11)
Increase in interest payable	**534**	66
Decrease in fees due to Adviser [(A)]	**(36)**	(1)
Increase in fee due to Administrator [(A)]	**28**	28
Increase (decrease) in other liabilities	**91**	(26)
Net cash used in operating activities	**(43,407)**	(36,919)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	**59,000**	61,100
Repayments on line of credit	**(66,800)**	(23,600)
Proceeds from issuance of long term debt	**57,500**	
Deferred financing fees	**(1,941)**	(42)

Proceeds from issuance of common stock	**28**	4,567
Discounts, commissions and offering costs for issuance of common stock		(68)
Distributions paid to common stockholders	**(5,986)**	(5,577)
Net cash provided by financing activities	**41,801**	36,380
NET DECREASE IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS	**(1,606)**	(539)
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS, BEGINNING OF PERIOD	**2,004**	5,270
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS, END OF PERIOD	**$ 398**	$ 4,731
CASH PAID FOR INTEREST	**$ 1,364**	$ 1,165

[A] Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

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GLADSTONE CAPITAL CORPORATION

Consolidated Schedule of Investments

December 31, 2018

(Dollar amounts in thousands)

(Unaudited)

COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
NON-CONTROL/NON-AFFILIATE INVESTMENTS(M) 164.1%			
Secured First Lien Debt 92.9%			
Aerospace and Defense 5.5%			
Antenna Research Associates, Inc. Line of Credit, \$2,500 available (L + 8.3%, 10.8% Cash, Due 11/2021) (C)(I)	\$	\$	\$
Antenna Research Associates, Inc Term Debt (L + 10.0%, 12.5% Cash, 4.0% PIK, Due 11/2023) (C)(I)	12,421	12,421	12,421
		12,421	**12,421**
Automobile 1.2%			
Meridian Rack & Pinion, Inc. (S) Term Debt (L + 11.5%, 14.0% Cash, Due 6/2019) (C)	4,140	**4,140**	**2,836**
Beverage, Food, and Tobacco 2.6%			
Triple H Food Processors, LLC Line of Credit, \$750 available (L + 6.8%, 9.3% Cash, Due 8/2020) (C)			
Triple H Food Processors, LLC Term Debt (L + 8.3%, 10.8% Cash, Due 8/2020) (C)	5,800	5,800	5,851
		5,800	**5,851**
Buildings and Real Estate 0.9%			
GFRC 360, LLC Line of Credit, \$0 available (L + 8.0%, 10.5% Cash, Due 9/2018) (C)(Z)(BB)	1,150	1,150	1,136
GFRC 360, LLC Term Debt (L + 8.0%, 10.5% Cash, Due 9/2018) (C)(Z)(BB)	1,000	1,000	988

		2,150	**2,124**
Diversified/Conglomerate Service 33.1%			
DKI Ventures, LLC Line of Credit, $2,500 available (L + 8.3%, 10.8% Cash, Due 12/2021) (C)(I)			
DKI Ventures, LLC Delayed Draw Term Loan, $5,000 available (L + 8.3%, 10.8% Cash, Due 12/2023) (C)(I)			
DKI Ventures, LLC Term Debt (L + 8.3%, 10.8% Cash, Due 12/2023) (C)(I)	6,500	6,500	6,500
IA Tech, LLC Term Debt (L + 11.0%, 13.5% Cash, Due 6/2023) (C)	30,000	30,000	30,300
R2i Holdings, LLC Line of Credit, $2,000 available (L + 8.0%, 10.5% Cash, Due 12/2021) (C)(I)			
R2i Holdings, LLC Term Debt (L + 8.0%, 10.5% Cash, Due 12/2023) (C)(I)	20,000	20,000	20,000
Travel Sentry, Inc. Term Debt (L + 8.0%, 10.5% Cash, Due 12/2021) (C)(U)	7,805	7,805	7,746

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COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
Vision Government Solutions, Inc. Line of Credit, $0 available (L + 8.8%, 11.3% Cash, Due 6/2021) (C)	1,450	1,447	1,283
Vision Government Solutions, Inc. Delayed Draw Term Loan, $900 available (10.0% Cash, Due 6/2021) (C)(F)	1,600	1,596	1,424
Vision Government Solutions, Inc. Term Debt (L + 8.8%, 11.3% Cash, Due 6/2021) (C)	9,000	8,980	7,965
		76,328	**75,218**
Healthcare, education, and childcare 9.6%			
EL Academies, Inc. Line of Credit, $2,000 available (L + 9.5%, 12.0% Cash, Due 8/2020) (C)			
EL Academies, Inc. Delayed Draw Term Loan, $0 available (L + 9.5%, 12.0% Cash, Due 8/2022) (C)	9,840	9,840	9,791
EL Academies, Inc. Term Debt (L + 9.5%, 12.0% Cash, Due 8/2022) (C)	12,000	12,000	11,940
		21,840	**21,731**
Machinery 2.4%			
Arc Drilling Holdings LLC Line of Credit, $875 available (L + 8.0%, 10.5% Cash, Due 11/2020) (C)	125	125	105
Arc Drilling Holdings LLC Term Debt (L + 9.5%, 12.0% Cash, 3.0% PIK, Due 11/2022) (C)	5,931	5,931	4,967
Precision International, LLC Term Debt (10.0%, Due 9/2021) (C)(F)	436	436	434
		6,492	**5,506**
Oil and Gas 17.7%			

Impact! Chemical Technologies, Inc.	Line of Credit, $0 available (L + 8.8%, 11.3% Cash, Due 12/2020) (C)	2,500	2,500	2,428
Impact! Chemical Technologies, Inc.	Term Debt (L + 8.8%, 11.3% Cash, Due 12/2020) (C)	20,000	20,000	19,425
WadeCo Specialties, Inc.	Line of Credit, $0 available (L + 7.0%, 9.5% Cash, Due 3/2019) (C)	2,000	2,000	1,993
WadeCo Specialties, Inc.	Term Debt (L + 7.0%, 9.5% Cash, Due 3/2019) (C)	9,441	9,441	9,406
WadeCo Specialties, Inc.	Term Debt (L + 9.0%, 12.0% Cash, Due 3/2019) (C)	7,000	7,000	6,947
			40,941	**40,199**
Printing and Publishing 0.0%				
Chinese Yellow Pages Company	Line of Credit, $0 available (PRIME + 4.0%, 9.5% Cash, Due 2/2015) (E)(V)	107	**107**	

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(Unaudited)

COMPANY AND INVESTMENT (A)(B)(W)(Y)	**PRINCIPAL/ SHARES/ UNITS** (J)(X)	**COST**	**FAIR VALUE**
Telecommunications 19.9%			
B+T Group Acquisition, Inc.(S) Term Debt (L + 11.0%, 13.5% Cash, Due 12/2019) (C)	6,000	6,000	5,940
NetFortris Corp. Term Debt (L + 9.0%, 11.5% Cash, Due 2/2021) (C)	23,302	23,252	22,603
XMedius America, Inc. Term Debt (L + 9.3%, 11.8% Cash, Due 10/2022) (C)(AA)	9,824	9,824	9,554
XMedius Solutions Inc. Term Debt (L + 9.3%, 11.8% Cash, Due 10/2022) (C)	7,290	7,290	7,235
		46,366	**45,332**
Total Secured First Lien Debt		**$ 216,585**	**$ 211,218**
Secured Second Lien Debt 53.0%			
Automobile 2.2%			
Sea Link International IRB, Inc. Term Debt (11.3% Cash, Due 3/2023) (C)(F)	$ 5,000	**$ 4,981**	**$ 5,031**
Beverage, Food, and Tobacco 4.6%			
8th Avenue Food & Provisions, Inc. Term Debt (L + 7.8%, 10.3% Cash, Due 10/2026) (D)(I)	3,683	3,709	3,619
The Mochi Ice Cream Company Term Debt (L + 10.5%, 13.0% Cash, Due 12/2023) (C)	6,750	6,727	6,733
		10,436	**10,352**
Cargo Transportation 5.7%			

AG Transportation Holdings, LLC.	Term Debt (L + 10.0%, 13.3% Cash, Due 3/2020) (C)	13,000	**13,000**	**12,869**
Chemicals, Plastics, and Rubber	**0.5%**			
Vertellus Holdings LLC	Term Debt (L + 12.0%, 14.5% Cash, Due 10/2021) (C)	1,099	**1,099**	**1,080**
Diversified/Conglomerate Manufacturing	**9.0%**			
Alloy Die Casting Co.(S)	Term Debt (L + 4.0%, 6.5% Cash, Due 4/2021) (C)	5,235	5,235	4,855
Alloy Die Casting Co.(S)	Term Debt (L + 4.0%, 6.5% Cash, Due 4/2021) (C)	75	75	70
Alloy Die Casting Co.(S)	Term Debt (L + 4.0%, 6.5% Cash, Due 4/2021) (C)	390	390	362
United Flexible, Inc.	Term Debt (L + 9.3%, 11.8% Cash, Due 2/2022) (C)	15,300	15,235	15,300
			20,935	**20,587**

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COMPANY AND INVESTMENT [(A)(B)(W)(Y)]	PRINCIPAL/ SHARES/ UNITS [(J)(X)]	COST	FAIR VALUE
Diversified/Conglomerate Service 10.8%			
CHA Holdings, Inc. Term Debt (L + 8.8%, 11.6% Cash, Due 4/2026) [(D)(U)]	3,000	2,943	3,030
DigiCert Holdings, Inc. Term Debt (L + 8.0%, 10.5% Cash, Due 10/2025) [(D)]	2,400	2,378	2,328
Gray Matter Systems, LLC Delayed Draw Term Loan, $2,000 available (12.0% Cash, Due 11/2023) [(C)(F)]			
Gray Matter Systems, LLC Term Debt (12.0% Cash, Due 11/2023) [(C)(F)]	11,100	11,100	10,892
Keystone Acquisition Corp. Term Debt (L + 9.3%, 12.1% Cash, Due 5/2025) [(D)(U)]	4,000	3,931	3,910
LDiscovery, LLC Term Debt (L + 10.0%, 12.5% Cash, Due 12/2023) [(D)]	5,000	4,841	4,400
		25,193	**24,560**
Grocery 0.9%			
GOBP Holdings, Inc. Term Debt (L + 7.3%, 10.1% Cash, Due 10/2026) [(D)(I)(U)]	2,000	**1,980**	**1,970**
Healthcare, education, and childcare 10.1%			
Medical Solutions Holdings, Inc. Term Debt (L + 8.3%, 10.8% Cash, Due 6/2025) [(D)]	3,000	2,961	2,940
Merlin International, Inc. Term Debt (L + 10.0%, 12.5% Cash, Due 10/2022) [(Q)]	20,000	20,000	20,000
New Trident Holdcorp, Inc. Term Debt (L + 10.0%, 5.6% Cash, 6.9% PIK, Due 7/2020) [(E)]	4,409	4,409	
		27,370	**22,940**

Home and Office Furnishings, Housewares and Durable Consumer Products 4.3%			
Belnick, Inc. Term Debt (11.0% Cash, Due 8/2023) (C)(F)	10,000	**10,000**	**9,875**
Hotels, Motels, Inns, and Gaming 2.9%			
Vacation Rental Pros Property Management, LLC Term Debt (L + 10.0%, 12.5% Cash, 3.0% PIK, Due 6/2023) (C)	7,422	**7,422**	**6,504**
Machinery 0.4%			
CPM Holdings, Inc. Term Debt (L + 8.3%, 10.8% Cash, Due 11/2026) (D)(I)	1,000	**1,000**	**980**
Personal and Non-Durable Consumer Products (Manufacturing Only) 1.6%			
Canopy Safety Brands, LLC Term Debt (L + 10.5%, 13.0% Cash, Due 7/2022) (C)	3,750	**3,750**	**3,750**
Total Secured Second Lien Debt		**$ 127,166**	**$ 120,498**

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COMPANY AND INVESTMENT [(A)(B)(W)(Y)]	PRINCIPAL/ SHARES/ UNITS [(J)(X)]	COST	FAIR VALUE
Unsecured Debt 1.6%			
Healthcare, education, and childcare 1.6%			
Edmentum Ultimate Holdings, LLC Term Debt (10.0% PIK, Due 6/2020)[(C)(F)]	$ 3,705	**$ 3,705**	**$ 3,649**
Preferred Equity 5.8%			
Automobile 0.0%			
Meridian Rack & Pinion, Inc. [(S)] Preferred Stock[(E)(G)]	1,449	**$ 1,449**	**$**
Buildings and Real Estate 0.4%			
GFRC 360, LLC Preferred Stock[(E)(G)(BB)]	1,000	**1,025**	**905**
Diversified/Conglomerate Manufacturing 1.1%			
Alloy Die Casting Co.[(S)] Preferred Stock[(E)(G)]	2,192	2,192	1,737
United Flexible, Inc. Preferred Stock[(E)(G)]	538	538	726
		2,730	**2,463**
Diversified/Conglomerate Service 0.0%			
Frontier Financial Group Inc. Preferred Stock[(E)(G)]	766	500	
Frontier Financial Group Inc. Preferred Stock Warrant[(E)(G)]	169		
		500	
Oil and Gas 3.8%			
Chemical & Injection Holdings Company, LLC Preferred Equity Units [(E)(G)]	13,740	633	2,241
FES Resources Holdings LLC Preferred Equity Units[(E)(G)(I)]	6,350	6,350	6,350
		6,983	**8,591**
Telecommunications 0.5%			
B+T Group Acquisition, Inc.[(S)] Preferred Stock[(E)(G)]	5,503	1,799	

NetFortris Corp. Preferred Stock(E)(G)	5,656,380	566	1,250
		2,365	**1,250**
Total Preferred Equity		**$ 15,052**	**$ 13,209**
Common Equity 10.8%			
Aerospace and Defense 2.2%			
Antenna Research Associates, Inc. Common Equity Units(E)(G)(I)	4,283	$ 4,283	$ 4,283
FedCap Partners, LLC Class A Membership Units ($0 Uncalled Commitment) (G)(K)(R)	80	1,449	616
		5,732	**4,899**
Automobile 0.4%			
Sea Link International IRB, Inc. Common Equity Units(E)(G)	588,039	**588**	**948**

GLADSTONE CAPITAL CORPORATION

Consolidated Schedule of Investments

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(Unaudited)

COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
Beverage, Food, and Tobacco 0.6%			
The Mochi Ice Cream Company Common Stock (E)(G)	450	450	642
Triple H Food Processors, LLC Common Stock (E)(G)	250,000	250	731
		700	**1,373**
Buildings and Real Estate 0.0%			
GFRC 360, LLC Common Stock Warrants (E)(G)(BB)	45.0%		
Cargo Transportation 1.0%			
AG Transportation Holdings, LLC Member Profit Participation (E)(G)	18.0%	1,000	1,557
AG Transportation Holdings, LLC Profit Participation Warrants (E)(G)	12.0%	244	829
		1,244	**2,386**
Chemicals, Plastics, and Rubber 0.2%			
Vertellus Holdings LLC Common Stock Units (E)(G)	879,121	**3,017**	**357**
Diversified/Conglomerate Manufacturing 1.0%			
Alloy Die Casting Co. (S) Common Stock (E)(G)	270	18	
United Flexible, Inc. Common Stock (E)(G)	1,158	148	2,282
		166	**2,282**
Healthcare, education, and childcare 1.5%			
Edmentum Ultimate Holdings, LLC Common Stock (E)(G)	21,429	2,636	
EL Academies, Inc. Common Stock (E)(G)	649	649	671
Leeds Novamark Capital I, L.P. Limited Partnership Interest ($843 uncalled capital commitment) (G)(L)(R)	3.5%	2,152	2,868
		5,437	**3,539**
Machinery 0.4%			
Arc Drilling Holdings LLC Common Stock (E)(G)	16.7%	1,500	

Precision International, LLC Membership Unit Warrant[(E)(G)]	33.3%		815
		1,500	**815**
Oil and Gas 0.1%			
FES Resources Holdings LLC Common Equity Units[(E)(G)(I)]	6,233		
Total Safety Holdings, LLC Common Equity[(E)(G)(CC)]	435	499	193
		499	**193**
Personal and Non-Durable Consumer Products (Manufacturing Only) 0.4%			
Canopy Safety Brands, LLC Participation Warrant[(E)(G)]	1	500	436
Funko Acquisition Holdings, LLC [(S)] Common Units[(G)(T)]	39,483	167	373
		667	**809**

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Consolidated Schedule of Investments

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(Unaudited)

COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
Telecommunications 0.0%			
NetFortris Corp. Common Stock Warrant (E)(G)	**1**	**1**	
Textiles and leather 3.0%			
Targus Cayman HoldCo, Ltd. Common Stock (E)(G)	**3,076,414**	**5,009**	**6,863**
Total Common Equity		**$ 24,560**	**$ 24,464**
Total Non-Control/Non-Affiliate Investments		**$ 387,068**	**$ 373,038**
AFFILIATE INVESTMENTS (N) 14.5%			
Secured First Lien Debt 3.5%			
Diversified/Conglomerate Manufacturing 3.5%			
Edge Adhesives Holdings, Inc. (S) Term Debt (L + 10.5%, 13.0% Cash, Due 2/2022) (C)	$ 6,200	$ 6,200	$ 5,937
Edge Adhesives Holdings, Inc. (S) Term Debt (L + 11.8%, 14.3% Cash, Due 2/2022) (C)	2,000	2,000	1,925
		8,200	**7,862**
Total Secured First Lien Debt		**$ 8,200**	**$ 7,862**
Secured Second Lien Debt 9.3%			
Diversified Natural Resources, Precious Metals and Minerals 9.3%			
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	$ 6,000	$ 6,000	$ 5,977
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	8,000	8,000	7,970
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	3,300	3,300	3,288
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	4,000	4,000	3,985

		21,300	**21,220**
Total Secured Second Lien Debt		**$ 21,300**	**$ 21,220**
Preferred Equity 0.6%			
Diversified/Conglomerate Manufacturing 0.2%			
Edge Adhesives Holdings, Inc. (S) Preferred Stock(E)(G)	2,516	**$ 2,516**	**$ 499**
Diversified Natural Resources, Precious Metals and Minerals 0.4%			
Lignetics, Inc. Preferred Stock(E)(G)	40,000	**800**	**898**
Total Preferred Equity		**$ 3,316**	**$ 1,397**
Common Equity 1.1%			
Diversified Natural Resources, Precious Metals and Minerals 1.1%			
Lignetics, Inc. Common Stock(E)(G)	152,603	$ 1,855	$ 2,585
Total Common Equity		**$ 1,855**	**$ 2,585**
Total Affiliate Investments		**$ 34,671**	**$ 33,064**

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COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
CONTROL INVESTMENTS (O) 11.0%			
Secured First Lien Debt 6.0%			
Diversified/Conglomerate Manufacturing 4.0%			
LWO Acquisitions Company LLC Line of Credit, $0 available (L + 5.5%, 8.0% Cash, 2.0% PIK, Due 12/2019) (E)	$ 3,971	$ 3,971	$ 3,971
LWO Acquisitions Company LLC Term Debt (L + 8.5%, 11.0% Cash, 2.0% PIK, Due 12/2019) (E)	11,223	11,223	5,250
		15,194	**9,221**
Machinery 1.3%			
PIC 360, LLC Term Debt (14.0% Cash, Due 9/2019) (E)(F)	2,850	**2,850**	**2,850**
Printing and Publishing 0.7%			
TNCP Intermediate HoldCo, LLC Line of Credit, $500 available (8.0% Cash, Due 9/2021) (E)(F)	1,500	**1,454**	**1,500**
Total Secured First Lien Debt		**$ 19,498**	**$ 13,571**
Secured Second Lien Debt 3.5%			
Automobile 3.5%			
Defiance Integrated Technologies, Inc. Term Debt (L + 9.5%, 12.0% Cash, Due 8/2023) (E)	$ 8,065	**$ 8,065**	**$ 8,065**
Unsecured Debt 0.0%			
Diversified/Conglomerate Manufacturing 0.0%			
LWO Acquisitions Company LLC Term Debt (Due 6/2020) (E)(P)	$ 95	**$ 95**	**$**
Common Equity 1.5%			
Automobile 0.5%			

Defiance Integrated Technologies, Inc. Common Stock(E)(G)	33,321	$	**580**	$ **1,204**
Diversified/Conglomerate Manufacturing 0.0%				
LWO Acquisitions Company LLC Common Units(E)(G)	921,000		**921**	
Machinery 0.8%				
PIC 360, LLC Common Equity Units(E)(G)	750		**1**	**1,664**
Printing and Publishing 0.2%				
TNCP Intermediate HoldCo, LLC Common Equity Units(E)(G)	790,000		**500**	**541**
Total Common Equity		**$**	**2,002**	**$ 3,409**
Total Control Investments		**$**	**29,660**	**$ 25,045**
TOTAL INVESTMENTS 189.6%		**$**	**451,399**	**$ 431,147**

[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 $361.2 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5 *Borrowings* in the accompanying *Notes to Consolidated Financial Statements.* 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 December 31, 2018, our investments in FedCap Partners, LLC, Leeds Novamark Capital I, L.P., Funko Acquisition Holdings, LLC (Funko), and XMedius Solutions Inc. are considered non-qualifying

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(Unaudited)

assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 2.6% of total investments, at fair value, as of December 31, 2018.

(B) Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate (LIBOR or L), which was 2.50% as of December 31, 2018. If applicable, paid-in-kind (PIK) interest rates are noted separately from the cash interest rate. Certain securities are subject to an interest rate floor. The cash interest rate is the greater of the floor or LIBOR plus a spread. Due dates represent the contractual maturity date.

(C) Fair value was based on an internal yield analysis or on estimates of value submitted by ICE Data Pricing and Reference Data, LLC (formerly Standard and Poor s Securities Evaluations, Inc.).

(D) Fair value was based on the indicative bid price on or near December 31, 2018, 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) Reserved.

(I) New investment during the quarter ended December 31, 2018.

(J) Where applicable, aggregates all shares of a class of stock owned without regard to specific series owned within such class (some series of which may or may not be voting shares) or aggregates all warrants to purchase shares of a class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.

(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.

(P) Debt security does not have a stated interest rate that is payable thereon.

(Q)

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

[R] Fair value was based on net asset value provided by the fund as a practical expedient.

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

[T] Our investment in Funko was valued using Level 2 inputs within the FASB Accounting Standard Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (ASC 820) fair value hierarchy. Our common units in Funko are convertible to class A common stock in Funko, Inc. upon meeting certain requirements. Fair value was based on the closing market price of shares of Funko, Inc. as of the reporting date, less a discount for lack of marketability. Funko, Inc. is traded on the Nasdaq Stock Market under the trading symbol FNKO. Refer to Note 3 *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

[U] The cash interest rate on this investment was indexed to 90-day LIBOR, which was 2.81% as of December 31, 2018.

[V] The cash interest rate on this investment was indexed to the U.S. Prime Rate, which was 5.50% as of December 31, 2018.

[W] Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the ASC 820 fair value hierarchy. Refer to Note 3 *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

[X] Represents the principal balance for debt investments and the number of shares/units held for equity investments. Warrants are represented as a percentage of ownership, as applicable.

[Y] Category percentages represent the fair value of each category and subcategory as a percentage of net assets as of December 31, 2018.

[Z] Subsequent to December 31, 2018, the investment maturity date was extended to September 2020.

[AA] Investment formerly known as Applied Voice & Speech Technologies, Inc.

[BB] Investment formerly known as GFRC Holdings, LLC.

[CC] Investment formerly known as W3, Co.

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

GLADSTONE CAPITAL CORPORATION

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(Dollar amounts in thousands)

COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
NON-CONTROL/NON-AFFILIATE INVESTMENTS (M) 137.3%			
Secured First Lien Debt 75.3%			
Automobile 1.3%			
Meridian Rack & Pinion, Inc. (S) Term Debt (L + 11.5%, 13.8% Cash, Due 6/2019) (C)	$ 4,140	$ 4,140	$ 3,105
Beverage, Food, and Tobacco 2.6%			
Triple H Food Processors, LLC Line of Credit, $750 available (L + 6.8%, 9.0% Cash, Due 8/2020) (C)			
Triple H Food Processors, LLC Term Debt (L + 8.3%, 10.5% Cash, Due 8/2020) (C)	6,000	6,000	6,135
		6,000	**6,135**
Buildings and Real Estate 0.9%			
GFRC Holdings, LLC Line of Credit, $0 available (L + 8.0%, 10.3% Cash, Due 9/2018) (E)	1,150	1,150	1,150
GFRC Holdings, LLC Term Debt (L + 8.0%, 10.3% Cash, Due 9/2018) (E)	1,000	1,000	1,000
		2,150	**2,150**
Diversified/Conglomerate Service 21.3%			
IA Tech, LLC Term Debt (L + 11.0%, 13.3% Cash, Due 6/2023) (C)	30,000	30,000	30,900
Travel Sentry, Inc. Term Debt (L + 8.0%, 10.4% Cash, Due 12/2021) (C)(U)	8,415	8,415	8,646
Vision Government Solutions, Inc. Line of Credit, $0 available (L + 8.8%, 11.0% Cash, Due 6/2021) (C)	1,450	1,446	1,305
Vision Government Solutions, Inc. Delayed Draw Term Loan, $900 available (10.0% Cash, Due 6/2021) (C)(F)	1,600	1,596	1,448
	9,000	8,978	8,100

Vision Government Solutions, Inc. Term Debt (L + 8.8%, 11.0% Cash, Due 6/2021) (C)			
		50,435	**50,399**
Healthcare, education, and childcare 9.7%			
EL Academies, Inc. Line of Credit, $2,000 available (L + 9.5%, 11.8% Cash, Due 8/2020) (C)			
EL Academies, Inc. Delayed Draw Term Loan, $1,010 available (L + 9.5%, 11.8% Cash, Due 8/2022) (C)	8,990	8,990	9,069
EL Academies, Inc. Term Debt (L + 9.5%, 11.8% Cash, Due 8/2022) (C)	12,000	12,000	12,105
TWS Acquisition Corporation Term Debt (L + 8.0%, 10.3% Cash, Due 7/2020) (Q)(AA)	2,000	2,000	2,000
		22,990	**23,174**

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COMPANY AND INVESTMENT [(A)(B)(W)(Y)]	PRINCIPAL/ SHARES/ UNITS [(J)(X)]	COST	FAIR VALUE
Machinery 2.7%			
Arc Drilling Holdings LLC Line of Credit, $1,000 available (L + 8.0%, 10.3% Cash, Due 11/2020) [(C)]			
Arc Drilling Holdings LLC Term Debt (L + 9.5%, 11.8% Cash, 3.0% PIK, Due 11/2022) [(C)]	5,960	5,960	5,454
Precision International, LLC Term Debt (10.0%, Due 9/2021) [(C)(F)]	836	836	836
		6,796	**6,290**
Oil and Gas 17.0%			
Impact! Chemical Technologies, Inc. Line of Credit, $0 available (L + 8.8%, 11.0% Cash, Due 12/2020) [(C)]	2,500	2,500	2,497
Impact! Chemical Technologies, Inc. Term Debt (L + 8.8%, 11.0% Cash, Due 12/2020) [(C)]	20,000	20,000	19,975
WadeCo Specialties, Inc. Line of Credit, $1,100 available (L + 7.0%, 9.3% Cash, Due 3/2019) [(C)]	900	900	909
WadeCo Specialties, Inc. Term Debt (L + 7.0%, 9.3% Cash, Due 3/2019) [(C)]	9,691	9,691	9,788
WadeCo Specialties, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 3/2019) [(C)]	7,000	7,000	7,035
		40,091	**40,204**
Printing and Publishing 0.0%			
Chinese Yellow Pages Company Line of Credit, $0 available (PRIME + 4.0%, 9.3% Cash, Due 2/2015)[(E)(V)]	107	**107**	
Telecommunications 19.8%			
Applied Voice & Speech Technologies, Inc. Term Debt (L + 9.3%, 11.5% Cash, Due 10/2022) [(C)]	10,100	10,100	9,948
	6,000	6,000	6,000

B+T Group Acquisition, Inc.(S) Term Debt (L + 11.0%, 13.3% Cash, Due 12/2019)(C)			
NetFortris Corp. Term Debt (L + 8.4%, 10.7% Cash, Due 2/2021)(C)	23,700	23,700	23,522
XMedius Solutions Inc. Term Debt (L + 9.3%, 11.5% Cash, Due 10/2022) (C)	7,493	7,493	7,521
		47,293	**46,991**
Total Secured First Lien Debt		**$ 180,002**	**$ 178,448**
Secured Second Lien Debt 53.5%			
Automobile 2.1%			
Sea Link International IRB, Inc. Term Debt (11.3% Cash, Due 3/2023) (C)(F)	$ 5,000	**$ 4,980**	**$ 5,094**

GLADSTONE CAPITAL CORPORATION

Consolidated Schedule of Investments

September 30, 2018

(Dollar amounts in thousands)

COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
Beverage, Food, and Tobacco 2.9%			
The Mochi Ice Cream Company Term Debt (L + 10.5%, 12.8% Cash, Due 12/2023) (C)	6,750	**6,726**	**6,767**
Cargo Transportation 5.5%			
AG Transportation Holdings, LLC. Term Debt (L + 10.0%, 13.3% Cash, Due 3/2020) (C)	13,000	**13,000**	**13,097**
Chemicals, Plastics, and Rubber 0.5%			
Vertellus Holdings LLC Term Debt (L + 12.0%, 14.3% Cash, Due 10/2021) (C)	1,099	**1,099**	**1,096**
Diversified/Conglomerate Manufacturing 8.7%			
Alloy Die Casting Co. (S) Term Debt (L + 4.0%, 6.3% Cash, Due 4/2021) (C)	5,235	5,235	4,934
Alloy Die Casting Co.(S) Term Debt (L + 4.0%, 6.3% Cash, Due 4/2021) (C)	75	75	71
Alloy Die Casting Co.(S) Term Debt (L + 4.0%, 6.3% Cash, Due 4/2021) (C)	390	390	368
United Flexible, Inc. Term Debt (L + 9.3%, 11.5% Cash, Due 2/2022) (C)	15,300	15,232	15,300
		20,932	**20,673**
Diversified/Conglomerate Service 12.1%			
CHA Holdings, Inc. Term Debt (L + 8.8%, 11.1% Cash, Due 4/2026) (D)(U)	3,000	2,942	3,030
DigiCert Holdings, Inc. Term Debt (L + 8.0%, 10.3% Cash, Due 10/2025) (D)	3,000	2,977	2,989
Gray Matter Systems, LLC Delayed Draw Term Loan, $2,000 available (12.0% Cash, Due 11/2023) (C)(F)			
Gray Matter Systems, LLC Term Debt (12.0% Cash, Due 11/2023) (C)(F)	11,100	11,100	11,045
Keystone Acquisition Corp. Term Debt (L + 9.3%, 11.6% Cash, Due 5/2025) (D)(U)	4,000	3,929	4,015

LDiscovery, LLC Term Debt (L + 10.0%, 12.3% Cash, Due 12/2023)(D)	5,000	4,836	4,400
Red Ventures, LLC Term Debt (L + 8.0%, 10.3% Cash, Due 11/2025) (D)(AA)	3,125	3,069	3,188
		28,853	**28,667**
Healthcare, education, and childcare 10.0%			
Medical Solutions Holdings, Inc. Term Debt (L + 8.3%, 10.5% Cash, Due 6/2025) (D)	3,000	2,960	3,000
Merlin International, Inc. Term Debt (L + 10.0%, 12.3% Cash, Due 10/2022) (C)	20,000	20,000	20,600
New Trident Holdcorp, Inc. Term Debt (L + 10.0%, 5.5% Cash, 6.8% PIK, Due 7/2020)(E)	4,382	4,382	
		27,342	**23,600**

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(Dollar amounts in thousands)

COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
Home and Office Furnishings, Housewares and Durable Consumer Products 4.3%			
Belnick, Inc. Term Debt (11.0% Cash, Due 8/2023) (C)(F)	10,000	**10,000**	**10,125**
Hotels, Motels, Inns, and Gaming 2.6%			
Vacation Rental Pros Property Management, LLC Term Debt (L + 10.0%, 12.3% Cash, 3.0% PIK, Due 6/2023) (C)	7,366	**7,366**	**6,337**
Oil and Gas 3.2%			
Francis Drilling Fluids, Ltd. Term Debt (L + 10.4%, 12.6% Cash, Due 4/2020) (E)(H)(I)	18,510	18,427	5,281
Francis Drilling Fluids, Ltd. Term Debt (L + 9.3%, 11.5% Cash, Due 4/2020) (E)(H)(I)	8,473	8,434	2,417
		26,861	**7,698**
Personal and Non-Durable Consumer Products (Manufacturing Only) 1.6%			
Canopy Safety Brands, LLC Term Debt (L + 10.5%, 12.8% Cash, Due 7/2022) (C)	3,750	**3,750**	**3,802**
Total Secured Second Lien Debt		**$ 150,909**	**$ 126,956**
Unsecured Debt 1.5%			
Healthcare, education, and childcare 1.5%			
Edmentum Ultimate Holdings, LLC Term Debt (10.0% PIK, Due 6/2020) (C)(F)	$ 3,613	**$ 3,613**	**$ 3,603**
Preferred Equity 1.9%			
Automobile 0.0%			
Meridian Rack & Pinion, Inc. (S) Preferred Stock (E)(G)	1,449	**$ 1,449**	**$**

Buildings and Real Estate 0.1%			
GFRC Holdings, LLC Preferred Stock(E)(G)	1,000	**1,025**	**305**
Diversified/Conglomerate Manufacturing 0.5%			
Alloy Die Casting Co.(S) Preferred Stock(E)(G)	2,192	2,192	533
United Flexible, Inc. Preferred Stock(E)(G)	538	538	708
		2,730	**1,241**
Diversified/Conglomerate Service 0.0%			
Frontier Financial Group Inc. Preferred Stock(E)(G)	766	500	
Frontier Financial Group Inc. Preferred Stock Warrant(E)(G)	169		
		500	
Oil and Gas 0.9%			
Chemical & Injection Holdings Company, LLC Preferred Equity Units (E)(G)	13,830	618	2,137
Francis Drilling Fluids, Ltd. Preferred Equity Units(E)(G)(I)	1,656	1,215	
		1,833	**2,137**

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COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
Telecommunications 0.4%			
B+T Group Acquisition, Inc. (S) Preferred Stock (E)(G)	5,503	1,799	
NetFortris Corp. Preferred Stock (E)(G)	2,677,070	268	803
		2,067	**803**
Total Preferred Equity		**$ 9,604**	**$ 4,486**
Common Equity 5.1%			
Aerospace and Defense 0.3%			
FedCap Partners, LLC Class A Membership Units ($0 Uncalled Commitment) (G)(K)(R)	80	**$ 1,449**	**$ 616**
Automobile 0.4%			
Sea Link International IRB, Inc. Common Equity Units (E)(G)	494,902	**495**	**857**
Beverage, Food, and Tobacco 0.3%			
The Mochi Ice Cream Company Common Stock (E)(G)	450	450	230
Triple H Food Processors, LLC Common Stock (E)(G)	250,000	250	595
		700	**825**
Buildings and Real Estate 0.0%			
GFRC Holdings, LLC Common Stock Warrants (E)(G)	45.0%		
Cargo Transportation 0.9%			
AG Transportation Holdings, LLC Member Profit Participation (E)(G)	18.0%	1,000	1,375
AG Transportation Holdings, LLC Profit Participation Warrants (E)(G)	12.0%	244	692
		1,244	**2,067**

Chemicals, Plastics, and Rubber 0.2%			
Vertellus Holdings LLC Common Stock Units (E)(G)	879,121	**3,017**	**404**
Diversified/Conglomerate Manufacturing 0.9%			
Alloy Die Casting Co. (S) Common Stock (E)(G)	270	18	
United Flexible, Inc. Common Stock (E)(G)	1,158	148	2,247
		166	**2,247**
Healthcare, education, and childcare 1.4%			
Edmentum Ultimate Holdings, LLC Common Stock (E)(G)	21,429	2,636	
EL Academies, Inc. Common Stock (E)(G)	649	649	844
Leeds Novamark Capital I, L.P. Limited Partnership Interest ($843 uncalled capital commitment) (G)(L)(R)	3.5%	2,152	2,695
		5,437	**3,539**
Machinery 0.1%			
Arc Drilling Holdings LLC Common Stock (E)(G)	16.7%	1,500	
Precision International, LLC Membership Unit Warrant (E)(G)	33.3%		296
		1,500	**296**

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COMPANY AND INVESTMENT (A)(B)(W)(Y)	**PRINCIPAL/ SHARES/ UNITS** (J)(X)	**COST**	**FAIR VALUE**
Oil and Gas 0.1%			
Francis Drilling Fluids, Ltd. Common Equity Units (E)(G)(I)	1,656	1	
W3, Co. Common Equity (E)(G)	435	499	133
		500	**133**
Personal and Non-Durable Consumer Products (Manufacturing Only) 0.5%			
Canopy Safety Brands, LLC Participation Warrant (E)(G)	1	500	418
Funko Acquisition Holdings, LLC (S) Common Units (G)(T)	39,483	167	672
		667	**1,090**
Telecommunications 0.0%			
NetFortris Corp. Common Stock Warrant (E)(G)	1	**1**	
Total Common Equity		**$ 15,176**	**$ 12,074**
Total Non-Control/Non-Affiliate Investments		**$ 359,304**	**$ 325,567**
AFFILIATE INVESTMENTS (N) 20.6%			
Secured First Lien Debt 7.1%			
Diversified/Conglomerate Manufacturing 7.1%			
Edge Adhesives Holdings, Inc. (S) Term Debt (L + 10.5%, 12.8% Cash, Due 2/2019) (C)	$ 6,200	$ 6,200	$ 6,061
Edge Adhesives Holdings, Inc. (S) Term Debt (L + 11.8%, 14.0% Cash, Due 2/2019) (C)	1,600	1,600	1,572
LWO Acquisitions Company LLC Line of Credit, $0 available (L + 5.5%, 7.8% Cash, 2.0% PIK, Due 12/2019) (C)	3,205	3,205	3,105

LWO Acquisitions Company LLC Term Debt (L + 8.5%, 10.8% Cash, 2.0% PIK, Due 12/2019) (C)	11,166	11,166	6,089
		22,171	**16,827**
Total Secured First Lien Debt		**$ 22,171**	**$ 16,827**
Secured Second Lien Debt 9.0%			
Diversified Natural Resources, Precious Metals and Minerals 9.0%			
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	$ 6,000	$ 6,000	$ 6,014
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	8,000	8,000	8,020
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	3,300	3,300	3,308
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) (C)	4,000	4,000	4,010
		21,300	**21,352**
Total Secured Second Lien Debt		**$ 21,300**	**$ 21,352**

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Unsecured Debt 0.0%			
Diversified/Conglomerate Manufacturing 0.0%			
LWO Acquisitions Company LLC Term Debt (Due 6/2020) (C)(P)	$ 95	**$ 95**	**$ 52**
Preferred Equity 1.4%			
Diversified/Conglomerate Manufacturing 1.0%			
Edge Adhesives Holdings, Inc. (S) Preferred Stock(E)(G)	2,516	**$ 2,516**	**$ 2,381**
Diversified Natural Resources, Precious Metals and Minerals 0.4%			
Lignetics, Inc. Preferred Stock(E)(G)	40,000	**800**	**882**
Total Preferred Equity		**$ 3,316**	**$ 3,263**
Common Equity 3.1%			
Diversified/Conglomerate Manufacturing 0.0%			
LWO Acquisitions Company LLC Common Units(E)(G)	921,000	**$ 921**	**$**
Diversified Natural Resources, Precious Metals and Minerals 0.3%			
Lignetics, Inc. Common Stock(E)(G)	152,603	**1,855**	**806**
Textiles and Leather 2.8%			
Targus Cayman HoldCo, Ltd. Common Stock(E)(G)	3,076,414	**5,009**	**6,556**
Total Common Equity		**$ 7,785**	**$ 7,362**
Total Affiliate Investments		**$ 54,667**	**$ 48,856**
CONTROL INVESTMENTS (O) 6.6%			
Secured First Lien Debt 1.8%			
Machinery 1.2%			

PIC 360, LLC	Term Debt (14.0% Cash, Due 9/2019)(E)(F)	$ 2,850	**$ 2,850**	**$ 2,850**
Printing and Publishing 0.6%				
TNCP Intermediate HoldCo, LLC	Line of Credit, $500 available (8.0% Cash, Due 9/2021) (E)(F)	$ 1,500	**1,500**	**1,500**
Total Secured First Lien Debt			**$ 4,350**	**$ 4,350**
Secured Second Lien Debt 3.4%				
Automobile 3.4%				
Defiance Integrated Technologies, Inc.	Term Debt (L + 9.5%, 11.8% Cash, Due 8/2023) (E)	$ 8,065	**$ 8,065**	**$ 8,065**

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COMPANY AND INVESTMENT (A)(B)(W)(Y)	PRINCIPAL/ SHARES/ UNITS (J)(X)	COST	FAIR VALUE
Common Equity 1.4%			
Automobile 0.5%			
Defiance Integrated Technologies, Inc. Common Stock(E)(G)	33,321	$ **580**	$ **1,088**
Machinery 0.7%			
PIC 360, LLC Common Equity Units(E)(G)	750	**1**	**1,622**
Printing and Publishing 0.2%			
TNCP Intermediate HoldCo, LLC Common Equity Units(E)(G)	790,000	**500**	**498**
Total Common Equity		**$ 1,081**	**$ 3,208**
Total Control Investments		**$ 13,496**	**$ 15,623**
TOTAL INVESTMENTS (Z) 164.5%		**$ 427,467**	**$ 390,046**

(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 $332.3 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5 *Borrowings* in the accompanying *Notes to Consolidated Financial Statements.* 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, 2018, our investments in FedCap Partners, LLC (FedCap), Leeds Novamark Capital I, L.P. (Leeds), Funko Acquisition Holdings, LLC (Funko), and XMedius Solutions Inc. (XMedius) are considered non-qualifying assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 2.9% of total investments, at fair value, as of September 30, 2018.

(B) Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate (LIBOR or L), which was 2.27% as of September 30, 2018. If applicable, paid-in-kind (PIK) interest rates are noted separately from the cash interest rate. Certain securities are subject to an interest rate floor. The cash interest rate is the greater of the floor or LIBOR plus a spread. Due dates represent the contractual maturity date.

(C) Fair value was based on an internal yield analysis or on estimates of value submitted by ICE Data Pricing and Reference Data, LLC (ICE)(formerly Standard and Poor s Securities Evaluations, Inc.).

(D) Fair value was based on the indicative bid price on or near September 30, 2018, 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) On September 29, 2018, Francis Drilling Fluids, Ltd. filed for Chapter 11 bankruptcy protection.

(J) Where applicable, aggregates all shares of a class of stock owned without regard to specific series owned within such class (some series of which may or may not be voting shares) or aggregates all warrants to purchase shares of a class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.

(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.

(P) Debt security does not have a stated interest rate that is payable thereon.

GLADSTONE CAPITAL CORPORATION

Consolidated Schedule of Investments

September 30, 2018

(Dollar amounts in thousands)

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

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

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

(T) Our investment in Funko was valued using Level 2 inputs within the FASB Accounting Standard Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (ASC 820) fair value hierarchy. Our common units in Funko are convertible to class A common stock in Funko, Inc. upon meeting certain requirements. Fair value was based on the closing market price of shares of Funko, Inc. as of the reporting date, less a discount for lack of marketability. Funko, Inc. is traded on the Nasdaq Stock Market under the trading symbol FNKO. Refer to Note 3 *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

(U) The cash interest rate on this investment was indexed to 90-day LIBOR, which was 2.40% as of September 30, 2018.

(V) The cash interest rate on this investment was indexed to the U.S. Prime Rate (PRIME), which was 5.25% as of September 30, 2018.

(W) Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the ASC 820 fair value hierarchy. Refer to Note 3 *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

(X) Represents the principal balance for debt investments and the number of shares/units held for equity investments. Warrants are represented as a percentage of ownership, as applicable.

(Y) Category percentages represent the fair value of each category and subcategory as a percentage of net assets as of September 30, 2018.

(Z) Cumulative gross unrealized depreciation for federal income tax purposes is $62.7 million; cumulative gross unrealized appreciation for federal income tax purposes is $15.4 million. Cumulative net unrealized depreciation is $47.4 million, based on a tax cost of $437.4 million.

(AA) Investment was exited subsequent to September 30, 2018.

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

GLADSTONE CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Unaudited)

December 31, 2018

(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 are 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 U.S federal income tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). We were established for the purpose of investing in debt and equity securities of established private businesses 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 (EBITDA) 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 holding certain investments pledged as collateral to our line of credit. The financial statements of Business Loan are consolidated with those of Gladstone Capital Corporation. We also have significant subsidiaries (as defined under Rule 1-02(w) of the U.S. Securities and Exchange Commission s (SEC) Regulation S-X) 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), an affiliate of ours and an SEC registered investment adviser, pursuant to an investment advisory and management agreement (the Advisory Agreement). Administrative services are provided by our affiliate, Gladstone Administration, LLC (the Administrator), an affiliate of ours and the Adviser, 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, 10 and 12 of Regulation S-X. Accordingly, we have not included in this prospectus supplement 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 significant 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 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 months ended December 31, 2018, are not necessarily indicative of results that ultimately may be achieved for the fiscal year ending September 30, 2019 or any future interim periods. 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, 2018, as filed with the SEC on November 14, 2018.

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 these *Notes to Consolidated Financial Statements*. Actual results may differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation in the *Consolidated Financial Statements* and the accompanying *Notes to Consolidated Financial Statements*. Reclassifications did not impact net increase in net assets resulting from operations, total assets, total liabilities, or total net assets, or Consolidated Statements of Changes in Net Assets and Consolidated Statements of Cash Flows classifications.

Investment Valuation Policy

Accounting Recognition

We record our investments at fair value in accordance with the FASB ASC 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 generally measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Unrealized appreciation or depreciation primarily reflects the change in investment fair values, including the reversal of previously recorded unrealized appreciation or depreciation 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 determining, in good faith, the fair value of our investments for which market quotations are not readily available 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, the Board of Directors receives written valuation recommendations and supporting materials provided by professionals of the Adviser and Administrator with oversight and direction from the chief valuation officer (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 presented by the chief valuation officer. Third, after the Valuation Committee concludes its meeting, it and the chief valuation officer present the Valuation Committee s findings to the entire Board of Directors so that the full Board of Directors may review and determine in good faith the fair value of such investments in accordance with the Policy.

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

Use of Third Party Valuation Firms

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

ICE, Data Pricing and Reference Data, LLC (ICE) (formerly Standard and Poor s Securities Evaluations, Inc.), a valuation specialist, generally provides estimates of fair value on our proprietary debt investments. The Valuation Team generally assigns ICE 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 ICE 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 ICE s. When this occurs, our 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 before determining 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 (TEV) of certain of our investments. Generally, at least once per year, we engage an independent valuation firm to value or review the valuation of each of our significant equity investments, which includes providing the information noted above. The Valuation Team evaluates such information for incorporation into our TEV, 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, and whether it is reasonable in light of the Policy, and other relevant facts and circumstances before determining 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 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 EBITDA); EBITDA obtained from our indexing methodology whereby the original transaction EBITDA at the time of our closing is indexed to a general subset of comparable disclosed transactions and EBITDA from recent sales to third parties of similar securities in similar industries; a comparison to publicly traded securities in similar industries, and other pertinent factors. The Valuation Team generally 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; however, TEV may also be calculated using revenue multiples or 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 a DCF analysis to calculate 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 for which we do not have the ability to effectuate a sale of the applicable portfolio company using the yield analysis, which includes a DCF calculation and assumptions that the Valuation Team believes market participants would use, including, 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 ICE and market quotes.

Market Quotes For our investments for which a limited market exists, we generally base fair value 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 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. For securities that are publicly traded, we generally base fair value on the closing market price of the securities we hold as of the reporting date. For restricted securities that are publicly traded, we generally base fair value on the closing market price of the securities we hold as of the reporting date less a discount for the restriction, which includes consideration of the nature and term to expiration of the restriction.

Investments in Funds For equity investments in other funds for which we cannot effectuate a sale of the fund, 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 valuation techniques listed above, the Valuation Team may also consider other factors when determining the fair value of our investments, including: 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.

Fair value measurements of our investments may involve subjective judgments and estimates and due to the uncertainty inherent in valuing these securities, the determinations of fair value 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 disposal 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

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 such that the interest income is deemed to be collectible. At December 31, 2018, there were no loans on non-accrual status. At September 30, 2018, loans to Francis Drilling Fluids, Inc. (FDF) were on non-accrual status with an aggregate debt cost basis of approximately $26.9 million, or 6.9% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately $7.7 million, or 2.1% 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 OID and PIK non-cash income amounts in the form of distributions, even though we have not yet collected the cash on either.

As of each of December 31, 2018 and September 30, 2018, we had six OID loans, primarily from the syndicated loans in our portfolio. We recorded OID income of $0.1 million for each of the three months ended December 31, 2018 and 2017. The unamortized balance of OID investments as of each of December 31, 2018 and

September 30, 2018 totaled $0.4 million. As of December 31, 2018 and September 30, 2018, we had six and five investments which had a PIK interest component, respectively. We recorded PIK interest income of $0.4 million and $1.2 million during the three months ended December 31, 2018 and 2017, respectively. We collected $0 in PIK interest in cash during each of the three months ended December 31, 2018 and 2017.

Success Fee Income Recognition

We record success fees as income when earned, which often occurs upon receipt of cash. Success fees are generally contractually due upon a change of control in a portfolio company, typically resulting from an exit or sale, and are non-recurring.

Dividend Income Recognition

We accrue dividend income on preferred and common equity securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash or other consideration.

Deferred Financing and Offering Costs

Deferred financing and offering costs consist of costs incurred to obtain financing, including lender fees and legal fees. Certain costs associated with our revolving line of credit are deferred and amortized using the straight-line method, which approximates the effective interest method, over the term of the revolving line of credit. Costs associated with the issuance of our notes payable are presented as discounts to the principal amount of the notes payable and are amortized using the straight-line method, which approximates the effective interest method, over the term of the respective notes. Costs associated with the issuance of our mandatorily redeemable preferred stock are presented as discounts to the liquidation value of the mandatorily redeemable preferred stock and are amortized using the straight-line method, which approximates the effective interest method, over the term of the respective series of preferred stock. Refer to Note 5 *Borrowings* and Note 6 *Mandatorily Redeemable Preferred Stock* for further discussion.

Related Party Fees

We are party to the Advisory Agreement with the Adviser, which is owned and controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee. Additionally, we pay the Adviser a loan servicing fee as compensation for its services as servicer under the terms of our Fifth Amended and Restated Credit Agreement with KeyBank National Association (KeyBank), as administrative agent, lead arranger and a lender (our Credit Facility). These fees are accrued at the end of the quarter when the services are performed and generally paid the following quarter.

We are also party to the Administration Agreement with the Administrator, which is owned and controlled by our chairman and chief executive officer, whereby we pay separately for administrative services. Refer to Note 4 *Related Party Transactions* for additional information regarding these related party fees and agreements.

Recent Accounting Pronouncements

In August 2018, the FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value* (ASU 2018-13), which modifies the disclosure requirements in ASC 820. We are currently assessing the impact of ASU 2018-13 and do not anticipate a material impact on our disclosures. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted.

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. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years and we adopted ASU 2016-18 effective October 1, 2018. The adoption of ASU 2016-18 did not have a material impact on our financial position, results of operations or cash flows.

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 have assessed 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 and we adopted ASU 2016-15 effective October 1, 2018. The adoption of ASU 2016-15 did not have a material impact on our financial position, results of operations or cash flows.

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. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years and we adopted ASU 2016-01 effective October 1, 2018. The adoption of ASU 2016-01 did not have a material impact on our financial position, results of operations or cash flows.

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 effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years and we adopted ASU 2014-09, as amended, effective October 1, 2018. The adoption of ASU 2014-09, as amended, did not result in 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. Investments in funds measured using net asset value as a practical expedient are not categorized within the fair value hierarchy.

As of December 31, 2018 and September 30, 2018, all of our investments were valued using Level 3 inputs within the ASC 820 fair value hierarchy, except for our investment in Funko Acquisition Holdings, LLC (Funko), which was valued using Level 2 inputs and our investments in FedCap Partners, LLC (FedCap) and Leeds Novamark I, L.P (Leeds), which were valued using net asset value as a practical expedient.

We transfer investments in and out of Level 1, 2, and 3 of the valuation hierarchy as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the three months ended December 31, 2017, we transferred our investment in Funko from Level 3 to Level 2 as a result of the initial public offering of Funko, Inc. in November 2017 as our units in Funko can be converted into common shares of Funko, Inc. upon meeting certain requirements. During the three months ended December 31, 2018, there were no investments transferred into or out of Levels 1, 2 or 3 of the valuation hierarchy.

As of December 31, 2018 and September 30, 2018, our investments, by security type, at fair value were categorized as follows within the ASC 820 fair value hierarchy:

		FAIR VALUE MEASUREMENTS		
	FAIR VALUE	**QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)**	**SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)**	**SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)**
As of December 31, 2018:				
Secured first lien debt	$ 232,651	$	$	$ 232,651
Secured second lien debt	149,783			149,783
Unsecured debt	3,649			3,649
Preferred equity	14,606			14,606
Common equity/equivalents	26,974(A)		373 (B)	26,601
Total Investments at December 31, 2018	**$ 427,663**	**$**	**$ 373**	**$ 427,290**
As of September 30, 2018:				
Secured first lien debt	$ 199,625	$	$	$ 199,625
Secured second lien debt	156,373			156,373
Unsecured debt	3,655			3,655

Preferred equity	7,749			7,749
Common equity/equivalents	19,333[A]		672 [B]	18,661
Total Investments at September 30, 2018	$ 386,735	$	$ 672	$ 386,063

[A] Excludes our investments in FedCap and Leeds with fair values of $0.6 million and $2.9 million, respectively, as of December 31, 2018 and fair values of $0.6 million and $2.7 million, respectively, as of September 30, 2018. FedCap and Leeds were valued using net asset value as a practical expedient.

[B] Fair value was determined based on the closing market price of shares of Funko, Inc. (our units in Funko can be converted into common shares of Funko, Inc.) at the reporting date less a discount for lack of marketability as our investment was subject to certain restrictions.

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The following table presents our portfolio investments, valued using Level 3 inputs within the ASC 820 fair value hierarchy, and carried at fair value as of December 31, 2018 and September 30, 2018, by caption on our accompanying *Consolidated Statements of Assets and Liabilities,* and by security type:

	TOTAL RECURRING FAIR VALUE MEASUREMENTS REPORTED IN CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
	DECEMBER 31, 2018	**SEPTEMBER 30, 2018**
Non-Control/Non-Affiliate Investments		
Secured first lien debt	**$ 211,218**	$ 178,448
Secured second lien debt	**120,498**	126,956
Unsecured debt	**3,649**	3,603
Preferred equity	**13,209**	4,486
Common equity/equivalents	**20,607** (A)	8,091 (B)
Total Non-Control/Non-Affiliate Investments	**$ 369,181**	$ 321,584
Affiliate Investments		
Secured first lien debt	**$ 7,862**	$ 16,827
Secured second lien debt	**21,220**	21,352
Unsecured debt		52
Preferred equity	**1,397**	3,263
Common equity/equivalents	**2,585**	7,362
Total Affiliate Investments	**$ 33,064**	$ 48,856
Control Investments		
Secured first lien debt	**$ 13,571**	$ 4,350
Secured second lien debt	**8,065**	8,065
Common equity/equivalents	**3,409**	3,208
Total Control Investments	**$ 25,045**	$ 15,623
Total Investments at Fair Value Using Level 3 Inputs	**$ 427,290**	$ 386,063

[A] Excludes our investments in FedCap, Leeds, and Funko with fair values of $0.6 million, $2.9 million, and $0.4 million, respectively, as of December 31, 2018. FedCap and Leeds were valued using net asset value as a practical expedient, and Funko was valued using Level 2 inputs.

[B] Excludes our investments in FedCap, Leeds, and Funko with fair values of $0.6 million, $2.7 million, and $0.7 million, respectively, as of September 30, 2018. FedCap and Leeds were valued using net asset value as a practical expedient, and Funko was valued using Level 2 inputs.

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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 December 31, 2018 and September 30, 2018. 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

	FAIR VALUE AS OF				**RANGE / WEIGHTED AVERAGE AS OF**	
	DECEMBER 31, 2018	**SEPTEMBER 30, 2018**	**VALUATION TECHNIQUES/ METHODOLOGIES**	**UNOBSERVABLE INPUT**	**DECEMBER 31, 2018**	**SEPTEMBER 30, 2018**
Secured first lien debt [(A)]	**$ 219,080**	$ 193,125	Yield Analysis	Discount Rate	10.1% 22.2% / 13.4%	6.9% 24.3% / 12.7%
	13,571	6,500	TEV	EBITDA multiple	3.4x 5.9x /5.5x	3.3x 3.3x /3.3x
				EBITDA	$1,497 $1,553 / $1,544	$1,507 $1,507 / $1,507
				Revenue multiple	0.3x 0.3x / 0.3x	0.3x 0.5x / 0.4x
				Revenue	$2,052 $2,052 /$2,052	$4,909 $7,400 /$5,933
Secured second lien debt [(B)]	**118,541**	119,988	Yield Analysis	Discount Rate	10.0% 19.5% /12.8%	10.7% 23.2% /12.6%
	23,177	20,622	Market Quote	IBP	88.0% 101.0% / 96.2%	88.0% 102.0% / 97.6%
	8,065	15,763	TEV	EBITDA multiple	5.6x 6.7x /6.0x	5.5x 6.6x /5.8x
				EBITDA	$2,500 $42,713 / $16,715	$2,500 $55,375 / $13,341
Unsecured debt	**3,649**	3,655	Yield Analysis	Discount Rate	11.1% 11.1% / 11.1%	10.2% 20.3% / 10.4%
	41,207	26,410	TEV	EBITDA multiple	3.4x 11.2x /	3.3x 11.9x /

Preferred and common equity / equivalents [C]					6.6x	6.6x
				EBITDA	$715 $45,287 /$12,793	$459 -$39,352 /$14,216
				Revenue multiple	0.3x 1.5x / 0.7x	0.3x 1.5x / 0.7x
				Revenue	$629 $541,175 /$298,920	$473 $543,360 /$313,688
Total Level 3 Investments, at Fair Value	**$ 427,290**	$ 386,063				

[A] Fair value as of September 30, 2018 includes one proprietary debt investment totaling $2.0 million, which was valued using the expected payoff amount as the unobservable input.

[B] Fair value as of December 31, 2018 includes one proprietary debt investment totaling $20.0 million, which were valued using the expected payoff amount as the unobservable input.

[C] Fair value as of December 31, 2018 excludes our investments in FedCap, Leeds and Funko with fair values of $0.6 million, $2.9 million, and $0.4 million, respectively, as of December 31, 2018. Fair value as of September 30, 2018 excludes our investments in FedCap, Leeds and Funko with fair values of $0.6 million, $2.7 million, and $0.7 million, respectively, as of September 30, 2018. FedCap and Leeds were valued using net asset value as a practical expedient and Funko was valued using Level 2 inputs as of both December 31, 2018 and September 30, 2018.

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in discount rates, 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/(decrease) in market yields, discount rates, or an increase/(decrease) in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a corresponding increase/(decrease), 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 months ended December 31, 2018 and 2017 for all investments for which we determine fair value using unobservable (Level 3) inputs.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	SECURED	**SECURED**				
	FIRST	**SECOND**			**COMMON**	
	LIEN	**LIEN**	**UNSECURED**	**PREFERRED**	**EQUITY/**	
THREE MONTHS ENDED DECEMBER 31, 2018	**DEBT**	**DEBT**	**DEBT**	**EQUITY**	**EQUIVALENTS**	**TOTAL**
Fair Value as of September 30, 2018	**$ 199,625**	**$ 156,373**	**$ 3,655**	**$ 7,749**	**$ 18,661**	**$ 386,063**
Total gains (losses):						
Net realized loss [(A)]		(25,634)		(1,219)	(10)	(26,863)
Net unrealized appreciation (depreciation) [(B)]	(4,734)	(1,892)	(98)	195	3,564	(2,965)
Reversal of prior period net depreciation on realization [(B)]		19,045		1,215	1	20,261
New investments, repayments and settlements: [(C)]						
Issuances/originations	42,996	6,766	92	5,312	4,376	59,542
Settlements/repayments	(5,236)	(3,525)				(8,761)
Net proceeds from sales				4	9	13
Transfers		(1,350)		1,350		
Fair Value as of December 31, 2018	**$ 232,651**	**$ 149,783**	**$ 3,649**	**$ 14,606**	**$ 26,601**	**$ 427,290**

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	SECURED	**SECURED**				
	FIRST	**SECOND**			**COMMON**	
	LIEN	**LIEN**	**UNSECURED**	**PREFERRED**	**EQUITY/**	
THREE MONTHS ENDED DECEMBER 31, 2017	**DEBT**	**DEBT**	**DEBT**	**EQUITY**	**EQUIVALENTS**	**TOTAL**

Fair Value as of September 30, 2017	**$ 173,896**	**$ 155,249**	**$ 3,324**	**$ 6,561**	**$ 10,947**	**$ 349,977**
Total gains (losses):						
Net realized gain (loss) [(A)]				602	(28)	574
Net unrealized appreciation (depreciation) [(B)]	1,115	445	(3)	558	(12)	2,103
Reversal of prior period net appreciation on realization [(B)]		(87)		(725)		(812)
New investments, repayments and settlements: [(C)]						
Issuances/originations	37,426	18,365	123	125	1,500	57,539
Settlements/repayments	(12,677)	(5,847)				(18,524)
Net proceeds from sales				(1,301)	27	(1,274)
Transfers	(3,565)	3,565		(159)		(159)
Fair Value as of December 31, 2017	**$ 196,195**	**$ 171,690**	**$ 3,444**	**$ 5,661**	**$ 12,434**	**$ 389,424**

[(A)] Included in net realized gain (loss) on investments on our accompanying *Consolidated Statements of Operations* for the three months ended December 31, 2018 and 2017.

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(B) Included in net unrealized appreciation (depreciation) on investments on our accompanying *Consolidated Statements of Operations* for the three months ended December 31, 2018 and 2017.

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

Investment Activity

Proprietary Investments

As of December 31, 2018 and September 30, 2018, we held 41 and 39 proprietary investments with an aggregate fair value of $395.8 million and $357.6 million, or 91.8% and 91.7% of the total portfolio at fair value, respectively. The following significant proprietary investment transactions occurred during the three months ended December 31, 2018:

In October 2018, TWS Acquisition Corporation paid off at par for net proceeds of $2.0 million.

In November 2018, we invested $16.7 million in Antenna Research Associates, Inc. through a combination of secured first lien debt and equity.

In December 2018, we invested $20.0 million in R2i Holdings, LLC through secured first lien debt.

In December 2018, we invested $6.5 million in DKI Ventures, LLC through secured first lien debt.

In December 2018, our investment in FDF was restructured upon emergence from Chapter 11 bankruptcy protection. As part of the restructure, our existing $27.0 million debt investment in FDF was converted to $1.35 million of preferred equity and common equity units in a new entity, FES Resources Holdings, LLC (FES Resources). We also invested an additional $5.0 million in FES Resources through a combination of preferred equity and common equity units. In conjunction with the restructure, we recorded a net realized loss of $26.9 million associated with our investment in FDF.

Syndicated Investments

As of December 31, 2018 and September 30, 2018, we held 13 and 11 syndicated investments with an aggregate fair value of $35.3 million and $32.4 million, or 8.2% and 8.3% of the total portfolio at fair value, respectively. The following significant syndicated investment transactions occurred during the three months ended December 31, 2018:

In October, November and December 2018, we invested a total of $3.7 million in 8th Avenue Food & Provisions, Inc. through secured second lien debt.

In November 2018, we invested $2.0 million in GOBP Holdings, Inc. through secured second lien debt.

In November 2018, Red Ventures, LLC paid off at par for net proceeds of $3.1 million.

In December 2018, we invested $1.0 million in CPM Holdings, Inc. through secured second lien debt.

Investment Concentrations

As of December 31, 2018, our investment portfolio consisted of investments in 54 portfolio companies located in 24 states in 19 different industries, with an aggregate fair value of $431.1 million. The five largest investments at fair value totaled $123.1 million, or 28.6% of our total investment portfolio, as compared to the five largest investments at fair value as of September 30, 2018 totaling $122.8 million, or 31.5% of our total investment portfolio. As of December 31, 2018 and September 30, 2018 our average investment by obligor was $8.4 million and $8.5 million at cost, respectively.

The following table outlines our investments by security type as of December 31, 2018 and September 30, 2018:

	DECEMBER 31, 2018				SEPTEMBER 30, 2018			
	COST		FAIR VALUE		COST		FAIR VALUE	
Secured first lien debt	**$ 244,283**	**54.1%**	**$ 232,651**	**54.0%**	$ 206,523	48.3%	$ 199,625	51.2%
Secured second lien debt	**156,531**	**34.7**	**149,783**	**34.7**	180,274	42.2	156,373	40.1
Unsecured debt	**3,800**	**0.8**	**3,649**	**0.8**	3,708	0.9	3,655	0.9
Total debt investments	**404,614**	**89.6**	**386,083**	**89.5**	390,505	91.4	359,653	92.2
Preferred equity	**18,368**	**4.1**	**14,606**	**3.4**	12,920	3.0	7,749	2.0
Common equity/equivalents	**28,417**	**6.3**	**30,458**	**7.1**	24,042	5.6	22,644	5.8
Total equity investments	**46,785**	**10.4**	**45,064**	**10.5**	36,962	8.6	30,393	7.8
Total Investments	**$ 451,399**	**100.0%**	**$ 431,147**	**100.0%**	$ 427,467	100.0%	$ 390,046	100.0%

Our investments at fair value consisted of the following industry classifications as of December 31, 2018 and September 30, 2018:

	DECEMBER 31, 2018		SEPTEMBER 30, 2018	
INDUSTRY CLASSIFICATION	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
Diversified/Conglomerate Service	$ 99,778	23.1%	$ 79,066	20.3%
Healthcare, Education and Childcare	51,859	12.0	53,916	13.8
Oil and Gas	48,983	11.4	50,172	12.9
Telecommunications	46,582	10.8	47,794	12.3
Diversified/Conglomerate Manufacturing	42,914	10.0	43,421	11.1
Diversified Natural Resources, Precious Metals and Minerals	24,703	5.7	23,040	5.9

Automobile	18,084	4.2	18,209	4.7
Beverage, Food and Tobacco	17,576	4.1	13,727	3.5
Aerospace and Defense	17,320	4.0	616	0.1
Cargo Transportation	15,255	3.5	15,164	3.9
Machinery	11,815	2.7	11,058	2.8
Home and Office Furnishings, Housewares and Durable Consumer Products	9,875	2.3	10,125	2.6
Textiles and Leather	6,863	1.6	6,556	1.7
Hotels, Motels, Inns, and Gaming	6,504	1.5	6,337	1.6
Personal and Non-Durable Consumer Products	4,559	1.1	4,892	1.3
Other, < 2.0%	8,477	2.0	5,953	1.5
Total Investments	**$ 431,147**	**100.0%**	$ 390,046	100.0%

Our investments at fair value were included in the following U.S. geographic regions and other countries as of December 31, 2018 and September 30, 2018:

	DECEMBER 31, 2018		SEPTEMBER 30, 2018	
LOCATION	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
South	**$ 199,007**	**46.1%**	$ 168,917	43.3%
West	**115,863**	**26.9**	114,286	29.3
Midwest	**72,792**	**16.9**	61,733	15.8
Northeast	**36,250**	**8.4**	37,589	9.7
Canada	**7,235**	**1.7**	7,521	1.9
Total Investments	**$ 431,147**	**100.0%**	$390,046	100.0%

The geographic composition indicates the location of the headquarters for our portfolio companies. A portfolio company may have additional locations in other geographic regions.

Investment Principal Repayments

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of December 31, 2018:

		AMOUNT
For the remaining nine months ending September 30:	2019	$ 30,851
For the fiscal years ending September 30:	2020	54,131
	2021	69,066
	2022	56,235
	2023	116,837
	Thereafter	78,064

Total contractual repayments	**$ 405,184**
Adjustments to cost basis of debt investments	(570)
Investments in equity securities	46,785
Investments held as of December 31, 2018 at Cost:	**$ 451,399**

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 December 31, 2018 and September 30, 2018, we had gross receivables from portfolio companies of $0.2 million and $0.3 million, respectively. The allowance for uncollectible receivables was $16 thousand and $32 thousand as of December 31, 2018 and September 30, 2018, respectively.

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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. We have entered into the Administration Agreement with the Administrator (discussed further below) to provide administrative services. On July 10, 2018, 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, 2019.

We also pay the Adviser a loan servicing fee for its role of servicer pursuant to our Credit Facility. The entire loan servicing fee paid to the Adviser by Business Loan is non-contractually, unconditionally and irrevocably 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 Lee Brubaker (our vice chairman and chief operating officer), serve as directors and executive officers of the Adviser, which is 100% indirectly owned and controlled by Mr. Gladstone. Robert Marcotte (our president) also serves as an executive managing director of the Adviser.

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

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
Average total assets subject to base management fee (A)	**$ 417,829**	$ 383,086
Multiplied by prorated annual base management fee of 1.75%	**0.4375%**	0.4375%
Base management fee (B)	**$ 1,828**	$ 1,676
Portfolio company fee credit	**(544)**	(664)
Senior syndicated loan fee credit	**(83)**	(92)
Net Base Management Fee	**$ 1,201**	$ 920
Loan servicing fee (B)	**1,262**	1,186
Credit to base management fee loan servicing fee (B)	**(1,262)**	(1,186)

Net Loan Servicing Fee	**$**		$	
Incentive fee [B]		**1,360**		1,373
Incentive fee credit		**(547)**		(85)
Net Incentive Fee	**$**	**813**	$	1,288
Portfolio company fee credit		**(544)**		(664)
Senior syndicated loan fee credit		**(83)**		(92)
Incentive fee credit		**(547)**		(85)
Credits to Fees From Adviser other [B]	**$**	**(1,174)**	$	(841)

[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: (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 non-contractually, unconditionally, and irrevocably credits 100% of any fees for such services 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 $19 and $8 for the three months ended December 31, 2018 and 2017, 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 three months ended December 31, 2018 and 2017.

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. 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% non-contractually, unconditionally and irrevocably credited back to us by the Adviser.

Incentive Fee

The incentive fee consists of two parts: an income-based incentive fee and a capital gains-based 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, which we define as total assets less indebtedness and before taking into account any incentive fees payable or contractually due but not payable during the period, at the end of the immediately preceding calendar quarter, adjusted appropriately for any share issuances or repurchases during the period (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;

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; 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.

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 net realized capital gains (as defined herein) as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we calculate net realized capital gains at the end of each applicable year by subtracting the sum of our cumulative aggregate realized capital losses and our entire portfolio s aggregate unrealized capital depreciation from our cumulative aggregate realized capital gains. 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 December 31, 2018, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

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 from our inception through December 31, 2018.

Our Board of Directors accepted non-contractual, unconditional and irrevocable credits 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 three months ended December 31, 2018 and 2017.

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: 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 Lee 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 allocable portion of the Administrator s expenses is 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. On July 10, 2018, our Board of Directors, including a majority of the directors who are not parties to the Administration

Agreement or interested persons of either party, approved the annual renewal of the Administration Agreement through August 31, 2019.

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 $0.5 million during each of the three months ended December 31, 2018 and 2017.

Related Party Fees Due

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

	DECEMBER 31, 2018		SEPTEMBER 30, 2018	
Base management fee due (from) to Adviser	**$**	**(61)**	$	378
Loan servicing fee due to Adviser		**296**		281
Incentive fee due to Adviser		**813**		425
Total fees due to Adviser		**1,048**		1,084
Fee due to Administrator		**345**		317
Total Related Party Fees Due	**$**	**1,393**	$	1,401

In addition to the above fees, other operating expenses due to the Adviser as of December 31, 2018 and September 30, 2018, totaled $20 and $19, respectively. There were no net expenses payable to Gladstone Investment Corporation (for reimbursement purposes), which typically include certain co-investment expenses, as of each of December 31, 2018 and September 30, 2018. Any such amounts are generally settled in the quarter subsequent to being incurred and are included in other liabilities on the accompanying *Consolidated Statements of Assets and Liabilities* as of December 31, 2018 and September 30, 2018.

NOTE 5. BORROWINGS

Revolving Credit Facility

On March 9, 2018, we, through Business Loan, entered into Amendment No. 4 to our Credit Facility with KeyBank, which increased the commitment amount from $170.0 million to $190.0 million, extended the revolving period end date by approximately two years to January 15, 2021, decreased the marginal interest rate added to 30-day LIBOR from 3.25% to 2.85% per annum, and changed the unused commitment fee from 0.50% of the total unused commitment amount to 0.50% when the average unused commitment amount for the reporting period is less than or equal to 50%, 0.75% when the average unused commitment amount for the reporting period is greater than 50% but less than or equal to 65%, and 1.00% when the average unused commitment amount for the reporting period is greater than 65%. If our Credit Facility is not renewed or extended by January 15, 2021, all principal and interest will be due and payable on April 15, 2022 (15 months after the revolving period end date). Subject to certain terms and conditions, our Credit Facility may be expanded up to a total of $265.0 million through additional commitments of new or existing lenders. We incurred fees of approximately $1.2 million in connection with this amendment, which are being amortized through our Credit Facility s revolving period end date of January 15, 2021.

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

	DECEMBER 31, 2018	SEPTEMBER 30, 2018
Commitment amount	**$ 190,000**	$ 190,000
Borrowings outstanding, at cost	**102,200**	110,000
Availability [(A)]	**67,390**	68,116

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	2018	2017
Weighted average borrowings outstanding, at cost	**$ 88,911**	$ 98,228
Weighted average interest rate [(B)]	**6.1%**	5.0%
Commitment (unused) fees incurred	**$ 182**	$ 92

[(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. Amounts collected in the lockbox account with KeyBank are presented as Due from administrative agent on the accompanying *Consolidated Statement of Assets and Liabilities* as of December 31, 2018 and September 30, 2018.

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 25 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 $261.5 million as of December 31, 2018, (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 December 31, 2018, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $331.8 million, asset coverage on our senior securities representing indebtedness of 270.8%, 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 35 obligors in our Credit Facility s borrowing base as of December 31, 2018. As of December 31, 2018, we were in compliance with all of our Credit Facility covenants.

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 the assumptions that the

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Valuation Team believes market participants would use, including the estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. As of each of December 31, 2018 and September 30, 2018, the discount rate used to determine the fair value of our Credit Facility was 30-day LIBOR, plus 2.85% per annum, plus a 0.50% unused commitment 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 December 31, 2018 and September 30, 2018, our Credit Facility was valued using Level 3 inputs and any changes in its fair value are recorded in net unrealized depreciation (appreciation) of other on our accompanying *Consolidated Statements of Operations*.

The following tables present our Credit Facility carried at fair value as of December 31, 2018 and September 30, 2018, 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 months ended December 31, 2018 and 2017:

	TOTAL RECURRING FAIR VALUE MEASUREMENT REPORTED IN CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
	DECEMBER 31, 2018	**SEPTEMBER 30, 2018**
Credit Facility	**$ 102,200**	$ 110,000

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

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
Fair value as of September 30, 2018 and 2017, respectively	**$ 110,000**	$ 93,115
Borrowings	**59,000**	61,100
Repayments	**(66,800)**	(23,600)
Net unrealized appreciation [A]		218
Fair Value as of December 31, 2018 and 2017, respectively	**$ 102,200**	$ 130,833

[A] Included in net unrealized appreciation (depreciation) of other on our accompanying *Consolidated Statements of Operations* for the three months ended December 31, 2018 and 2017.

The fair value of the collateral under our Credit Facility totaled approximately $361.2 million and $332.3 million as of December 31, 2018 and September 30, 2018, respectively.

Notes Payable

In November 2018, we completed a public debt offering of $57.5 million aggregate principal amount of 6.125% Notes due 2023 (the 2023 Notes), inclusive of the overallotment option exercised by the underwriters, for net proceeds of $55.4 million after deducting underwriting discounts, commissions and offering expenses borne by us. We incurred approximately $2.1 million in total underwriting discounts and offering costs related to the issuance of the 2023 Notes, which have been recorded as discounts to the principal amount on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized from issuance through November 1, 2023, the maturity date. The offering proceeds were used to pay down borrowings under our Credit Facility.

The 2023 Notes are traded under the ticker symbol GLADD on the Nasdaq Global Select Market. The 2023 Notes will mature on November 1, 2023, and may be redeemed in whole or in part at any time or from time to time at the Company s option on or after November 1, 2020. The 2023 Notes bear interest at a rate of 6.125% per year payable quarterly on February 1, May 1, August 1, and November 1 of each year, commencing February 1, 2019 (which equates to approximately $3.5 million per year). The 2023 Notes are recorded at the principal amount, less discounts, on our accompanying *Consolidated Statements of Assets and Liabilities* as of December 31, 2018 and September 30, 2018.

The indenture relating to the 2023 Notes contains certain covenants, including (i) an inability to incur additional debt or issue additional debt or preferred securities unless the Company s asset coverage meets the threshold specified in the 1940 Act after such borrowing, (ii) an inability to declare any dividend or distribution unless the Company s asset coverage meets the threshold specified in the 1940 Act at the time of such declaration, and (iii) if, at any time, we are not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, we will provide the holders of the 2023 Notes and the trustee with audited annual consolidated financial statements and unaudited interim consolidated financial statements.

The fair value, based on the last quoted closing price, of the 2023 Notes as of December 31, 2018 was $55.1 million. We consider the trading price of the 2023 Notes to be a Level 1 input within the ASC 820 hierarchy.

NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK

In September 2017, we completed a public offering of approximately 2.1 million shares of 6.00% Series 2024 Term Preferred Stock, par value $0.001 per share (Series 2024 Term Preferred Stock), at a public offering price of $25.00 per share. Gross proceeds totaled $51.8 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were approximately $49.8 million. We incurred approximately $1.9 million in total underwriting discounts and offering costs related to the issuance of the Series 2024 Term Preferred Stock, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized from issuance through September 30, 2024, the mandatory redemption date. The offering proceeds plus borrowings under our Credit Facility were used to voluntarily redeem all 2.4 million outstanding shares of our then existing 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share (Series 2021 Term Preferred Stock). In connection with the voluntary redemption of our Series 2021 Term Preferred Stock, we incurred a loss on extinguishment of debt of $1.3 million during the three months ended September 30, 2017, which is primarily comprised of the unamortized deferred issuance costs at the time of redemption.

The shares of our Series 2024 Term Preferred Stock are traded under the ticker symbol GLADN on the Nasdaq Global Select Market. Our Series 2024 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.00% per year, payable monthly (which equates in total to approximately $3.1 million per year). We are required to redeem all of the outstanding Series 2024 Term Preferred Stock on September 30, 2024 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions per 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 2024 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, or (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 2024 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next quarterly or annual report filed with the SEC. The asset coverage on our senior securities that are stock as of December 31, 2018 was 204.8%, calculated in accordance with Sections 18 and 61 of the 1940 Act.

We may also voluntarily redeem all or a portion of the Series 2024 Term Preferred Stock at our option at the Redemption Price at any time after September 30, 2019. If we fail to redeem our Series 2024 Term Preferred Stock pursuant to the mandatory redemption date of September 30, 2024, or in any other circumstance in which we are required to mandatorily redeem our Series 2024 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of September 30, 2018, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2024 Term Preferred Stock.

We paid the following monthly dividends on our Series 2024 Term Preferred Stock for the three months ended December 31, 2018:

FISCAL YEAR	DECLARATION DATE	RECORD DATE	PAYMENT DATE	DIVIDEND PER SHARE OF SERIES 2024 TERM PREFERRED STOCK
2019	October 9, 2018	October 19, 2018	October 31, 2018	$ 0.125
	October 9, 2018	November 20, 2018	November 30, 2018	0.125
	October 9, 2018	December 20, 2018	December 31, 2018	0.125
		Three Months Ended December 31, 2018:		**$ 0.375**

We paid the following monthly dividends on our Series 2024 Term Preferred Stock for the three months ended December 31, 2017:

FISCAL YEAR	DECLARATION DATE	RECORD DATE	PAYMENT DATE	DIVIDEND PER SHARE OF SERIES 2024 TERM PREFERRED STOCK[(A)]
2018	October 10, 2017	October 20, 2017	October 31, 2017	$ 0.141667
	October 10, 2017	November 20, 2017	November 30, 2017	0.125
	October 10, 2017	December 19, 2017	December 29, 2017	0.125
		Three Months Ended December 31, 2017:		**$ 0.391667**

(A) The dividend paid on October 31, 2017 included the pro-rated period from and including the issuance date of September 27, 2017 to and including September 30, 2017, and the full month of October 2017.

The federal income tax characteristics of dividends paid to our preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits and is reported after the end of the calendar year based on tax information for the full fiscal year. Estimates of tax characterization made on a quarterly basis may not be representative of the actual tax characterization of dividends for the full year. Estimates made on a quarterly basis are updated as of each interim reporting date. The tax characterization of dividends paid to our preferred stockholders during the calendar years ended December 31, 2018 and 2017 was 100% from ordinary income.

In accordance with ASC 480, *Distinguishing Liabilities from Equity*, mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet. Our mandatorily redeemable preferred stock is recorded at the liquidation preference, less discounts, on our accompanying *Consolidated Statements of Assets and Liabilities* as of December 31, 2018 and September 30, 2018. The related dividend payments to our mandatorily redeemable preferred stockholders are treated as dividend expense on our *Consolidated Statements of Operations* as of the ex-dividend date.

The fair value, based on the last quoted closing price, for our Series 2024 Term Preferred Stock as of December 31, 2018 and September 30, 2018 was $51.1 million and $52.7 million, respectively. We consider the trading price of our mandatorily redeemable preferred stock to be a Level 1 input within the fair value hierarchy.

NOTE 7. REGISTRATION STATEMENT AND COMMON EQUITY OFFERINGS

Our shelf 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 or preferred stock. As of December 31, 2018, we had the ability to issue up to $300.0 million in securities under the registration statement.

Common Stock Offerings

In February 2015, we entered into an equity distribution agreement (as amended, the Sales Agreement) with Cantor Fitzgerald & Co. under which we had the ability to issue and sell, from time to time, up to an aggregate offering price of $50.0 million shares of our common stock in what is commonly referred to as an at-the-market (ATM) program. During the three months ended December 31, 2018, we sold 2,765 shares of our common stock under the Sales Agreement, at a weighted-average price of $9.60 per share and raised $28 thousand of gross proceeds. Due to rounding, net proceeds, after deducting commissions and offering costs borne by us, were also approximately $28 thousand. During the three months ended December 31, 2017, we sold 471,498 shares of our common stock under the Sales Agreement with Cantor Fitzgerald & Co. at a weighted-average price of $9.69 per share and raised $4.6 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately $4.5 million.

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

The following table sets forth the computation of basic and diluted net increase in net assets resulting from operations per weighted average common share for the three months ended December 31, 2018 and 2017:

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
Numerator for basic and diluted net (decrease) increase in net assets resulting from operations per common share	**$ (3,708)**	$ 7,160
Denominator for basic and diluted weighted average common shares	**28,504,715**	26,522,788
Basic and diluted net (decrease) increase in net assets resulting from operations per common share	**$ (0.13)**	$ 0.27

NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS

To qualify to be taxed as a RIC under Subchapter M of the Code, we must generally distribute to our stockholders, for each taxable year, at least 90% of our taxable ordinary income plus the excess of our net short-term capital gains over net long-term capital losses (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 Investment Company Taxable Income. 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 IRS Form 1099 at the end of each calendar year. For calendar years ended December 31, 2018 and 2017, 100% of distributions to common stockholders during these periods were deemed to be paid from ordinary income for 1099 stockholder reporting purposes.

We paid the following monthly distributions to common stockholders for the three months ended December 31, 2018 and 2017:

FISCAL YEAR	DECLARATION DATE	RECORD DATE	PAYMENT DATE	DISTRIBUTION PER COMMON SHARE
2019	October 9, 2018	October 19, 2018	October 31, 2018	$ 0.07
	October 9, 2018	November 20, 2018	November 30, 2018	0.07
	October 9, 2018	December 20, 2018	December 31, 2018	0.07
		Three Months Ended December 31, 2018:		**$ 0.21**
2018	October 10, 2017	October 20, 2017	October 31, 2017	$ 0.07
	October 10, 2017	November 20, 2017	November 30, 2017	0.07
	October 10, 2017	December 19, 2017	December 29, 2017	0.07
		Three Months Ended December 31, 2017:		**$ 0.21**

Aggregate distributions declared and paid to our common stockholders were approximately $6.0 million and $5.6 million for the three months ended December 31, 2018 and 2017, respectively, and were declared based on estimates of investment company taxable income for the respective fiscal years. For the fiscal year ended September 30, 2018, 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 $0.3 million of the first common distributions paid in fiscal year 2019 as having been paid in the respective prior year.

For the three months ended December 31, 2018 and the fiscal year ended September 30, 2018, we recorded the following adjustments for book-tax differences to reflect tax character. Results of operations, total net assets and cash flows were not affected by these adjustments.

	THREE MONTHS ENDED DECEMBER 31, 2018	YEAR ENDED SEPTEMBER 30, 2018
Undistributed net investment income	**$ 39**	$ (366)
Accumulated net realized losses	**31**	27,131
Capital in excess of par value	**(70)**	(26,765)

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 December 31, 2018 and September 30, 2018, we had no established reserves for such loss contingencies.

Escrow Holdbacks

From time to time, we will enter into arrangements relating to exits of certain investments whereby specific amounts of the proceeds are held in escrow in order to be used to satisfy potential obligations as stipulated in the sales agreements. We record escrow amounts in restricted cash and cash equivalents on our accompanying *Consolidated Statements of Assets and Liabilities*. We establish a reserve against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. There were no aggregate reserves recorded against the escrow amounts as of December 31, 2018 and September 30, 2018.

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 December 31, 2018 and September 30, 2018 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 December 31, 2018 and September 30, 2018, which are not reflected as liabilities in the accompanying *Consolidated Statements of Assets and Liabilities*:

	DECEMBER 31, 2018	**SEPTEMBER 30, 2018**
Unused line of credit commitments	**$ 11,125**	$ 5,350
Delayed draw term loans	**7,900**	3,910
Uncalled capital commitment	**843**	843
Total	**$ 19,868**	$ 10,103

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NOTE 11. FINANCIAL HIGHLIGHTS

	THREE MONTHS ENDED DECEMBER 31,	
	2018	**2017**
Per Common Share Data [(A)]:		
Net asset value at beginning of period [(A)]	**$ 8.32**	$ 8.40
Income from operations [(B)]		
Net investment income [(B)]	**0.21**	0.21
Net realized and unrealized (loss) gain on investments	**(0.34)**	0.07
Net realized and unrealized loss on other		(0.01)
Total from operations	**(0.13)**	0.27
Distributions to common stockholders from [(B)(C)]		
Net Investment Income	**(0.21)**	(0.21)
Total distributions	**(0.21)**	(0.21)
Capital share transactions [(B)]		
Net anti-dilutive effect of equity offering [(D)]		0.02
Total capital share transactions		0.02
Net asset value at end of period [(A)]	**$ 7.98**	$ 8.48
Per common share market value at beginning of period	**$ 9.50**	$ 9.50
Per common share market value at end of period	**7.30**	9.21
Total return [(E)]	**(21.28)%**	(0.91)%
Common stock outstanding at end of period [(A)]	**28,504,745**	26,632,182
Statement of Assets and Liabilities Data:		
Net assets at end of period	**$ 227,426**	$ 225,717
Average net assets [(F)]	**234,061**	225,202
Senior securities Data:		
Borrowings under Credit Facility, at cost	**$ 102,200**	$ 130,500
Mandatorily redeemable preferred stock	**51,750**	51,750
Long term debt	**57,500**	
Ratios/Supplemental Data:		
Ratio of net expenses to average net assets [(G)(H)]	**10.12%**	9.38%
Ratio of net investment income to average net assets [(I)]	**10.23%**	9.90%

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

[(B)] Based on weighted average basic per share data.

[(C)]

The tax character of distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

[D] During the three months ended December 31, 2017, the anti-dilution was a result of issuing common shares during the period at a price above the then current NAV per share.

[E] Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account distributions 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, refer to Note 9 *Distributions to Common Stockholders*.

[F] Computed using the average of the balance of net assets at the end of each month of the reporting period.

[G] 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.

[H] Had we not received any voluntary, unconditional and irrevocable credits of the incentive fee due to the Adviser, the ratio of net expenses to average net assets would have been 11.06% and 9.53% for the quarters ended December 31, 2018 and 2017, respectively.

[I] Had we not received any voluntary, unconditional and irrevocable credits of the incentive fee due to the Adviser, the ratio of net investment income to average net assets would have been 9.30% and 9.76% for the quarters ended December 31, 2018 and 2017, 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 one unconsolidated subsidiary, LWO Acquisitions Company LLC, 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 three month periods ended December 31, 2018 and 2017. Accordingly, summarized, comparative financial information, in aggregate, is presented below for the three months ended December 31, 2018 and 2017 for our unconsolidated significant subsidiary.

	THREE MONTHS ENDED DECEMBER 31,	
INCOME STATEMENT	**2018**	**2017**
Net sales	**$ 8,822**	$ 8,822
Gross profit	**1,877**	1,877
Net loss	**40**	40

NOTE 13. SUBSEQUENT EVENTS

Portfolio Activity

In January 2019, our investment in Merlin International, Inc. paid off, which resulted in success fee income of $0.6 million and a prepayment fee of $0.3 million. In connection with the payoff, we received net cash proceeds of $20.9 million, including the repayment of our debt investment of $20.0 million at par.

Distributions and Dividends

In January 2019, 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 SHARE OF SERIES 2024 TERM PREFERRED STOCK	
January 18, 2019	January 31, 2019	$	0.07	$	0.125
February 20, 2019	February 28, 2019		0.07		0.125
March 20, 2019	March 29, 2019		0.07		0.125
	Total for the Quarter:	**$**	**0.21**	**$**	**0.375**

PROSPECTUS

$300,000,000

COMMON STOCK

PREFERRED STOCK

SUBSCRIPTION RIGHTS

WARRANTS

DEBT SECURITIES

We may offer, from time to time, up to $300,000,000 aggregate initial offering price of our common stock, $0.001 par value per share, preferred stock, $0.001 par value per share, subscription rights, warrants representing rights to purchase shares of our common or preferred stock, or debt securities, or concurrent, separate offerings of these securities, (collectively Securities), in one or more offerings. The Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. In the case of our common stock and warrants or rights to acquire such common stock hereunder, the offering price per share of our common stock by us, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing common stockholders, (ii) with the consent of the holders of the majority of our outstanding voting securities, as defined in the Investment Company Act of 1940, as amended (the 1940 Act), or (iii) under such other circumstances as the U.S. Securities and Exchange Commission (SEC) may permit. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

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 1940 Act. For federal income tax purposes, we have elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established lower middle market companies 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.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See *Plan of Distribution.* We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The Nasdaq Global Select Market (Nasdaq) under the symbol GLAD. As of January 15, 2019, the last reported sales price for our common stock was $8.58. Our 6.00% Series 2024 Term Preferred Stock (Series 2024 Term Preferred Stock) is also traded on the Nasdaq under the symbol GLADN. As of January 15, 2019, the last reported sales price for our Series 2024 Term Preferred Stock was $25.00. Our 6.125% Notes due 2023 (2023 Notes) are also traded on the Nasdaq under the symbol GLADD. As of January 15, 2019, the last reported sales price for our 2023 Notes was $24.95.

This prospectus contains information you should know before investing in our Securities, including information about risks. Please read it before you invest and keep it for future reference. Additional information about us, including our annual, quarterly, current reports, proxy statements and other information, has been filed with the SEC and can be accessed at its website at *www.sec.gov*. This information is also available free of charge by writing to us at Investor Relations, Gladstone Capital Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102, by calling our toll-free investor relations line at 1-866-214-7543 or on our website at *www.gladstonecapital.com*. You may also call us collect at (703) 287-5893 to request this or other information or to make stockholder inquiries. See *Additional Information*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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.

An investment in our Securities involves certain risks, including, among other things, risks relating to investments in securities of small, private and developing businesses. We describe some of these risks in the section entitled *Risk Factors*, which begins on page 13. Common stock of closed-end investment companies frequently trades at a discount to net asset value and this may increase the risk of loss to purchasers of our Securities. You should carefully consider these risks together with all of the other information contained or incorporated by reference in this prospectus and any prospectus supplement before making a decision to purchase our Securities.

The SEC has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 5, 2019

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We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus or any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement as if we had authorized it. This prospectus and any prospectus supplement do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained or incorporated by reference in this prospectus and any prospectus supplement is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates. We will update these documents to reflect material changes only as required by law.

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to $300,000,000 of our Securities on terms to be determined at the time of the offering. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained or incorporated by reference in this prospectus. To the extent required by law, we will amend or supplement the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement to reflect any material changes to such information subsequent to the date of the prospectus and any accompanying prospectus supplement and prior to the completion of any offering pursuant to the prospectus and any accompanying prospectus supplement. Please carefully read this prospectus and any accompanying prospectus supplement together with the additional information described under *Additional Information*, *Incorporation of Certain Information by Reference* and *Risk Factors* before you make an investment decision.

PROSPECTUS SUMMARY

The following summary highlights some of the information in this prospectus. It is not complete and may not contain all the information that you may want to consider. You should read the entire prospectus and any prospectus supplement carefully, including the section entitled Risk Factors. Except where the context suggests otherwise, the terms we, us, our, the Company and Gladstone Capital refer to Gladstone Capital Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; Gladstone Commercial refers to Gladstone Commercial Corporation; Gladstone Investment refers to Gladstone Investment Corporation; Gladstone Land refers to Gladstone Land Corporation; Gladstone Securities refers to Gladstone Securities, LLC; Affiliated Public Funds refers collectively to Gladstone Commercial, Gladstone Investment and Gladstone Land and Gladstone Companies refers to the Affiliated Public Funds, Adviser, Administrator and their affiliated companies.

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 1940 Act. In addition, for federal income tax purposes we have elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). To continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements.

Our shares of common stock and Series 2024 Term Preferred Stock are traded on Nasdaq under the trading symbols GLAD and GLADN, respectively, and our 2023 Notes trade on Nasdaq under the trading symbol GLADD.

Our Investment Objectives and Strategy

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 lower middle market companies (which we generally define as companies with annual earnings before interest, taxes, depreciation and amortization (EBITDA) 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. 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 September 30, 2018, our investment portfolio was made up of approximately 91.4% debt investments and 8.6% equity investments, at cost.

We focus on investing in lower middle market companies 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. In July 2012, the SEC granted us an exemptive order (the Co-Investment Order) that expanded our ability to co-invest, under certain circumstances, with certain of our affiliates, including Gladstone Investment and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser, or any combination of the foregoing, subject to the conditions in the Co-Investment Order. Since 2012, we have opportunistically made several co-investments with Gladstone Investment pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced and 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, whether or not an affiliate of ours, 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 (LIBOR)) and, 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 may include 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 business. 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 (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.

Since our initial public offering in 2001 and through September 30, 2018, we have invested in over 226 different companies, while making 188 consecutive monthly or quarterly cash distributions to common stockholders. We expect that our investment portfolio will primarily include the following three categories of investments in private companies operating in the U.S.:

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

Second Lien Secured Debt Securities: We seek to invest a portion of our assets in second lien secured debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These second lien secured debt securities rank junior to the borrowers first lien secured debt securities and may be secured by second priority liens on all or a portion of the assets of the business. 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 second lien secured debt securities. Second lien debt securities may include investments sourced from the syndicated loan market.

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.

Under the 1940 Act, we may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets and generally include each of the investment types listed above, unless, at the time the acquisition is made, qualifying assets represent at least 70.0% of our total assets. See *Regulation as a Business Development Company Qualifying Assets* 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.

Our Investment Adviser and Administrator

We are externally managed by the Adviser, an affiliate of ours, under an investment advisory and management agreement (the Advisory Agreement) and the Administrator, another of our affiliates, provides administrative services to us pursuant to a contractual agreement (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 Lee 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, general counsel and secretary 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, but not limited to: Gladstone Commercial, a publicly-traded real estate investment trust; Gladstone Investment, a publicly-traded BDC and RIC; and Gladstone Land, a publicly-traded real estate investment trust (collectively the Affiliated Public Funds). 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 SEC 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., at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102. The Adviser also has offices in several other states.

Recent Developments

Debt Offering

In November 2018, we completed a public debt offering of $57.5 million aggregate principal amount of 6.125% Notes due 2023 (the 2023 Notes), inclusive of the overallotment, for net proceeds of $55.5 million after deducting underwriting discounts, commissions and offering expenses borne by us. The Notes will mature on November 1, 2023, and may be redeemed in whole or in part at any time or from time to time at the Company s option on or after

November 1, 2020. The 2023 Notes are traded under the ticker symbol GLADD on the Nasdaq Global Select Market.

Distributions

On October 9, 2018, 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 2024 Term Preferred Share
October 19, 2018	October 31, 2018	$ 0.07	$ 0.125
November 20, 2018	November 30, 2018	0.07	0.125
December 20, 2018	December 31, 2018	0.07	0.125
	Total for the Quarter	**$ 0.21**	**$ 0.375**

On January 8, 2019, 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 2024 Term Preferred Share
January 18, 2019	January 31, 2019	$ 0.07	$ 0.125
February 20, 2019	February 28, 2019	0.07	0.125
March 20, 2019	March 29, 2019	0.07	0.125
	Total for the Quarter	**$ 0.21**	**$ 0.375**

THE OFFERING

We may offer, from time to time, up to $300,000,000 of our Securities, on terms to be determined at the time of the offering. Our Securities may be offered at prices and on terms to be disclosed in one or more prospectus supplements. In the case of an offering of our common stock and warrants or rights to acquire such common stock hereunder in any offering, the offering price per share, exclusive of any underwriting commission or discount, will not be less than the net asset value (NAV) per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our outstanding voting securities, as defined in the 1940 Act, or (iii) under such other circumstances as the SEC may permit. If we were to sell shares of our common stock below our then current NAV per share, such sales would result in an immediate dilution to the NAV per share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See *Plan of Distribution.* We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

Set forth below is additional information regarding the offering of our Securities:

Common Stock Trading Symbol (Nasdaq)	GLAD
6.00% Series 2024 Term Preferred Stock Trading Symbol (Nasdaq)	GLADN
6.125% Notes due 2023 Trading Symbol (Nasdaq)	GLADD
Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our Securities first to pay down existing debt, then to make investments in lower middle market companies in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. See *Use of Proceeds.*
Dividends and Distributions	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. In September

2017 we issued, and in October 2017 we made our first distribution on, our Series 2024 Term Preferred Stock and have paid monthly distributions thereafter. The amount of monthly distributions on our capital 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.* 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.* Certain additional amounts may be deemed as distributed to common stockholders for income tax purposes and may also constitute a return of capital.

Taxation

We intend to continue to elect to be treated for federal income tax purposes as a RIC. So long as we continue to qualify, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute, for each of our taxable years, at least 90.0% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. See *Material U.S. Federal Income Tax Considerations.*

Trading at a Discount

Common stock of closed-end investment companies frequently trades at a discount to NAV. The possibility that our common stock may trade at a discount to our NAV is separate and distinct from the risk that our NAV per share of common stock may decline. We cannot predict whether our common stock will trade above, at or below NAV, although during the past three years, our common stock has often traded, and at times significantly, below NAV. See *Risk Factors Risks related to an Investment in our Securities Shares of closed-end investment companies frequently trade at a discount from NAV.*

Certain Anti-Takeover Provisions

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A classified board of directors also may serve to deter hostile takeovers or proxy contests, as may certain provisions of Maryland law and other measures we have adopted. See *Certain Provisions of Maryland Law and of Our Charter and Bylaws.*

Dividend Reinvestment Plan

Our transfer agent, Computershare, Inc., offers a dividend reinvestment plan for our common stockholders. This is an opt in dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Stockholders who do not elect to do so will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See *Dividend Reinvestment Plan* and *Material U.S. Federal Income Tax Considerations.* There is no dividend reinvestment plan for our Series 2024 Term Preferred Stock.

Management Arrangements

Gladstone Management Corporation serves as the investment adviser, and Gladstone Administration, LLC serves as the administrator. For a description of the Adviser, the Administrator, the Affiliated Public Funds and the contractual arrangements with these companies, see *Business Transactions with Related Parties* and *Management Certain Transactions.*

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 annualized percentages were calculated based on actual expenses incurred in the quarter ended September 30, 2018 and average net assets attributable to common stockholders for the quarter ended September 30, 2018.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)[1]	%
Offering expenses (as a percentage of offering price)[1]	%
Dividend reinvestment plan expenses (per sales transaction fee)[2]	Up to $25.00 Transaction Fee
Total stockholder transaction expenses[1]	%
Annual expenses (as a percentage of net assets attributable to common stock)[3]:	
Base Management fee[4]	2.89%
Loan servicing fee[5]	2.10%
Incentive fee (20% of realized capital gains and 20% of pre-incentive fee net investment income)[6]	2.07%
Interest payments on borrowed funds[7]	2.73%
Dividend expense on mandatorily redeemable preferred stock[8]	1.38%
Other expenses[9]	1.22%
Total annual expenses[10]	12.39%

(1) The amounts set forth in this table do not reflect the impact of any sales load, sales commission or other offering expenses borne by Gladstone Capital and its stockholders. The prospectus supplement relating to an offering of securities pursuant to this prospectus will disclose the estimated offering price and the estimated offering expenses and total stockholder transaction expenses borne by Gladstone Capital and its stockholders as a percentage of the offering price. In the event that securities to which this prospectus relates are sold to or through underwriters, the prospectus supplement will also disclose the applicable sales load.

(2) The expenses of the dividend reinvestment plan, if any, are included in stock record expenses, a component of other expenses. If a participant elects by written notice to the plan agent prior to termination of his or her account to have the plan agent sell part or all of the shares held by the plan agent in the participant s account and remit the proceeds to the participant, the plan agent is authorized to deduct a transaction fee, plus per share brokerage commissions, from the proceeds. 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* for information on the dividend reinvestment plan.

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

(4) In accordance with our Advisory Agreement, our annual base management fee is 1.75% (0.4375% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, 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. In accordance with the requirements of the SEC, the table above shows Gladstone Capital s 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 2.89% of the average net assets as of September 30, 2018 by dividing the total dollar amount of the management fee by Gladstone Capital s average net assets. The base management fee for the quarter ended September 30, 2018 before application of any credits was $1.8 million.

From time to time, the Adviser has non-contractually, unconditionally and irrevocably agreed to reduce the 1.75% 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 the quarter ended September 30, 2018, this credit to the base management fee was $0.1 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 non-contractually, unconditionally and irrevocably 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 September 30, 2018, the base management fee credit was $0.1 million. See *Management Certain Transactions.*

(5) The Adviser services, administers and collects on the loans held by Gladstone Business Loan, LLC (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 our Fifth Amended and Restated Credit Agreement, with KeyBank National Association (KeyBank), as administrative agent, lead arranger and a lender, as amended (the Credit Facility). For the three months ended September 30, 2018, the total loan servicing fee was $1.3 million. The entire loan servicing fee paid to the Adviser by Business Loan is generally non-contractually, unconditionally and irrevocably 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 Agreemen*t and footnote 6 below.

(6) 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 4 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 September 30, 2018. The income-based incentive fee for the quarter ended September 30, 2018 was $1.3 million.

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From time to time, the Adviser has non-contractually, unconditionally and irrevocably 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 September 30, 2018, the incentive fee credit was $0.8 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%.

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

= 100% × (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% × (catch-up : 2.1875% - 1.75%)) + (20% × (2.30% - 2.1875%))

= (100% × 0.4375%) + (20% × 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% × (6% - 1%)

= 20% × 5%

= 1%

For a more detailed discussion of the calculation of the two-part incentive fee, see *Business Transactions with Related Parties Investment Advisory and Management Agreement*.

(7)

Includes amortization of deferred financing costs. As of September 30, 2018, we had $110.0 million in borrowings outstanding on our Credit Facility.

(8) Includes amortization of deferred financing costs related to our Series 2024 Term Preferred Stock, as well as amounts paid to preferred stockholders during the three months ended September 30, 2018. See *Description of our Securities Term Preferred Stock* for additional information.

(9) Includes our overhead expenses, including payments under the Administration Agreement based on our projected allocable portion of overhead and other expenses estimated to be incurred by the Administrator in performing its obligations under the Administration Agreement for the current fiscal year. See *Management Certain Transactions Administration Agreement.*

(10) Total annualized gross expenses, based on actual amounts incurred for the quarter ended September 30, 2018, would be $30.4 million. After all non-contractual, unconditional and irrevocable credits described in footnote 4, footnote 5 and footnote 6 above are applied to the base management fee, the loan servicing fee, and the incentive fee, total annualized expenses after fee credits, based on actual amounts incurred for the quarter ended September 30, 2018, would be $21.4 million or 8.74% 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 Securities. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our quarterly operating expenses would remain at the levels set forth in the table above and are gross of credits to any fees. The amounts set forth below do not reflect the impact of sales load or offering expenses to be borne by Gladstone Capital or its stockholders. In the prospectus supplement relating to an offering of securities pursuant to this prospectus, the examples below will be restated to reflect the impact of the estimated offering expenses borne by Gladstone Capital and its stockholders and, in the event that securities to which this prospectus relates are sold to or through underwriters, the impact of the applicable sales load. **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% annual return, our performance will vary and may result in a return greater or less than 5%.**

	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)	$ 123	$ 342	$ 531	$ 895
assuming a 5% annual return consisting entirely of capital gains (2)(3)	$ 132	$ 364	$ 559	$ 924

(1) While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Additionally, we have assumed that the entire amount of such 5% 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% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the Advisory 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% 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 dividend 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* for additional information regarding our dividend reinvestment plan.

(3) For purposes of this example, we have assumed that the entire amount of such 5% annual return would constitute capital gains and that no accumulated capital losses or unrealized depreciation exist that would have to be overcome first before a capital gains based incentive fee is payable.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form N-2 under the Securities Act of 1933, as amended (the Securities Act), with respect to the Securities to be offered from time to time by this prospectus and the accompanying prospectus supplement. This prospectus, which is a part of the registration statement, does not contain all of the information set forth in the registration statement or exhibits and schedules thereto. For further information with respect to our business and our Securities, reference is made to the registration statement, including the amendments, exhibits and schedules thereto.

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). Copies of such reports and amendments to those reports, if any, filed or furnished pursuant to the Exchange Act are available free of charge through our website at *www.GladstoneCapital.com* as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. Information on our website should not be considered part of this prospectus. A request for any of these reports may also be submitted to us by sending a written request addressed to Investor Relations, Gladstone Capital Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102, or by calling our toll-free investor relations line at 1-866-366-5745. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *www.sec.gov*.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

This prospectus is part of a registration statement that we have filed with the SEC. Commencing March 24, 2019, we will be allowed to incorporate by reference the information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to comprise a part of this prospectus from the date we file that document. Any reports filed by us with the SEC on or after March 24, 2019 and before the date that any offering of any Securities by means of this prospectus and any accompanying prospectus supplement is terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

We incorporate by reference into this prospectus additional documents that we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, from March 24, 2019 until all of the Securities offered by this prospectus and any accompanying prospectus supplement have been sold or we otherwise terminate the offering of these Securities; provided, however, that information furnished under Item 2.02 or Item 7.01 of Form 8-K or other information furnished to the SEC which is not deemed filed is not incorporated by reference in this prospectus and any accompanying prospectus supplement. Information that we file with the SEC subsequent to March 23, 2019 will automatically update and may supersede information in this prospectus, any accompanying prospectus supplement and information previously filed with the SEC.

You may request a copy of these filings (other than exhibits, unless the exhibits are specifically incorporated by reference into these documents) at no cost by writing or calling Investor Relations at the following address and telephone number:

Investor Relations

Gladstone Capital Corporation

1521 Westbranch Drive, Suite 100

McLean, Virginia 22102

1-866-366-5745

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with different or additional information, and you should not rely on such information if you receive it. We are not making an offer of or soliciting an offer to buy, any securities in any state or other jurisdiction where such offer or sale is not permitted. You should not assume that the information in this prospectus or in the documents incorporated by reference is accurate as of any date other than the date on the front of this prospectus or those documents.

RISK FACTORS

You should carefully consider the risks described below and all other information contained or incorporated by reference in this prospectus (or any prospectus supplement) before making a decision to purchase our Securities. 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. We believe the risk factors described below are the principal risk factors associated with an investment in our Securities as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

Risks Related to the Economy

Market conditions could negatively impact our business, results of operations, cash flows and financial condition.

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

changes in interest rates and credit spreads;

the availability of credit, including the price, terms and conditions under which it can be obtained;

the quality, pricing and availability of suitable investments and credit losses with respect to our investments;

the ability to obtain accurate market-based valuations;

loan values relative to the value of the underlying assets;

default rates on the loans underlying our investments and the amount of related losses;

prepayment rates, delinquency rates and legislative / regulatory changes with respect to our investments and loans, and the timing and amount of servicer advances;

competition;

- the actual and perceived state of the economy and public capital markets generally;

- the national and global political environment, including foreign relations and trading policies;

- the impact of potential changes to the tax code; and

- the attractiveness of other types of investments relative to investments in lower middle market companies generally.

Changes in these factors are difficult to predict, and a change in one factor can affect other factors resulting in adverse effects to our financial condition.

Volatility in the capital markets may make it more difficult to raise capital and may adversely affect the valuations of our investments.

Given the volatility and dislocation that the capital markets have experienced from time to time, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, significant changes in the capital markets have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

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

One of the factors that will influence the price of our securities will be the distribution yield on our securities (as a percentage of the price of our securities) 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 securities to expect a higher distribution yield. In addition, higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. As a result, higher market interest rates could cause the market price of our securities to decrease.

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 recent years, the Federal Reserve Board (the Fed) has incrementally raised the target range for the federal funds rate, with additional increases possible over the next year. As interest rates increase, generally, the cost of borrowing increases, affecting our ability to make new investments on favorable terms or at all. More generally, interest rate fluctuations and changes in credit spreads on floating rate loans may have a negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our rate of return on invested capital, our net investment income, our net asset value and the market price of our securities. A substantial portion of our debt investments have variable interest rates that reset periodically and are generally based on LIBOR, so an increase in interest rates from the current interest rate may make it more difficult for our portfolio companies to service their obligations under the debt investments that we hold. To the extent that interest rates increase, this may negatively impact the operating performance of our portfolio companies due to increasing debt service obligations and, therefore, may affect our results of operations. In addition, to the extent that an increase in interest rates makes it difficult or impossible to make payments on outstanding indebtedness to us or other financial sponsors or refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection. There can be no guaranty the Fed will raise rates at the gradual pace they originally proposed, nor can there be any assurance that markets will not adversely react to rate increases. The increase in interest rates could have a negative effect on our investments, which could negatively impact our operating results, financial condition, and cash flows.

We may experience fluctuations in our quarterly and annual results based on the impact of inflation in the U.S.

The majority of our portfolio companies are in industries that are directly impacted by inflation, such as consumer goods and services and manufacturing. Our portfolio companies may not be able to pass on to customers increases in their costs of operations which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future unrealized losses and therefore reduce our net assets resulting from operations.

Volatility of oil and natural gas prices could impair certain of our portfolio companies operations and ability to satisfy obligations to their respective lenders and investors, including us, which could negatively impact our financial *condition.*

Our portfolio includes a concentration of companies related to the oil and gas industry with the fair value of these investments representing approximately $50.2 million, or 12.9% of our total portfolio at fair value as of

September 30, 2018. These businesses provide services to oil and gas companies and are indirectly impacted by the prices of, and demand for, oil and natural gas, which have recently experienced volatility, including significant decline in prices, and such volatility could continue or increase in the future. A substantial or extended decline in oil and natural gas demand or prices may adversely affect the business, financial condition, cash flows, liquidity or results of operations of these portfolio companies and might impair their ability to meet capital expenditure obligations and financial commitments. A prolonged or continued decline in oil prices could therefore have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

There has been increased competitive pressure in the BDC and investment company marketplace for first and second lien secured debt, resulting in lower yields for increasingly riskier investments. A large number of entities compete with us and make the types of investments that we seek to make in lower middle market companies. We compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent that they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which would allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The competitive pressures we face could have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. We do not seek to compete based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors pricing, terms, and structure. However, if we match our competitors pricing, terms, and structure, we may experience decreased net interest income and increased risk of credit loss.

Our investments in lower middle market companies are extremely risky and could cause you to lose all or a part of your investment.

Investments in lower middle market companies are subject to a number of significant risks including the following:

Lower middle market companies are likely to have greater exposure to economic downturns than larger businesses. Our portfolio companies may have fewer resources than larger businesses, and thus any economic downturns or recessions are more likely to have a material adverse effect on them. If one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan or engage in a liquidity event, such as a sale, recapitalization or initial public offering would be diminished.

Lower middle market companies may have limited financial resources and may not be able to repay the loans we make to them. Our strategy includes providing financing to portfolio companies that typically do not have readily available access to financing. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower s ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry, or negative economic conditions. Deterioration in a borrower s financial condition and prospects usually will be accompanied by deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guaranties we may have obtained from the borrower s management. As of September 30, 2018, loans to one portfolio company were on non-accrual status with an aggregate debt cost basis of approximately $26.9 million, or 6.9% of the cost basis of all debt investments in our portfolio. While we are working with the portfolio company to improve their profitability and cash flows, there can be no assurance that our efforts will prove successful. Although we will sometimes seek to be the senior, secured lender to a borrower, in some of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender s security interest.

Lower middle market companies typically have narrower product lines and smaller market shares than large businesses. Because our target portfolio companies are lower middle market businesses, they will tend to be more vulnerable to competitors actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and other capabilities and a larger number of qualified managerial, and technical personnel.

There is generally little or no publicly available information about these businesses. Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, the Adviser and its employees, Gladstone Securities and certain consultants to perform due diligence investigations of these portfolio companies, their operations, and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations to make a well-informed investment decision.

Lower middle market companies generally have less predictable operating results. We expect that our portfolio companies may have significant variations in their operating results, may from time to time be exposed to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position, or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow, and other coverage tests typically imposed by their senior lenders. A borrower s failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower s ability to repay any of our loans would be jeopardized.

Lower middle market companies are more likely to be dependent on one or two persons. Typically, the success of a lower middle market business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability, or resignation of one or more of these persons could have a material adverse impact on our borrower and, in turn, on us.

Lower middle market companies may have limited operating histories. While we intend to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Portfolio companies with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

Debt securities of lower middle market companies typically are not rated by a credit rating agency. Typically a lower middle market private business 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 at rates 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 high risk as compared to investment-grade debt instruments.

Lower middle market companies may be highly leveraged. Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor.

> These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies ability to finance their future operations and capital needs. As a result, these companies flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company s income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

Because the loans we make and equity securities we receive when we make loans are not publicly traded, there is uncertainty regarding the value of our privately held securities that could adversely affect our determination of our NAV.

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has ultimate responsibility for reviewing and determining, in good faith, the fair value of our investments for which market quotations are not readily available, based on our valuation policy, which has been approved by our Board of Directors. Our Board of Directors reviews valuation recommendations that are provided by the Valuation Team. In valuing our investment portfolio, several techniques are used, including, a total enterprise value approach, a yield analysis, market quotes, and independent third party assessments. Currently, ICE Data Pricing and Reference Data, LLC (formerly Standard & Poor s Securities Evaluation, Inc.) provides estimates of fair value on our proprietary debt investments and we use another independent valuation firm to provide valuation inputs for our significant equity investments, including earnings multiple ranges, as well as other information. In addition to these techniques, other factors are considered when determining fair value of our investments, including but limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates.

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

Our NAV would be adversely affected if the fair value of our investments that are approved by our Board of Directors are higher than the values that we ultimately realize upon the disposal of such securities.

The valuation process for certain of our portfolio holdings creates a conflict of interest.

A substantial portion of our portfolio investments are made in the form of securities that are not publicly traded. As a result, our Board of Directors determines the fair value of these securities in good faith pursuant to the valuation policy. In connection with that determination, the Valuation Team prepares portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. The participation of the Adviser s investment professionals in our valuation process, and the pecuniary interest in the Adviser by Mr. Gladstone, may result in a conflict of interest as the management fees that we pay the Adviser are based on our gross assets less uninvested cash or cash equivalents from borrowings, and adjusted appropriately for any share issuances or repurchases during the period.

The lack of liquidity of our privately held investments may adversely affect our business.

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to quickly obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important investment opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, the Adviser, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

Due to the uncertainty inherent in valuing these securities, the Valuation Team s determinations of fair value 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 Valuation Team s determinations regarding the fair value of our investments that are ultimately approved by our Board of Directors are materially different from the values that we ultimately realize upon our disposal of such securities.

When we are a debt or minority equity investor in a portfolio company, which we expect will generally be the case, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.

We anticipate that most of our investments will continue to be either debt or minority equity investments in our portfolio companies. Therefore, we are and will remain subject to the risk that a portfolio company may make business decisions with which we disagree, and the shareholders and management of such company may take risks or otherwise act in ways that do not serve our best interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

In addition, we will generally not be in a position to control any portfolio company by investing in its debt securities. This is particularly true when we invest in syndicated loans, which are loans made by a larger group of investors whose investment objectives may not be completely aligned with ours. As of September 30, 2018, syndicated loans made up approximately 9.6% of our portfolio at cost, or $41.0 million. We therefore are subject to the risk that other lenders in these investments may make decisions that could decrease the value of our portfolio holdings.

The interest rates of some of our term loans to our portfolio companies are priced using a spread over LIBOR, which may be phased out in the future.

LIBOR is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. In general, our investments in debt securities have a term of five to seven years, accrue interest at variable rates based on LIBOR and, to a lesser extent, at fixed rates. As of September 30, 2018, based on the total principal balance of debt outstanding, our portfolio consisted of approximately 90.6% of loans at variable rates with floors and approximately 9.4% at fixed rates.

On July 27, 2017, the United Kingdom s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether or not LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The Fed, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced replacement of U.S. dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities called the Secured Overnight Financing Rate (SOFR). The first publication of SOFR was released in April 2018. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. If LIBOR ceases to exist, we may need to renegotiate the loan documents with our portfolio companies that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established.

We typically invest in transactions involving acquisitions, buyouts and recapitalizations of companies, which will subject us to the risks associated with change in control transactions.

Our strategy, in part, includes making debt and minority equity investments in companies in connection with acquisitions, buyouts and recapitalizations, which subjects us to the risks associated with change in control transactions. Change in control transactions often present a number of uncertainties. Companies undergoing change in control transactions often face challenges retaining key employees and maintaining relationships with customers and suppliers. While we hope to avoid many of these difficulties by participating in transactions where the management team is retained and by conducting thorough due diligence in advance of our decision to invest, if our portfolio companies experience one or more of these problems, we may not realize the value that we expect in connection with our investments, which would likely harm our operating results and financial condition.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies and/or we could be subject to lender liability claims.

We invest primarily in debt securities issued by our portfolio companies. In some cases portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders thereof are entitled to receive payment of interest and principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. In addition, even though we have structured some of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investments and subordinate all, or a portion, of our claims to that of other creditors. After repaying such senior creditors, such portfolio company may not have any remaining assets to use to repay its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower s business or in instances in which we exercised control over the borrower. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken in rendering significant managerial assistance. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company.

Prepayments of our investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. For the year ended September 30, 2018, we received prepayments of investments totaling $58.9 million. We will generally first use any proceeds from prepayments to repay any borrowings outstanding on our Credit Facility. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Our portfolio is concentrated in a limited number of companies and industries, which subjects us to an increased risk of significant loss if any one of these companies does not repay us or if the industries experience downturns.

As of September 30, 2018, we had investments in 50 portfolio companies, of which there were five investments that comprised approximately $122.8 million, or 31.5% of our total investment portfolio, at fair value. A consequence of a concentration in a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such investments or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25.0% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25.0% of the value of our total assets. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us. As of September 30, 2018, our largest industry concentrations of our total investments at fair value were in diversified/conglomerate service companies, representing 20.3%; healthcare, education and childcare companies, representing 13.8%; and oil and gas companies, representing 12.9%. Therefore, we are susceptible to the economic circumstances in these industries, and a downturn in one or more of these industries could have a material adverse effect on our results of operations and financial condition.

Our investments are typically long term and will require several years to realize liquidation events.

Since we generally make five to seven year term loans and hold our loans and related warrants or other equity positions until the loans mature, you should not expect realization events, if any, to occur over the near term. In addition, we expect that any warrants or other equity positions that we receive when we make loans may require several years to appreciate in value and we cannot give any assurance that such appreciation will occur.

The disposition of our investments may result in contingent liabilities.

Currently, all of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the underlying portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

Portfolio company litigation or other litigation or claims against us or our personnel could result in additional costs and the diversion of management time and resources.

In the course of investing in and often providing significant managerial assistance to certain of our portfolio companies, certain persons employed by the Adviser may serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, even if without merit, we or such employees may be named as defendants in such litigation, which could result in additional costs, including defense costs, and the diversion of management time and resources. Additionally, other litigation or claims against us or our personnel could result in additional costs, including defense costs, and the diversion of management time and resources. We may be unable to accurately estimate our exposure to litigation risk if we record balance sheet reserves for probable loss contingencies. As a result, any reserves we establish to cover any settlements or judgments may not be sufficient to cover our actual financial exposure, which may have a material impact on our results of operations, financial condition, or cash flows.

While we believe we would have valid defenses to potential claims brought due to our investment in any portfolio company, and will defend any such claims vigorously, we may nevertheless expend significant amounts of money in defense costs and expenses. Further, if we enter into settlements or suffer an adverse outcome in any litigation, we could be required to pay significant amounts. In addition, if any of our portfolio companies become subject to direct or indirect claims or other obligations, such as defense costs or damages in litigation or settlement, our investment in such companies could diminish in value and we could suffer indirect losses.

Further, these matters could cause us to expend significant management time and effort in connection with assessment and defense of any claims.

We may not realize gains from our equity investments and other yield enhancements.

When we make an investment, we may receive warrants to purchase stock issued by the borrower or other yield enhancements, such as success fees. Our goal is to ultimately dispose of these equity interests and realize gains upon our disposition of such interests. We expect that, over time, the gains we realize on these warrants and other yield enhancements will offset any losses we experience on loan defaults. However, any equity interests we receive may not appreciate in value and, in fact, may decline in value and any other yield enhancements, such as success fees, may not be realized. Accordingly, we may not be able to realize gains from our equity interests or other yield enhancements and any gains we do recognize may not be sufficient to offset losses we experience on our loan portfolio.

Any unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a BDC we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. We will record decreases in the market values or fair values of our investments as unrealized depreciation. Since our inception, we have, at times, incurred a cumulative net unrealized depreciation of our portfolio. Any unrealized depreciation in our investment portfolio could result in realized losses in the future and ultimately in reductions of our income available for distribution to stockholders in future periods.

Risks Related to Our External Financing

In addition to regulatory limitations on our ability to raise capital, our Credit Facility contains various covenants which, if not complied with, could accelerate our repayment obligations under the facility, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

We will have a continuing need for capital to finance our investments. As of September 30, 2018, we had $110.0 million in borrowings, at cost, outstanding under our Credit Facility, which provides for maximum borrowings of $190.0 million, with a revolving period end date of January 15, 2021. Our Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. Our Credit Facility contains covenants that require our wholly-owned subsidiary 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 lenders consent. The Credit Facility also 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. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, interest rate type, payment frequency and status, average life and lien property. Our Credit Facility further requires us to comply with other financial and operational covenants, which obligate us to, among other things, maintain certain financial ratios, including asset and interest coverage, and a minimum number of 25 obligors 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 $232.8 million as of September 30, 2018, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the

Code. As of September 30, 2018, and as defined in the performance guaranty of our Credit Facility, we were in compliance with all of our Credit Facility covenants; however, our continued compliance depends on many factors, some of which are beyond our control.

Given the continued uncertainty in the capital markets, the cumulative unrealized depreciation in our portfolio may increase in future periods and threaten our ability to comply with the minimum net worth covenant and other covenants under our Credit Facility. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

Any inability to renew, extend or replace our Credit Facility on terms favorable to us, or at all, could adversely impact our liquidity and ability to fund new investments or maintain distributions to our stockholders.

The revolving period end date of our Credit Facility is January 15, 2021 (the Revolving Period End Date) and if our Credit Facility is not renewed or extended by the Revolving Period End Date, all principal and interest will be due and payable on or before April 15, 2022. Subject to certain terms and conditions, our Credit Facility may be expanded to a total of $265.0 million through the addition of other lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our Credit Facility. There can be no guarantee that we will be able to renew, extend or replace our Credit Facility upon its Revolving Period End Date on terms that are favorable to us, if at all. Our ability to expand our Credit Facility, and to obtain replacement financing at or before the Revolving Period End Date, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand our Credit Facility, or to renew, extend or refinance our Credit Facility by the Revolving Period End Date, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

If we are unable to secure replacement financing, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, and such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. Such circumstances would also increase the likelihood that we would be required to redeem some or all of our outstanding mandatorily redeemable preferred stock, which could potentially require us to sell more assets. In addition to selling assets, or as an alternative, we may issue equity in order to repay amounts outstanding under our Credit Facility. Based on the recent trading prices of our stock, such an equity offering may have a substantial dilutive impact on our existing stockholders interest in our earnings, assets and voting interest in us. If we are not able to renew, extend or refinance our Credit Facility prior to its maturity, it could result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds to fund investments or maintain distributions to stockholders.

Our business plan is dependent upon external financing, which is constrained by the limitations of the 1940 Act.

We completed an equity offering of our Series 2024 Term Preferred Stock in September 2017 and sold 2,341,296 common shares under our at-the-market program during the year ended September 30, 2018. In addition, in November 2018, we completed a public debt offering of $57.5 million aggregate principal amount of the 2023 Notes, inclusive of the overallotment. However, there can be no assurance that we will be able to raise capital through issuing equity in the near future. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

Senior Securities. We may issue senior securities representing indebtedness (including borrowings under our Credit Facility and our 2023 Notes) and senior securities that are stock, such as our Series 2024 Term Preferred Stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue such senior securities in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200% (as the law applies to the Company currently) or 150% (as the law will apply to the Company effective April 10, 2019; refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Overview Regulatory Compliance for a discussion of changes to the asset coverage requirements pursuant to the Small Business Credit Availability Act (SBCAA)) on such senior security immediately after each issuance of such senior security. As a result of incurring indebtedness (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue senior securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our senior securities is not at least 200% or 150%, as applicable. If the aggregate value of our assets declines, we might be unable to satisfy that 200% or 150% requirement, as applicable. To satisfy the 200% or 150%, as applicable, asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to stockholders. Furthermore, if we have to issue common stock at below NAV per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that are stock.

Common and Convertible Preferred Stock. Because we are constrained in our ability to issue debt or senior securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our existing common stockholder may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then-current NAV per common share, such sales would result in an immediate dilution to the NAV per common share. This dilution would occur as a result of the sale of shares at a price below the then-current NAV per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV. This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has in previous years. As noted above, the 1940 Act prohibits the issuance of multiple classes of senior securities that are stock. As a result, we would be prohibited from issuing convertible preferred stock to the extent that such a security was deemed to be a separate class of stock from our outstanding Series 2024 Term Preferred Stock.

We financed certain of our investments with borrowed money and capital from the issuance of senior securities, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

The use of leverage, including through the issuance of senior securities that are debt or stock, magnifies the potential for gain or loss on amounts invested, and, if we incur additional leverage as permitted by the SBCAA, this potential will be further magnified. We have incurred leverage in the past and currently incur leverage through the Credit

Facility, shares of our mandatorily redeemable preferred stock and the 2023 Notes and, from time to time, intend to incur additional leverage to the extent permitted under the 1940 Act. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. In the future, we may borrow from, and issue senior securities, to banks and other lenders. Holders of these senior securities will have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such holders to seek recovery against our assets in the event of a default. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns on our portfolio, net of expenses. The calculations in the table below are hypothetical, and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10.0)%	(5.0)%	0.0%	5.0%	10.0%
Corresponding return to common stockholder[A]	(18.36)%	(9.94)%	(1.51)%	6.91%	15.34%

[A] The hypothetical return to common stockholders is calculated by multiplying our total assets as of September 30, 2018 by the assumed rates of return and subtracting all interest accrued on our debt for the year ended September 30, 2018, adjusted for the dividends on our Series 2024 Term Preferred Stock; and then dividing the resulting difference by our total assets attributable to common stock. Based on $399.5 million in total assets, $110.0 million drawn on our Credit Facility (at cost), $51.8 million in aggregate liquidation preference of our Series 2024 Term Preferred Stock, and $237.1 million in net assets, each as of September 30, 2018.

Based on the outstanding balance on our Credit Facility of $110.0 million at cost, as of September 30, 2018, the effective annual interest rate of 5.1% as of that date, and aggregate liquidation preference of our Series 2024 Term Preferred Stock of $51.8 million, our investment portfolio at fair value would have had to produce an annual return of at least 2.2% to cover annual interest payments on the outstanding debt and dividends on our Series 2024 Term Preferred Stock.

A change in interest rates may adversely affect our profitability and our hedging strategy may expose us to additional risks.

We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities. As a result, a portion of our income will depend upon the difference between the rate at which we borrow funds and the rate at which we loan these funds. Higher interest rates on our borrowings will decrease the overall return on our portfolio.

As of September 30, 2018, based on the total principal balance of debt outstanding, our portfolio consisted of approximately 90.6% of loans at variable rates with floors and approximately 9.4% at fixed rates.

As of September 30, 2018, we did not have any hedging arrangement, such as interest rate hedges. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to an interest rate cap agreement is linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement. For additional information on market interest rate fluctuations, see *Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk.*

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.

To maintain our qualification as a RIC, we must meet income source, asset diversification, and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90.0% of our investment company taxable income to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create original issue discount, which we must recognize as ordinary income over the term of the debt investment or PIK interest which is accrued generally over the term of the debt investment but not paid in cash, both of which will increase the amounts we are required to distribute to maintain RIC status. Because such OIDs and PIK interest will not produce distributable cash for us at the same time as we are required to make distributions, we will need to use cash from other sources to satisfy such distribution requirements. The asset diversification requirements must be met at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our shares. Refer to *Business Material U.S. Federal Income Tax Considerations RIC Status* for additional information regarding asset coverage ratio and RIC requirements and to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Regulatory Compliance* for a discussion of changes to the asset coverage requirements pursuant to the SBCAA.

Some of our debt investments may include success fees that would generate payments to us if the business is ultimately sold. Because the satisfaction of these success fees, and the ultimate payment of these fees, is uncertain, we generally only recognize them as income when the payment is received. Success fee amounts are characterized as ordinary income for tax purposes and, as a result, we are required to distribute such amounts to our stockholders in order to maintain RIC status.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

As a BDC, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets, as defined in Section 55(a) of the 1940 Act.

We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe to be attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to BDCs. As a result of such violation, specific rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act and our Credit Facility could be subject to termination. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the

1940 Act, which would significantly decrease our operating flexibility. Refer to *Business Regulation as a Business Development Company Qualifying Assets* for additional information regarding qualifying assets.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us or our portfolio companies to comply with these laws or regulations may adversely affect our business. For additional information regarding the regulations to which we are subject, see *Business Material U.S. Federal Income Tax Considerations* and *Business Regulation as a Business Development Company*.

We are subject to restrictions that may discourage a change of control. Certain provisions contained in our charter and Maryland law may prohibit or restrict a change of control and adversely impact the price of our shares.

Our Board of Directors is divided into three classes, with the term of the directors in each class expiring every third year. At each annual meeting of stockholders, the successors to the class of directors whose term expires at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. After election, a director may only be removed by our stockholders for cause. Election of directors for staggered terms with limited rights to remove directors makes it more difficult for a hostile bidder to acquire control of us. The existence of this provision may negatively impact the price of our securities and may discourage third-party bids to acquire our securities. This provision may reduce any premiums paid to stockholders in a change in control transaction.

Certain provisions of Maryland law applicable to us prohibit business combinations with:

any person who beneficially owns 10.0% or more of the voting power of our common stock (an interested stockholder);

an affiliate of ours who at any time within the two-year period prior to the date in question was an interested stockholder; or

an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our Board of Directors and approved by the affirmative vote of at least 80.0% of the votes entitled to be cast by holders of our outstanding shares of common stock and two-thirds of the votes entitled to be cast by holders of our common stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our Board of Directors prior to the time that someone becomes an interested stockholder.

Our charter permits our Board of Directors to issue up to 50.0 million shares of capital stock. In addition, our Board of Directors, without any action by our stockholders, may amend our charter from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series of stock that we have authority to issue. Our Board of Directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our Board of Directors could authorize the issuance of preferred stock with terms and conditions that could have a priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock, which it did in connection with our issuance of approximately 2.1 million shares of Series 2024 Term Preferred Stock. Preferred stock, including our Series 2024 Term Preferred Stock, could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

We may not be permitted to declare a dividend or make any distribution to stockholders or repurchase shares until such time as we satisfy the asset coverage tests under the provisions of the 1940 Act that apply to BDCs. As a BDC, we have the ability to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150%, provided certain conditions are met) after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our debt at a time when such sales and/or repayments may be disadvantageous.

Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth. As a result of the annual distribution requirement to qualify as a RIC, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue senior securities representing indebtedness, including borrowing money from banks or other financial institutions or senior securities that are stock, such as our mandatorily redeemable preferred stock, only in amounts such that our asset coverage on each senior security, as defined in the 1940 Act, equals at least 200% or 150% (effective April 10, 2019; refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Regulatory Compliance* for a discussion of changes to the asset coverage requirements pursuant to the SBCAA) after each such incurrence or issuance. Further, we may not be permitted to declare a dividend or make any distribution to our outstanding stockholders or repurchase shares until such time as we satisfy these tests. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder dilution. We have incurred leverage to generate capital to make additional investments. If the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which could prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous.

Recently-enacted legislation allows us to incur additional leverage under the 1940 Act, distinct from certain of our obligations under our Credit Facility and our Term Preferred Stock.

Historically, as a BDC, under the 1940 Act, we are generally required to maintain asset coverage of 200% for senior securities representing indebtedness (i.e., debt) or stock (i.e., preferred stock). On March 23, 2018, President Trump signed into legislation the Consolidated Appropriations Act of 2018, also known as the omnibus spending package. Included in Title VIII therein is the SBCAA that includes certain regulations under the federal securities laws impacting BDCs. Among other items, the SBCAA allows a BDC to increase the amount of debt it may incur by modifying the asset coverage percentage from 200% to 150% (subject to specific approval and disclosure requirements).

On April 10, 2018, our Board of Directors, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) thereof, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the Company s asset coverage requirements for senior securities will be changed from 200% to 150%, effective one year after the date of the Board of Director s approval; or on April 10, 2019. Under the current 200% asset coverage standard, we may borrow debt or issue senior securities in the amount of $1.00 for every $1.00 of equity in the Company. Starting from April 10, 2019, under the 150% asset coverage standard, we may borrow debt or issue senior securities in the amount of $2.00 for every $1.00 of equity in the Company. This reduction in the asset coverage ratio will allow us to double the amount of debt that we may incur and, therefore, your risk of an investment in us may increase. In addition, our management fee is based on our average gross assets, which include investments made with proceeds of borrowings, and, as a result, if we were to incur additional leverage, management fees paid to the Adviser would increase.

Notwithstanding the modified asset coverage leverage ratio under the 1940 Act described above, we remain subject to a minimum asset coverage requirement of 200% with respect to certain provisions of our Credit Facility and our Series 2024 Term Preferred Stock. If we drop below the 200% minimum asset coverage requirement, we may under certain circumstances be required to repay all outstanding indebtedness under our Credit Facility and redeem our Series 2024 Term Preferred Stock. In addition, in the event we fall below the 200% minimum asset coverage requirement, we may need to renegotiate our Credit Facility and issue additional series of term preferred stock with a lower asset coverage requirement. Such events, if they were to occur, could have a significant adverse effect on our business, financial condition, results of operations, and cash flows.

Risks Related to Our External Management

We are dependent upon our key management personnel and the key management personnel of the Adviser, particularly David Gladstone, Terry Lee Brubaker and Robert L. Marcotte and on the continued operations of the Adviser, for our future success.

We have no employees. Our chief executive officer, chief operating officer, chief financial officer and treasurer, and the employees of the Adviser, do not spend all of their time managing our activities and our investment portfolio. We are particularly dependent upon David Gladstone, Terry Lee Brubaker, and Robert L. Marcotte for their experience, skills and networks. Our executive officers and the employees of the Adviser allocate some, and in some cases a material portion, of their time to businesses and activities that are not related to our business. We have no separate facilities and are completely reliant on the Adviser, which has significant discretion as to the implementation and execution of our business strategies and risk management practices. We are subject to the risk of discontinuation of the Adviser s operations or termination of the Advisory Agreement and the risk that, upon such event, no suitable replacement will be found. We believe that our success depends to a significant extent upon the Adviser and that discontinuation of its operations or the loss of its key management personnel could have a material adverse effect on our ability to achieve our investment objectives.

Our success depends on the Adviser s ability to attract and retain qualified personnel in a competitive environment.

The Adviser experiences competition in attracting and retaining qualified personnel, particularly investment professionals and senior executives, and we may be unable to maintain or grow our business if we cannot attract and retain such personnel. The Adviser s ability to attract and retain personnel with the requisite credentials, experience and skills depends on several factors including, but not limited to, its ability to offer competitive wages, benefits and professional growth opportunities. The Adviser competes with investment funds (such as private equity funds and mezzanine funds) and traditional financial services companies for qualified personnel, many of which have greater resources than us. Searches for qualified personnel may divert management s time from the operation of our business. Strain on the existing personnel resources of the Adviser, in the event that it is unable to attract experienced investment professionals and senior executives, could have a material adverse effect on our business.

In addition, we depend upon the Adviser to maintain its relationships with private equity sponsors, placement agents, investment banks, management groups and other financial institutions, and we expect to rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the Adviser or members of our investment team fail to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the Adviser has relationships are not obligated to provide us with investment opportunities, and we can offer no assurance that these relationships will generate investment opportunities for us in the future.

The Adviser can resign on 60 days notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

The Adviser has the right to resign under the Advisory Agreement at any time upon not less than 60 days written notice, whether we have found a replacement or not. If the Adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition, results of operations and cash flows.

The Adviser s liability is limited under the Advisory Agreement, and we are required to indemnify our investment adviser against certain liabilities, which may lead the Adviser to act in a riskier manner on our behalf than it would when acting for its own account.

The Adviser has not assumed any responsibility to us other than to render the services described in the Advisory Agreement, and it will not be responsible for any action of our Board of Directors in declining to follow the Adviser s advice or recommendations. Pursuant to the Advisory Agreement, the Adviser and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser will not be liable to us for their acts under the Advisory Agreement, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations under the Advisory Agreement. We have agreed to indemnify, defend and protect the Adviser and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser with respect to all damages, liabilities, costs and expenses arising out of or otherwise based upon the performance of any of the Adviser s duties or obligations under the Advisory Agreement or otherwise as an investment adviser for us, and not arising out of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations under the Advisory Agreement. These protections may lead the Adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

Our incentive fee may induce the Adviser to make certain investments, including speculative investments.

The management compensation structure that has been implemented under the Advisory Agreement may cause the Adviser to invest in high-risk investments or take other risks. In addition to its management fee, the Adviser is entitled under the Advisory Agreement to receive incentive compensation based in part upon our achievement of specified levels of income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead the Adviser to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining sufficient liquidity, or management of credit risk or market risk, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

We may be obligated to pay the Adviser incentive compensation even if we incur a loss.

The Advisory Agreement entitles the Adviser to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. When calculating our incentive compensation, our pre-incentive fee net investment income excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter. For additional information on incentive compensation under the Advisory Agreement with the Adviser, see *Business Transactions with Related Parties.*

We may be required to pay the Adviser incentive compensation on income accrued, but not yet received in cash.

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as debt instruments with PIK interest or OID. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser. Our OID investments totaled $20.7 million as of September 30, 2018, at cost, which are all syndicated loan investments. For the year ended September 30, 2018, we recognized $0.2 million of OID income and the unamortized balance of OID investments as of September 30, 2018 totaled $0.4 million. As of September 30, 2018, we had five investments which had a PIK interest component and we recorded PIK interest income of $3.8 million during the year ended September 30, 2018. We collected $0.8 million in PIK interest in cash for the year ended September 30, 2018.

The Adviser s failure to identify and invest in securities that meet our investment criteria or perform its responsibilities under the Advisory Agreement would likely adversely affect our ability for future growth.

Our ability to achieve our investment objectives will depend on our ability to grow, which in turn will depend on the Adviser s ability to identify and invest in securities that meet our investment criteria. Accomplishing this result on a cost-effective basis will be largely a function of the Adviser s structuring of the investment process, its ability to provide competent and efficient services to us, and our access to financing on acceptable terms. The senior management team of the Adviser has substantial responsibilities under the Advisory Agreement. In order to grow, the Adviser will need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively would likely have a material adverse effect on our business, financial condition, and results of operations.

There are significant potential conflicts of interest, including with the Adviser, which could impact our investment returns.

Our executive officers and directors, and the officers and directors of the Adviser, serve or may serve as officers, directors, or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman of the board and chief executive officer of each of the Gladstone Companies. In addition, Mr. Brubaker, our vice chairman and chief operating officer, is the vice chairman and chief operating officer of each of the Gladstone Companies. Mr. Marcotte is an executive managing director of the Adviser. While portfolio managers and the officers and other employees of the Adviser will devote as much time to the management of us as appropriate to enable the Adviser to perform its duties in accordance with the Advisory Agreement, the portfolio managers and other of the Adviser s officers may have conflicts in allocating their time and services among us, on the one hand, and other investment vehicles managed by the Adviser, on the other hand. These activities could be viewed as creating a conflict of interest insofar as the time and effort of the portfolio managers and the officers and employees of the Adviser will not be devoted exclusively to our business but will instead be allocated between our business and the management of these other investment vehicles. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Affiliated Public Fund with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of the Adviser may face conflicts in the allocation of investment opportunities to other entities managed by the Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of September 30, 2018, our Board of Directors has approved the following types of co-investment transactions:

Our affiliate, Gladstone Commercial, may, under certain circumstances, lease property to portfolio companies that we do not control. We may pursue such transactions only if (i) the portfolio company is not controlled by us or any of our affiliates, (ii) the portfolio company satisfies the tenant underwriting criteria of Gladstone Commercial, and (iii) the transaction is approved by a majority of our independent directors and a majority of the independent directors of Gladstone Commercial. We expect that any such negotiations between Gladstone Commercial and our portfolio companies would result in lease terms consistent with the terms that the portfolio companies would be likely to receive were they not portfolio companies of ours.

We may invest simultaneously with our affiliate Gladstone Investment in senior loans in the broadly syndicated market whereby neither we nor any affiliate has the ability to dictate the terms of the loans.

Pursuant to the Co-Investment Order, under certain circumstances, we may co-invest with Gladstone Investment and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund), or any combination of the foregoing, subject to the conditions included therein.

Certain of our officers, who are also officers of the Adviser, may from time to time serve as directors of certain of our portfolio companies. If an officer serves in such capacity with one of our portfolio companies, such officer will owe fiduciary duties to stockholders of the portfolio company, which duties may from time to time conflict with the interests of our stockholders.

In the course of our investing activities, we will pay base management and incentive fees to the Adviser and will reimburse the Administrator for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through our investors themselves making direct investments. As a result of this arrangement, there may be times when the management team of the Adviser has interests that differ from those of our stockholders, giving rise to a conflict. In addition, as a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. While, neither we nor the Adviser currently receives fees in connection with managerial assistance, the Adviser and Gladstone Securities have, at various times, provided other services to certain of our portfolio companies and received fees for these other services.

The Adviser is not obligated to provide a credit of the base management fee or incentive fee, which could negatively impact our earnings and our ability to maintain our current level of distributions to our stockholders.

The Advisory Agreement provides for a base management fee based on our gross assets and an incentive fee which consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. Our Board of Directors has historically accepted and may accept in the future quarterly or annual non-contractual, unconditional and irrevocable credits to reduce the annual base management fee. Further, our Board of Directors has accepted on a quarterly basis non-contractual, unconditional and irrevocable credits from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of distributions to common stockholders. Any waived fees may not be recouped by the Adviser in the future. However, the Adviser is not required to issue these or other credits of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these management and incentive fees will increase. If the Adviser does not issue these credits in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

Our business model is dependent upon developing and sustaining strong referral relationships with investment bankers, business brokers and other intermediaries and any change in our referral relationships may impact our business plan.

We are dependent upon informal relationships with investment bankers, business brokers and traditional lending institutions to provide us with deal flow. If we fail to maintain our relationship with such funds or institutions, or if we fail to establish strong referral relationships with other funds, we will not be able to grow our portfolio of investments and fully execute our business plan.

Our base management fee may induce the Adviser to incur leverage.

The fact that our base management fee is payable based upon our gross assets, which would include any investments made with proceeds of borrowings, may encourage the Adviser to use leverage to make additional investments. Under certain circumstances, the use of increased leverage may increase the likelihood of default, which would disfavor holders of our securities. Given the subjective nature of the investment decisions made by the Adviser on our behalf, we will not be able to monitor this potential conflict of interest.

Risks Related to an Investment in Our Securities

We may experience fluctuations in our quarterly and annual operating results.

We may experience fluctuations in our quarterly and annual operating results due to a number of factors, including, among others, variations in our investment income, the interest rates payable on the debt securities we acquire, the default rates on such securities, variations in and the timing of the recognition of realized and unrealized gains or losses, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions, including the impacts of inflation. The majority of our portfolio companies are in industries that are directly impacted by inflation, such as manufacturing and consumer goods and services. Our portfolio companies may not be able to pass on to customers increases in their costs of production which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies   operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future realized and unrealized losses and therefore reduce our net assets resulting from operations. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

There is a risk that you may not receive distributions or that distributions may not grow over time.

We intend to distribute at least 90.0% of our investment company taxable income to our stockholders by paying monthly distributions. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Furthermore, we expect to retain some or all net realized long-term capital gains by first offsetting them with realized capital losses, and secondly through a deemed distribution to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine in certain cases to distribute these gains to our common stockholders. In addition, our Credit Facility and the 2023 Notes restrict the amount of distributions we are permitted to make. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions.

Investing in our securities may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies may be highly speculative, and therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

Distributions to our stockholders have included and may in the future include a return of capital.

Quarterly, our Board of Directors declares monthly distributions based on then-current estimates of taxable income for each fiscal year, which may differ, and in the past have differed, from actual results. Because our distributions are based on estimates of taxable income that may differ from actual results, future distributions payable to our stockholders may also include a return of capital. Moreover, to the extent that we distribute amounts that exceed our current and accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a stockholder s original investment in shares of our stock and should not be confused with a distribution from earnings and profits. Although return of capital distributions may not be taxable, such 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. Such returns of capital reduce our asset base and also adversely impact our ability to raise debt capital as a result of the leverage restrictions under the 1940 Act, which could have material adverse impact on our ability to make new investments.

The issuance of subscription rights to our existing stockholders may dilute the ownership and voting powers of existing stockholders in our common stock, dilute the NAV of their shares and have a material adverse effect on the trading price of our common stock.

There are significant capital raising constraints applicable to us under the 1940 Act when our common stock is trading below its NAV per share. In the event that we issue subscription rights to our existing stockholders to subscribe for and purchase additional shares of our common stock, there is a significant possibility that the rights offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their subscription rights should expect that they will, upon completion of the rights offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their subscription rights. In addition, because the subscription price of the rights offering is likely to be less than our most recently determined NAV per common share, our common stockholders are likely to experience an immediate dilution of the per share NAV of their shares as a result of the offer. As a result of these factors, any future rights offerings of our common stock, or our announcement of our intention to conduct a rights offering, could have a material adverse impact on the trading price of our common stock.

Shares of closed-end investment companies frequently trade at a discount from NAV.

Shares of closed-end investment companies frequently trade at a discount from NAV per common share. Since our inception, our common stock has at times traded above NAV, and at times below NAV per share. 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 the holders of a majority of our outstanding voting securities and our independent directors. 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. 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. Additionally, 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.

Common stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then-current NAV per share of our common stock.

We did not request that our stockholders approve the Company s ability to issue shares of common stock at a price below NAV per share at our annual meetings of stockholders held on February 9, 2017 and February 8, 2018 and are not requesting that our stockholders approve the Company s ability to issue shares of common stock at a price below NAV at the Company s 2019 Annual Meeting of Stockholders to be held February 7, 2019. Absent such stockholder approval, we are not able to access the capital markets in an offering at prices below the then-current NAV per share due to restrictions applicable to BDCs under the 1940 Act. Should we decide to issue shares of common stock at a price below NAV per share in the future, we will seek the requisite approval of our stockholders at such time.

If we were to sell shares of our common stock below NAV per share, such sales would result in an immediate dilution to the NAV per share. This dilution would occur as a result of the sale of shares at a price below the then-current NAV per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. The greater the difference between the sale price and the NAV per share at the time of the offering, the more significant the dilutive impact would be. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect, if any, cannot be currently predicted. However, if, for example, we sold an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who did not participate in that offering for its proportionate interest would suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV.

If we fail to pay dividends on our Series 2024 Term Preferred Stock for two years, the holders of our Series 2024 Term Preferred Stock will be entitled to elect a majority of our directors.

The 1940 Act requires, and the terms of our Series 2024 Term Preferred Stock provide for, annual dividends in the amount of $1.50 per outstanding share of Series 2024 Term Preferred Stock. In accordance with the terms of our Series 2024 Term Preferred Stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of Series 2024 Term Preferred Stock will be entitled to elect a majority of our Board of Directors.

Holders of our preferred stock and debt securities and future holders of any securities ranking senior to our common stock have dividend, distribution and liquidation rights that are senior to the rights of the holders of our common stock.

The shares of Series 2024 Term Preferred Stock have dividend, distribution and liquidation rights that are senior to the rights of the holders of our common stock. Further, in the future, we may attempt to increase our capital resources by making additional offerings of preferred equity securities or issuing additional debt securities. Upon liquidation, holders of our preferred stock, holders of our debt securities, and lenders with respect to other borrowings, including the Credit Facility, would receive a distribution of our available assets in full prior to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our common stockholders bear the risk of our future offerings reducing the per share trading price of our common stock and diluting their interest in us.

Risks Related to Our Debt Securities

Our debt securities are unsecured and therefore are effectively subordinated to any secured indebtedness we have incurred or may incur in the future and will rank pari passu with, or equal to, all outstanding and future unsecured indebtedness issued by us and our general liabilities (total liabilities, less debt).

Our debt securities, including the 2023 Notes, are not secured by any of our assets or any of the assets of our subsidiaries. As a result, our debt securities are subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of our debt securities. In addition, our debt securities rank pari passu with, or equal to, all outstanding and future unsecured indebtedness issued by us and our general liabilities (total liabilities, less debt).

Our debt securities will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

Our debt securities, including the 2023 Notes, are obligations exclusively of the Company and not of any of our subsidiaries. None of our subsidiaries is a guarantor of our debt securities and our debt securities are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors of our subsidiaries will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of our debt securities) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, our debt securities are structurally subordinated to all indebtedness and other liabilities of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish. As of September 30, 2018, there was $110.0 million outstanding under the Credit Facility. Borrowings under the Credit Facility are the obligation of Business Loan, and are structurally senior to our debt securities, including the 2023 Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to our debt securities, including the 2023 Notes.

The indenture under which our debt securities issued contains limited protection for holders of our debt securities.

The indenture under which our debt securities, including the 2023 Notes, are issued offers limited protection to holders of such securities. The terms of the indenture do not restrict our or any of our subsidiaries ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in our debt securities. In particular, the terms of the indenture do not place any restrictions on our or our subsidiaries ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to our debt securities, (2) any indebtedness or other obligations that would be secured and therefore effectively rank senior in right of payment to our debt securities to the extent of the values of the assets securing such debt, (3) our indebtedness that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to our debt securities and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to our debt securities with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, which generally prohibit us incurring additional debt or issuing additional debt or preferred securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% effective April 10, 2019) after such incurrence or issuance. See the risk factor *Recently-enacted legislation allows us to incur additional leverage under the 1940 Act, distinct from certain of our obligations under our Credit Facility and our term preferred stock* below;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to our debt securities, including our preferred stock and any subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause our asset coverage to fall below the threshold specified in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time or any successor provisions, giving effect to any no-action relief granted by the SEC to another BDC (or to us if we determine to seek such similar SEC no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time in order to maintain the BDC s status as a RIC under Subchapter M of the Code;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture does not require us to make an offer to purchase our debt securities in connection with a change of control or any other event.

Furthermore, the terms of the indenture do not protect holders of our debt securities in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, if any, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity.

Our ability to recapitalize, incur additional debt (including additional debt that matures prior to the maturity of our debt securities), and take a number of other actions that are not limited by the terms of our debt securities may have important consequences for you as a holder of our debt securities, including making it more difficult for us to satisfy our obligations with respect to our debt securities or negatively affecting the trading value of our debt securities.

Other debt we issue or incur in the future could contain more protections for its holders than the indenture, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for trading levels and prices of our debt securities.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on our debt securities.

Any default under the agreements governing our indebtedness, including a default under the Credit Facility or other indebtedness to which we may be a party, that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal and interest on our debt securities and substantially decrease the market value of our debt securities. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Credit Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to refinance or restructure our debt, sell assets, reduce or delay capital investments, seek to raise additional capital or seek to obtain waivers from the required lenders under the Credit Facility or other debt that we may incur in the future to avoid being in default. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under our debt securities or other borrowings. If we breach our covenants under the Credit Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default under the Credit Facility or other debt, the lenders or holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the Credit Facility, could proceed against the collateral securing the debt. Because the Credit Facility has, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under our debt securities or the Credit Facility or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

We may choose to redeem our debt securities when prevailing interest rates are relatively low.

We may choose to redeem debt securities subject to redemption from time to time, especially if prevailing interest rates are lower than the rate borne by such debt securities. If prevailing rates are lower at the time of redemption, you likely would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the debt securities being redeemed. Our redemption right also may adversely impact your ability to sell our debt securities as the optional redemption date or period approaches.

A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our securities, could cause the liquidity or market value of our debt securities to decline significantly.

Any credit rating assigned to us or our debt securities represents an assessment by the assigning rating agency of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of our debt securities. Credit ratings are paid for by the issuer and are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

Other Risks

Cybersecurity risks and cyber incidents may adversely affect our business by causing a disruption to our operations, or the operations of businesses in which we invest, a compromise or corruption of our confidential information and/or damage to our business relationships, all of which could negatively impact our business, financial condition and operating results.

Maintaining our network security is of critical importance because our systems store highly confidential financial models and portfolio company information. Although we have implemented, and will continue to implement, security measures, our technology platform may be vulnerable to intrusion, computer viruses or similar disruptive problems caused by cyber-attacks. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources or those of our portfolio companies. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems or those of our portfolio companies for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships or those of our portfolio companies. As our and our portfolio companies reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided to us by third-party service providers, and the information systems of our portfolio companies. We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that a cyber incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident. In addition, any such incident, disruption or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations, and damage our and our Adviser s reputations, resulting in a loss of confidence in our services and our Adviser s services, which could adversely affect our business.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

Our business is dependent on our and third parties   communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

sudden electrical or telecommunications outages;

natural disasters such as earthquakes, tornadoes and hurricanes;

disease pandemics;

events arising from local or larger scale political or social matters, including terrorist acts; and

cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained or incorporated by reference in this prospectus or any prospectus supplement, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with 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, project, intend, expect, should potential, likely or the negative or other variations 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:

the recurrence of adverse changes in the economy and the capital markets;

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, Robert L. Marcotte or Terry Lee Brubaker;

changes in our investment objectives and strategy;

availability, terms (including the possibility of interest rate volatility) and deployment of capital;

changes in our industry, interest rates, exchange rates, regulation or the general economy;

our business prospects and the prospects of our portfolio companies;

the degree and nature of our competition;

changes in governmental regulations, tax rates and similar matters;

our ability to exit an investment in a timely manner;

- 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 statement, which speak only as of the date made. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from our historical performance. Except 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. 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 we have filed, or in the future may file with the SEC, including subsequent annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements contained or incorporated by reference in this 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.

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we expect to use the net proceeds from the sale of the Securities first to pay down existing debt, then to make investments in lower middle market businesses in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. For the year ended September 30, 2018, indebtedness under our Credit Facility, which matures on April 15, 2022, had a weighted average interest rate of approximately 5.1%, excluding effects of amortization on our deferred financing costs. We anticipate that substantially all of the net proceeds of any offering of Securities will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of any offering of Securities primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

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 90.0% of our annual ordinary income plus the excess of net short-term capital gains over net long-term capital losses, if any, to our stockholders in the form of monthly dividends. We intend to retain some or all of our realized capital gains first to the extent we have available capital loss carryforwards and second, through treating the retained amount as a deemed distribution 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.*

Our shares of common stock and mandatorily redeemable preferred stock are traded on the Nasdaq under the trading symbols GLAD and GLADN, respectively and our 2023 Notes trade on Nasdaq under the trading symbol GLADD. There can be no assurance that any premium to NAV will be attained or maintained. As of January 14, 2019 there were 38 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 January 15, 2019.

COMMON SHARE PRICE DATA

		Sales Price				
	NAV[1]	**High**	**Low**	**Declared Common Distributions**	**Premium (Discount) of High to NAV[2]**	**Premium (Discount) of Low to NAV[2]**
Fiscal Year ended 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	8.38	10.12	9.15	0.21	20.8	9.2
Fourth Quarter	8.40	9.95	8.98	0.21	18.5	6.9
Fiscal Year ended September 30, 2018						
First Quarter	8.48	9.92	8.95	0.21	17.0	5.5
Second Quarter	8.62	9.50	7.80	0.21	10.2	(9.5)
Third Quarter	8.86	9.29	8.57	0.21	4.9	(3.3)
Fourth Quarter	8.32	9.87	9.02	0.21	18.6	8.4
Fiscal Year ending September 30, 2019						
First Quarter	*	9.65	6.41	0.21	*	*
Second Quarter (through January 15, 2019)	*	8.60	7.21	0.21	*	*

(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.

The following are our outstanding classes of securities as of December 31, 2018.

(1)Title of Class	**(2)Amount Authorized**	**(3)Amount Held by us or for Our Account**	**(4)Amount Outstanding Exclusive of Amount Shown**

		Under Column (3)
Common Stock	44,560,000 shares	28,504,745 shares
6.00% Series 2024 Term Preferred Stock	5,440,000 shares	2,070,000 shares
6.125% Notes due 2023	$57,500,000	$57,500,000

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND MANDATORILY REDEEMABLE PREFERRED DISTRIBUTIONS

For the years ended September 30, 2018, 2017, 2016, 2015 and 2014, the ratios of three income metrics to fixed charges of the Company, computed as set forth below, were as follows:

	Year Ended September 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Net investment income plus fixed charges to fixed charges	3.3x	3.6x	3.4x	3.0x	3.5x
Net investment income plus net realized losses plus fixed charges to fixed charges[A]	0.7x	3.0x	4.3x	(0.8x)	1.9x
Net increase (decrease) in net assets resulting from operations plus fixed charges to fixed charges	2.9x	3.1x	2.4x	1.9x	2.6x

For purposes of computing the ratios, fixed charges include interest expense on borrowings, dividend expense on mandatorily redeemable preferred stock and amortization of deferred financing fees.

[A] Due to realized losses on certain investments during the year ended September 30, 2015, the ratio of net investment income plus net realized losses plus fixed charges to fixed charges was less than 1:1. We would have needed to generate additional net investment income of approximately $17.0 million during the year ended September 30, 2015 to achieve a coverage ratio of 1:1.

CONSOLIDATED SELECTED FINANCIAL DATA

The following consolidated selected financial data for the fiscal years ended September 30, 2018, 2017, 2016, 2015 and 2014 are derived from our audited *Consolidated Financial Statements*. The other data included in the second table below is unaudited. The data should be read in conjunction with our accompanying *Notes to Consolidated Financial Statements* and notes thereto and *Management s Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this prospectus.

GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended September 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Statement of Operations Data:					
Total Investment Income	**$ 45,581**	$ 39,233	$ 39,112	$ 38,058	$ 36,585
Total Expenses, Net of Credits from Adviser	**22,493**	17,800	19,625	20,358	18,217
Net Investment Income	**23,088**	21,433	19,487	17,700	18,368
Net Realized and Unrealized (Loss) Gain	**(4,440)**	(4,253)	(8,120)	(9,216)	(7,135)
Net Increase in Net Assets Resulting from Operations	**$ 18,648**	$ 17,180	$ 11,367	$ 8,484	$ 11,233
Per Share Data:					
Net Investment Income per Common Share Basic and Diluted[(A)]	**$ 0.85**	$ 0.84	$ 0.84	$ 0.84	$ 0.87
Net Increase in Net Assets Resulting from Operations per Common Share Basic and Diluted[(A)]	**0.69**	0.67	0.49	0.40	0.53
Distributions Declared and Paid Per Common Share[(B)]	**0.84**	0.84	0.84	0.84	0.84
Statement of Assets and Liabilities Data:					
Total Assets	**$ 399,508**	$ 365,860	$ 337,178	$ 382,482	$ 301,429
Net Assets	**237,092**	219,650	201,207	191,444	199,660
Net Asset Value Per Common Share	**8.32**	8.40	8.62	9.06	9.51
Common Shares Outstanding	**28,501,980**	26,160,684	23,344,422	21,131,622	21,000,160

Weighted Common Shares Outstanding Basic and Diluted	**27,104,077**	25,495,117	23,200,642	21,066,844	21,000,160
Senior Securities Data:					
Total borrowings, at cost[C]	**$ 110,000**	$ 93,000	$ 71,300	$ 127,300	$ 36,700
Mandatorily redeemable preferred stock[C][D]	**51,750**	51,750	61,000	61,000	61,000

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

[B] The tax character of distributions is determined on an annual basis. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

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

[D] Represents the total liquidation preference of our mandatorily redeemable term preferred stock.

	Year Ended September 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Other Unaudited Data:					
Number of Portfolio Companies	**50**	47	45	48	45
Average Size of Portfolio Company Investment at Cost	**$ 8,549**	$ 8,754	$ 8,484	$ 8,547	$ 7,762
Principal Amount of New Investments	**67,936**	99,241	79,401	102,299	81,731
Disbursements to Existing Portfolio Companies	**38,679**	12,851	10,145	33,824	20,314
Proceeds from Loan Repayments, Investments Sold and Exits[A]	**67,944**	83,444	121,144	40,273	72,560
Weighted Average Yield on Investments, excluding loans on non-accrual status[B]	**11.80%**	11.57%	11.08%	10.93%	11.47%
Weighted Average Yield on Investments, including loans on non-accrual status[C]	**10.72**	10.61	10.27	9.84	9.99
Total Return[D]	**9.53**	27.90	11.68	2.40	9.62

[A] Includes non-cash reductions in cost basis.

[B] Weighted average yield on investments, excluding loans on non-accrual status, equals interest income on investments divided by the weighted average interest-bearing principal balance throughout the fiscal year.

[C] Weighted average yield on investments, including loans on non-accrual status, equals interest income on investments divided by the weighted average total principal balance throughout the fiscal year.

[D] Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account dividends reinvested in accordance with the terms of the 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, refer to Note 9 *Distributions to Common Stockholders* elsewhere in this prospectus.

SELECTED QUARTERLY DATA (UNAUDITED)

(DOLLAR AMOUNTS IN THOUSANDS,

EXCEPT PER SHARE AMOUNTS)

The following tables set forth certain quarterly financial information for each of the quarters in the two years ended September 30, 2018. 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, 2017	**March 31, 2018**	**June 30, 2018**	**September 30, 2018**
Total investment income	**$ 10,859**	**$ 11,086**	**$ 12,379**	**$ 11,257**
Net investment income	**5,577**	**5,613**	**5,996**	**5,902**
Net increase (decrease) in net assets resulting from operations	**7,160**	**9,304**	**12,093**	**(9,909)**
Net Increase (Decrease) in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted)	**$ 0.27**	**$ 0.35**	**$ 0.45**	**$ (0.35)**

	Quarter Ended			
	December 31, 2016	**March 31, 2017**	**June 30, 2017**	**September 30, 2017**
Total investment income	$ 9,974	$ 8,793	$ 9,632	$ 10,834
Net investment income	5,207	5,359	5,379	5,488
Net Increase in net assets resulting from operations	916	4,656	6,163	5,445
Net Increase in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted)	$ 0.04	$ 0.18	$ 0.24	$ 0.21

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 accompanying Consolidated Financial Statements and the notes thereto contained elsewhere in this 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, results of operations or percentage relationships for any future periods. Except per share amounts, dollar amounts in the tables included herein are in thousands unless otherwise indicated. Our actual results, performance or achievements, or industry results, could differ materially from those we express in the following discussion as a result of a variety of factors, including the risks and uncertainties we have referred to under the headings Special Note Regarding Forward-Looking Statements and Risk Factors in this prospectus.

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 the Code. To continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements.

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 September 30, 2018, our investment portfolio was made up of approximately 91.4% debt investments and 8.6% equity investments, at cost.

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

Business

Portfolio and Investment Activity

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (generally based on the one-month LIBOR) and, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, may have 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 a portfolio company, typically from an exit or sale. 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 PIK interest.

Typically, our equity investments consist of common stock, preferred stock, limited liability company interests, or warrants to purchase the foregoing. Often, these equity investments occur in connection with our original investment, recapitalizing a business, or refinancing existing debt.

During the year ended September 30, 2018, we invested $67.9 million in ten new portfolio companies and extended $38.7 million of investments to existing portfolio companies. In addition, during the year ended September 30, 2018, we exited seven portfolio companies through sales and early payoffs. We received a total of $66.9 million in combined net proceeds and principal repayments from the aforementioned portfolio company exits as well as existing portfolio companies during the year ended September 30, 2018. This activity resulted in a net increase in our overall portfolio by three portfolio companies to 50 and a net increase of $16.0 million in our portfolio at cost since September 30, 2017. From our initial public offering in August 2001 through September 30, 2018, we have made 495 different loans to, or investments in, 226 companies for a total of approximately $1.8 billion, before giving effect to principal repayments on investments and divestitures.

During the year ended September 30, 2018, the following significant transactions occurred:

In October 2017, we sold our investment in Flight Fit N Fun LLC for a realized gain of $0.6 million. In connection with the sale, we received net cash proceeds of approximately $9.4 million, including the repayment of our debt investment of $7.8 million at par.

In October 2017, we invested $11.0 million in Applied Voice & Speech Technologies, Inc. through secured first lien debt.

In October 2017, our investment in PSC Industrial Holdings, LLC paid off at par for net cash proceeds of $3.5 million.

In November 2017, we invested $7.5 million in Arc Drilling Holdings LLC through a combination of secured first lien debt and equity.

In November 2017, we invested $7.5 million in Gray Matter Systems, LLC through secured second lien debt. In March 2018, we invested an additional $3.6 million in Gray Matter Systems, LLC, through secured second lien debt.

In November 2017, our investment in DataPipe, Inc. paid off at par for net cash proceeds of $2.0 million.

In November 2017, we invested $5.0 million in DigiCert Holdings, Inc. through secured second lien debt. In March 2018, we sold $2.0 million of this investment for net cash proceeds of $2.0 million.

In November 2017, we invested $4.0 million in Red Ventures, LLC through secured second lien debt.

In November 2017, we invested $1.0 million in ABG Intermediate Holdings 2, LLC through secured second lien debt. In January 2018, we sold this investment for net cash proceeds of $1.0 million.

In December 2017, we invested $20.0 million in Impact! Chemical Technologies, Inc. through secured first lien debt.

In January 2018, we invested $8.1 million in XMedius Solutions Inc. through secured first lien debt.

In February 2018, we invested an additional $4.0 million in an existing portfolio company, Lignetics, Inc., through secured first lien debt.

In March, July and September 2018, an existing portfolio company, EL Academies, Inc., drew $1.4 million, $4.4 million and $3.2 million, respectively, on the unused portion of its secured first lien delayed draw term loan.

In March 2018, we sold our $1.0 million investment in Neustar, Inc. for net cash proceeds of $1.0 million.

In April 2018, we invested $3.0 million in CHA Holdings, Inc. through secured second lien debt.

In May 2018, our investment in TapRoot Partners, Inc. paid off, which resulted in prepayment fees of $0.5 million and success fee income of $0.4 million. In connection with the pay off, we received net cash proceeds of $22.9 million, including the repayment of our debt investment of $22.0 million at par.

In May 2018, we invested an additional $10.0 million in an existing portfolio company, Merlin International, Inc., through secured second lien debt.

In June 2018, we invested an additional $7.0 million in an existing portfolio company, IA Tech, LLC, through secured first lien debt.

In July 2018, our investment in NetSmart Technologies, Inc. paid off at par for net cash proceeds of $3.7 million.

In July 2018, the holding company for Impact! Chemical Technologies, Inc. (Impact) merged with and into the holding company for WadeCo Specialties, Inc. (WadeCo) to form Chemical & Injection Holdings Company, LLC (Chemical & Injection Holdings). Our preferred equity ownership related to WadeCo with a cost basis of $0.6 million, was converted into preferred equity ownership in the newly formed Chemical & Injection Holdings with the same cost basis. Our existing debt investments in Impact and WadeCo remained unchanged in conjunction with the merger.

In September 2018, we restructured our $30.0 million investment in Sunshine Media Holdings (Sunshine) resulting in a $28.2 million realized loss and a new $2.0 million investment in TNCP Intermediate HoldCo, LLC.

In November 2018, we invested $16.7 million in Antenna Research Associates, Inc. through secured first lien debt and equity.

In December 2018, we invested $1.0 million in CPM Holdings, Inc. through secured second lien debt. Refer to Note 15 *Subsequent Events* in the accompanying *Consolidated Financial Statements* included elsewhere in this prospectus for portfolio activity occurring subsequent to September 30, 2018.

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 of common and preferred stock. We have successfully extended the Credit Facility s revolving period multiple times, most recently to January 2021, and currently have a total commitment amount of $190.0 million. Additionally, we issued 2.1 million shares of our Series 2024 Term Preferred Stock at a public offering price of $25 per share, for gross proceeds of $51.8 million in September 2017, inclusive of the overallotment, and 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. Additionally, during the year ended September 30, 2018, we sold 2,341,296 shares of our common stock under our at-the-market program at a weighted-average price of $9.39 per share and raised $22.0 million of gross proceeds. Refer to *Liquidity and Capital Resources Equity Common Stock* and *Liquidity and Capital*

Resources Equity Term Preferred Stock for further discussion of our common stock and mandatorily redeemable preferred stock and *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of the Credit Facility.

Although we were able to access the capital markets historically and in recent years, we believe uncertain market conditions could affect the trading price of our capital stock and thus may inhibit our ability to finance new investments through the issuance of equity. When our common stock trades below NAV per common share, as it has often done in previous 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.

On November 13, 2018, the closing market price of our common stock was $9.28, an 11.5% premium to our September 30, 2018 NAV per share of $8.32.

Refer to Note 15 Subsequent Events in the notes to the Consolidated Financial Statements included elsewhere in this prospectus for a discussion of additional capital raised in connection with issuance of the 2023 Notes.

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% (currently) or 150% (effective April 10, 2019) on our senior securities representing indebtedness and our senior securities that are stock.

On April 10, 2018, our Board of Directors, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) thereof, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the Company s asset coverage requirements for senior securities will be changed from 200% to 150%, effective one year after the date of the Board of Directors approval; or April 10, 2019. Under the current 200% asset coverage standard, we may borrow debt or issue senior securities in the amount of $1.00 for every $1.00 of equity in the Company. Starting from April 10, 2019, under the 150% asset coverage standard, we may borrow debt or issue senior securities in the amount of $2.00 for every $1.00 of equity in the Company. Notwithstanding the modified asset coverage requirement under the 1940 Act described above, we are separately subject to a minimum asset coverage requirement of 200% with respect to certain provisions of our Credit Facility and our Series 2024 Term Preferred Stock.

As of September 30, 2018, our asset coverage on our senior securities representing indebtedness was 359.0% and our asset coverage on our senior securities that are stock was 244.4%.

Recent Developments

Debt Offering

In November 2018, we completed a public debt offering of $57.5 million aggregate principal amount of 6.125% Notes due 2023 (the 2023 Notes), inclusive of the overallotment, for net proceeds of $55.5 million after deducting underwriting discounts, commissions and offering expenses borne by us. The Notes will mature on November 1, 2023, and may be redeemed in whole or in part at any time or from time to time at the Company s option on or after November 1, 2020. The 2023 Notes are traded under the ticker symbol GLADD on the Nasdaq Global Select Market.

Distributions

On October 9, 2018, 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 2024 Term Preferred Share**
October 19, 2018	October 31, 2018	$ 0.07	$ 0.125
November 20, 2018	November 30, 2018	0.07	0.125
December 20, 2018	December 31, 2018	0.07	0.125
	Total for the Quarter	**$ 0.21**	**$ 0.375**

Portfolio and Investment Activity

In October 2018, our investment in TWS Acquisition Corporation paid off at par for net cash proceeds of $2.0 million.

In October and November 2018, we invested a total of $1.6 million in 8th Avenue Food & Provisions, Inc. through secured second lien debt.

In November 2018, we invested $2.0 million in GOBP Holdings, Inc. (d/b/a Grocery Outlet) through secured second lien debt.

In November 2018, our investment in Red Ventures, LLC paid off at par for net cash proceeds of $3.1 million.

In November 2018, we invested $16.7 million in Antenna Research Associates, Inc. through secured first lien debt and equity.

In December 2018, we invested $1.0 million in CPM Holdings, Inc. through secured second lien debt.

RESULTS OF OPERATIONS

Comparison of the Year Ended September 30, 2018 to the Year Ended September 30, 2017

	For the Year Ended September 30,			
	2018	**2017**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 43,958**	$ 37,073	$ 6,885	18.6%
Other income	**1,623**	2,160	(537)	(24.9)
Total investment income	**45,581**	39,233	6,348	16.2
EXPENSES				
Base management fee	**7,033**	5,781	1,252	21.7
Loan servicing fee	**5,042**	4,146	896	21.6
Incentive fee	**5,348**	4,779	569	11.9
Administration fee	**1,250**	1,102	148	13.4
Interest expense on borrowings	**5,858**	3,073	2,785	90.6
Dividend expense on mandatorily redeemable preferred stock	**3,105**	4,152	(1,047)	(25.2)
Amortization of deferred financing fees	**1,014**	1,094	(80)	(7.3)
Other expenses	**1,966**	1,945	21	1.1
Expenses, before credits from Adviser	**30,616**	26,072	4,544	17.4
Credit to base management fee loan servicing fee	**(5,042)**	(4,146)	(896)	21.6
Credit to fees from Adviser other	**(3,081)**	(4,126)	1,045	(25.3)
Total expenses, net of credits	**22,493**	17,800	4,693	26.4
NET INVESTMENT INCOME	**23,088**	21,433	1,655	7.7
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized loss on investments	**(26,063)**	(3,475)	(22,588)	650.0
Net realized loss on other	**(133)**	(1,288)	1,155	(89.7)
Net unrealized appreciation of investments	**21,641**	625	21,016	3,362.6
Net unrealized appreciation (depreciation) of other	**115**	(115)	230	(200.0)
Net loss from investments and other	**(4,440)**	(4,253)	(187)	4.4
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 18,648**	$ 17,180	$ 1,468	8.5%
PER BASIC AND DILUTED COMMON SHARE				
Net investment income	**$ 0.85**	$ 0.84	$ 0.01	1.2%
Net increase in net assets resulting from operations	**$ 0.69**	$ 0.67	$ 0.02	3.0%

Investment Income

Interest income increased by 18.6% for the year ended September 30, 2018, as compared to the prior year. This increase was due primarily to an increase in the weighted average balance outstanding on our interest-bearing portfolio and an increase in the weighted average yield on our interest-bearing portfolio. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2018, was $372.2 million, compared to $320.1 million for the prior year, an increase of $52.1 million, or 16.3%. The weighted average yield on our interest-bearing investments is based on the current stated interest rates on interest-bearing investments which increased to 11.8% for the year ended September 30, 2018 compared to 11.6% for the year ended September 30, 2017, inclusive of any allowances on interest receivables made during those periods.

As of September 30, 2018, one portfolio company, Francis Drilling Fluids, Ltd. (FDF) was on non-accrual status, with an aggregate debt cost basis of approximately $26.9 million, or 6.9% of the cost basis of all debt investments in our portfolio. As of September 30, 2017, two portfolio companies, Sunshine and Alloy Die Casting Co. (ADC), were on non-accrual status, with an aggregate debt cost basis of approximately $27.9 million, or 7.5% of the cost basis of all debt investments in our portfolio.

Other income decreased by 24.9% during the year ended September 30, 2018, as compared to the prior year. This decrease was primarily due to a $1.1 million decrease in success fees recognized year over year. For the year ended September 30, 2018, other income consisted primarily of $0.6 million in prepayment fees received, $0.5 million in dividend income, and $0.4 million in success fees recognized. For the year ended September 30, 2017, other income consisted primarily of $1.5 million in success fees recognized, $0.3 million in dividend income, and $0.3 million in prepayment fees received.

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

	As of September 30, 2018		Year Ended September 30, 2018	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
IA Tech, LLC	$ 30,900	7.9%	$ 3,208	7.0%
NetFortris Corp.	24,325	6.2	2,522	5.5
Lignetics, Inc.	23,040	5.9	2,410	5.3
Impact! Chemical Technologies, Inc.[(A)]	22,472	5.8	1,849	4.1
EL Academies, Inc.	22,018	5.7	1,535	3.4
Subtotal five largest investments	**122,755**	**31.5**	**11,524**	**25.3**
Other portfolio companies	267,291	68.5	34,018	74.7
Total Investment Portfolio	**$ 390,046**	**100.0%**	**$ 45,542**	**100.0%**

	As of September 30, 2017		Year Ended September 30, 2017	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
NetFortris Corp.[(A)]	$ 24,240	6.9%	$ 1,566	4.0%
IA Tech, LLC	23,633	6.7	2,813	7.2
HB Capital Resources, Ltd.[(A)]	22,110	6.3	1,107	2.8
WadeCo Specialties, Inc.	22,016	6.2	1,936	4.9
Lignetics, Inc.	18,949	5.4	1,862	4.8
Subtotal five largest investments	**110,948**	**31.5**	**9,284**	**23.7**
Other portfolio companies	241,425	68.5	29,922	76.3

Total Investment Portfolio	**$ 352,373**	**100.0%**	**$ 39,206**	**100.0%**

[A] New investment during applicable period.

Expenses

Expenses, net of any non-contractual, unconditional and irrevocable credits to fees from the Adviser, increased $4.7 million, or 26.4%, for the year ended September 30, 2018 as compared to the prior year period. This increase was primarily due to a $2.9 million increase in our net base management and incentive fees to the Adviser and a $2.8 million increase in interest expense on borrowings, partially offset by a $1.0 million decrease in dividend expense on mandatorily redeemable preferred stock.

Interest expense increased by 90.6% during the year ended September 30, 2018, as compared to the prior year, due primarily to an increase in the weighted average balance outstanding on our Credit Facility. The weighted average balance outstanding during the year ended September 30, 2018, was $114.7 million, as compared to $58.4 million in the prior year, an increase of 96.4%. The effective interest rate on our Credit Facility, including unused commitment fees incurred but excluding the impact of deferred financing costs, was 5.1% during the year ended September 30, 2018, compared to 5.3% during the prior year. The decrease in the effective interest rate was driven by a decrease in the marginal interest rate on our Credit Facility effective March 9, 2018 and a decrease in unused commitment fees paid in the current year due to a greater amount outstanding on the credit facility. These factors were partially offset by an increase in LIBOR as compared to the prior year.

The net base management fee earned by the Adviser increased by $1.7 million, or 42.2%, during the year ended September 30, 2018, as compared to the prior year, resulting from an increase in average total assets subject to the base management fee and a decrease in credits from the Adviser year over year.

The net income-based incentive fee increased by $1.2 million, or 48.3%, for the year ended September 30, 2018, as compared to the prior year, due to higher pre-incentive fee net investment income, partially offset by an increase in net assets, which drives the hurdle, over the prior year. Our Board of Directors accepted a non-contractual, unconditional and irrevocable credit from the Adviser of $1.7 million to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of our distributions to common stockholders during the year ended September 30, 2018. The credit granted during the year ended September 30, 2017, totaled $2.3 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 accompanying Notes to Consolidated Financial Statements and are summarized in the following table:

	Year Ended September 30,	
	2018	**2017**
Average total assets subject to base management fee[(A)]	**$ 401,886**	$ 330,343
Multiplied by annual base management fee of 1.75%	**1.75%**	1.75%
Base management fee[(B)]	**7,033**	5,781
Portfolio company fee credit	**(1,020)**	(1,588)
Syndicated loan fee credit	**(364)**	(221)
Net Base Management Fee	**$ 5,649**	$ 3,972
Loan servicing fee[(B)]	**$ 5,042**	$ 4,146
Credit to base management fee loan servicing fee[(B)]	**(5,042)**	(4,146)
Net Loan Servicing Fee	$	$
Incentive fee [(B)]	**$ 5,348**	$ 4,779
Incentive fee credit	(1,697)	(2,317)
Net Incentive Fee	**$ 3,651**	$ 2,462

Portfolio company fee credit	**$**	**(1,020)**	$	(1,588)
Syndicated loan fee credit		**(364)**		(221)
Incentive fee credit		(1,697)		(2,317)
Credit to Fees from Adviser Other[B]	**$**	**(3,081)**	$	(4,126)

[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 four most recently completed quarters within the respective years and adjusted appropriately for any share issuances or repurchases during the applicable year.

(B) Reflected, on a gross basis, as a line item on our accompanying *Consolidated Statement of Operations* located elsewhere in this prospectus.

Realized Loss and Unrealized Appreciation

Net Realized Loss on Investments

For the year ended September 30, 2018, we recorded a net realized loss on investments of $26.1 million, which resulted primarily from the restructure of our investment in Sunshine, previously on non-accrual status, and the associated recognition of a $28.2 million realized loss. This was partially offset by a $0.7 million realized gain from the sale of a portion of our equity investment in Funko Acquisition Holdings, LLC (Funko) and a $0.6 million realized gain associated with the sale of our investment in Flight Fit N Fun LLC.

For the year ended September 30, 2017, we recorded a net realized loss on investments of $3.5 million, which resulted primarily from the sale of substantially all the assets of RBC Acquisition Corp. (RBC) for a $2.3 million realized loss and the write-off of $5.0 million on our investment in Sunshine, partially offset by the sale of Behrens Manufacturing, LLC (Behrens) for a $2.5 million realized gain and a $1.2 million realized gain related to an additional earn-out from Funko, LLC, which we exited in the prior year.

Net Realized Loss on Other

We incurred a loss on extinguishment of debt of $1.3 million during the year ended September 30, 2017, which resulted from the write-off of unamortized deferred issuance costs at the time of redemption of our 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share (Series 2021 Preferred Stock) in September 2017.

Net Unrealized Appreciation of Investments

During the year ended September 30, 2018, we recorded net unrealized appreciation of investments in the aggregate amount of $21.6 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2018, were as follows:

	Year Ended September 30, 2018			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
Edge Adhesives Holdings, Inc.	$	$ 2,830	$	$ 2,830
United Flexible, Inc.		2,475		2,475
Alloy Die Casting Co.		2,341		2,341
AG Transportation Holdings, LLC		2,083		2,083
Targus Cayman HoldCo, Ltd.		1,677		1,677
PIC 360, LLC		1,306		1,306
Funko Acquisition Holdings, LLC	745	869	(356)	1,258
Sea Link International IRB, Inc.		559		559
Leeds Novamark Capital I, L.P.		526		526
Merlin International, Inc.		450		450
WadeCo Specialties, Inc.		385		385
EL Academies, Inc.		379		379
Precision International, LLC		306		306
RBC Acquisition Corp.	284			284
IA Tech, LLC		267		267
Triple H Food Processors, LLC		236		236
Canopy Safety Brands, LLC		195		195
Funko, LLC	127			127
Flight Fit N Fun LLC	630		(725)	(95)
HB Capital Resources, Ltd.		330	(440)	(110)
Vision Government Solutions, Inc.		(412)		(412)
Frontier Financial Group, Inc.		(500)		(500)
GFRC Holdings, LLC		(519)		(519)
Meridian Rack & Pinion, Inc.		(671)		(671)
Vacation Rental Pros Property Management, LLC		(1,020)		(1,020)
Defiance Integrated Technologies, Inc.		(1,768)		(1,768)
Sunshine Media Holdings	(28,169)	(1,319)	27,660	(1,828)
Arc Drilling Holding LLC		(2,006)		(2,006)
New Trident Holdcorp, Inc.		(2,794)		(2,794)
LWO Acquisitions Company, LLC		(3,190)		(3,190)
Francis Drilling Fluids, Ltd.		(7,436)		(7,436)
Other, net (<$250)	320	28	(105)	243
Total:	**$ (26,063)**	**$ (4,393)**	**$ 26,034**	**$ (4,422)**

The primary drivers of our net unrealized appreciation for the year ended September 30, 2018, were the reversal of previously recorded depreciation on our investment in Sunshine upon restructure and improved performance on certain of our portfolio companies, namely Edge Adhesives Holdings, Inc. These factors were partially offset by a decline in performance of certain of our other portfolio companies, namely FDF.

During the year ended September 30, 2017, we recorded net unrealized appreciation of investments in the aggregate amount of $0.6 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2017, were as follows:

	Year Ended September 30, 2017			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
WadeCo Specialties, Inc.	$	$ 2,900	$	$ 2,900
SourceHOV LLC	(218)	1,756	97	1,635
Funko, LLC	1,273	(106)		1,167
Targus Cayman HoldCo, Ltd.		662		662
LWO Acquisitions Company, LLC		608		608
Flight Fit N Fun LLC		456		456
IA Tech, LLC		403		403
Vitera Healthcare Solutions, LLC		213	115	328
PIC 360, LLC		315		315
B+T Group Acquisition Inc.		305		305
Travel Sentry, Inc.		255		255
Leeds Novamark Capital I, L.P.		229		229
NetFortris Corp.	(14)	239		225
PSC Industrial Holdings Corp.		219		219
United Flexible, Inc.		177		177
Drumcree, LLC		169	(15)	154
Merlin International, Inc.		150		150
Vision Government Solutions, Inc.		141		141
TWS Acquisition Corporation		127		127
Westland Technologies, Inc.	126			126
Meridian Rack & Pinion, Inc.		(246)		(246)
L Discovery		(265)		(265)
Edge Adhesives Holdings, Inc.		(468)		(468)
FedCap Partners, LLC		(514)		(514)
Behrens Manufacturing, LLC	2,544		(3,211)	(667)
New Trident Holdcorp, Inc.		(878)		(878)
Defiance Integrated Technologies, Inc.		(1,125)		(1,125)
RBC Acquisition Corp.	(2,330)		1,119	(1,211)
Vertellus Holdings LLC	109	(1,456)		(1,347)
Francis Drilling Fluids, Ltd.		(2,066)		(2,066)
Alloy Die Casting, Corp.		(2,303)		(2,303)
Sunshine Media Holdings	(5,000)	(995)	3,612	(2,383)
Other, net (<$250)	35	33	(27)	41
Total:	**$ (3,475)**	**$ (1,065)**	**$ 1,690**	**$ (2,850)**

The primary drivers of our net unrealized appreciation for the year ended September 30, 2017, were an increase in the value of WadeCo, increased performance on certain of our portfolio companies, and the reversal of previously recorded depreciation on our investment in Sunshine upon partial write-off. These factors were partially offset by a decline in performance and decrease in comparable multiples used in the valuation of certain of our other portfolio companies and the reversal of $3.2 million of previously recorded unrealized appreciation on our investment in Behrens upon exit.

As of September 30, 2018, the fair value of our investment portfolio was less than its cost basis by approximately $37.4 million and our entire investment portfolio was valued at 91.2% of cost, as compared to cumulative net unrealized depreciation of $59.1 million and a valuation of our entire portfolio at 85.6% of cost as of September 30, 2017. This year over year increase in the cumulative unrealized depreciation on investments represents net unrealized appreciation of $21.6 million for the year ended September 30, 2018.

The cumulative net unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

Net Unrealized (Appreciation) Depreciation of Other

During the year ended September 30, 2018, we recorded $0.1 million of unrealized appreciation on our Credit Facility at fair value as compared to $0.1 million of unrealized depreciation during the year ended September 30, 2017.

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Comparison of the Year Ended September 30, 2017 to the Year Ended September 30, 2016

	For the Year Ended September 30,			
	2017	**2016**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 37,073**	$ 35,219	$ 1,854	5.3%
Other income	**2,160**	3,893	(1,733)	(44.5)
Total investment income	**39,233**	39,112	121	0.3
EXPENSES				
Base management fee	**5,781**	5,684	97	1.7
Loan servicing fee	**4,146**	3,890	256	6.6
Incentive fee	**4,779**	4,514	265	5.9
Administration fee	**1,102**	1,182	(80)	(6.8)
Interest expense on borrowings	**3,073**	2,899	174	6.0
Dividend expense on mandatorily redeemable preferred stock	**4,152**	4,118	34	0.8
Amortization of deferred financing fees	**1,094**	1,075	19	1.8
Other expenses	**1,945**	2,459	(514)	(20.9)
Expenses, before credits from Adviser	**26,072**	25,821	251	1.0
Credit to base management fee loan servicing fee	**(4,146)**	(3,890)	(256)	6.6
Credit to fees from Adviser other	**(4,126)**	(2,306)	(1,820)	78.9
Total expenses, net of credits	**17,800**	19,625	(1,825)	(9.3)
NET INVESTMENT INCOME	**21,433**	19,487	1,946	10.0
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized (loss) gain on investments	**(3,475)**	7,216	(10,691)	(148.2)
Net realized loss on other	**(1,288)**	(64)	(1,224)	(1,912.5)
Net unrealized appreciation (depreciation) of investments	**625**	(15,334)	15,959	104.1
Net unrealized (depreciation) appreciation of other	**(115)**	62	(177)	(285.5)
Net loss from investments and other	**(4,253)**	(8,120)	3,867	47.6
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 17,180**	$ 11,367	$ 5,813	51.1%
PER BASIC AND DILUTED COMMON SHARE				
Net investment income	**$ 0.84**	$ 0.84	$	%
Net increase in net assets resulting from operations	**$ 0.67**	$ 0.49	$ 0.18	36.7%

Investment Income

Interest income increased by 5.3% for the year ended September 30, 2017, as compared to the prior year. This increase was due primarily to an increase in the weighted average yield on our interest-bearing portfolio. The weighted average yield on our interest-bearing investments is based on the current stated interest rate on interest-bearing investments which increased to 11.6% for the year ended September 30, 2017 compared to 11.1% for the year ended September 30, 2016, inclusive of any allowances on interest receivables made during those periods. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2017, was $320.1 million, compared to $317.0 million for the prior year, an increase of $3.1 million, or 1.0%.

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

Vertellus Holdings, LLC, were on non-accrual status, with an aggregate debt cost basis of approximately $26.5 million, or 7.7% of the cost basis of all debt investments in our portfolio.

Other income decreased by 44.5% during the year ended September 30, 2017, as compared to the prior year. This decrease was primarily due to a $1.9 million decrease in success fees recognized year over year. For the year ended September 30, 2017, other income consisted primarily of $1.5 million in success fees recognized, $0.3 million in dividend income, and $0.3 million in prepayment fees received. For the year ended September 30, 2016, other income consisted primarily of $3.4 million in success fees recognized, $0.3 million in dividend income, and $0.2 million in prepayment fees.

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

	As of September 30, 2017		Year Ended September 30, 2017	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
NetFortris Corp.[(A)]	$ 24,240	6.9%	$ 1,566	4.0%
IA Tech, LLC	23,633	6.7	2,813	7.2
HB Capital Resources, Ltd.[(A)]	22,110	6.3	1,107	2.8
WadeCo Specialties, Inc.	22,016	6.2	1,936	4.9
Lignetics, Inc.	18,949	5.4	1,862	4.8
Subtotal five largest investments	**110,948**	**31.5**	**9,284**	**23.7**
Other portfolio companies	241,425	68.5	29,922	76.3
Total Investment Portfolio	**$ 352,373**	**100.0%**	**$ 39,206**	**100.0%**

	As of September 30, 2016		Year Ended September 30, 2016	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
RBC Acquisition Corp.	$ 37,345	11.6%	$ 3,347	8.6%
IA Tech, LLC[(A)]	23,230	7.2	888	2.3
WadeCo Specialties, Inc.	18,980	5.9	2,059	5.3
United Flexible, Inc.	17,744	5.5	2,108	5.4
Lignetics, Inc.	14,821	4.6	1,708	4.3
Subtotal five largest investments	**112,120**	**34.8**	**10,110**	**25.9**
Other portfolio companies	209,994	65.2	28,997	74.1
Total Investment Portfolio	**$ 322,114**	**100.0%**	**$ 39,107**	**100.0%**

(A) New investment during applicable period.

Expenses

Expenses, net of credits from the Adviser, decreased by 9.3% for the year ended September 30, 2017 as compared to the prior year. This decrease was primarily due to decreases in our net base management and incentive fees to the Advisor.

Interest expense increased by 6.0% during the year ended September 30, 2017, as compared to the prior year, due to an increase in the LIBOR component of the effective interest rate partially offset by a lower weighted average balance outstanding. The effective interest rate on our Credit Facility, excluding the impact of deferred financing costs, was 5.3% during the year ended September 30, 2017 compared to 4.5% during the prior year period. The

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weighted average balance outstanding on our Credit Facility during the year ended September 30, 2017, was approximately $58.4 million, as compared to $64.0 million in the prior year period, a decrease of 8.8%.

Other expenses decreased by 20.9% during the year ended September 30, 2017, as compared to the prior year, primarily due to decreases in shareholder related costs and professional fees.

Net base management fee earned by the Adviser decreased by $0.8 million, or 17.4%, during the year ended September 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 from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of our distributions to common stockholders during the years ended September 30, 2017 and 2016, which credits totaled $2.3 million and $1.4 million, respectively.

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 accompanying *Notes to Consolidated Financial Statements* and are summarized in the following table:

	Year Ended September 30,	
	2017	**2016**
Average total assets subject to base management fee[A]	**$ 330,343**	$ 324,800
Multiplied by annual base management fee of 1.75%	**1.75%**	1.75%
Base management fee[B]	**5,781**	5,684
Portfolio company fee credit	**(1,588)**	(785)
Syndicated loan fee credit	**(221)**	(92)
Net Base Management Fee	**$ 3,972**	$ 4,807
Loan servicing fee[B]	**$ 4,146**	$ 3,890
Credit to base management fee loan servicing fee[B]	**(4,146)**	(3,890)
Net Loan Servicing Fee	**$**	$
Incentive fee [B]	**$ 4,779**	$ 4,514
Incentive fee credit	**(2,317)**	(1,429)
Net Incentive Fee	**$ 2,462**	$ 3,085
Portfolio company fee credit	**$ (1,588)**	$ (785)
Syndicated loan fee credit	**(221)**	(92)
Incentive fee credit	**(2,317)**	(1,429)
Credit to Fees from Adviser Other[B]	**$ (4,126)**	$ (2,306)

[C] 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 four most recently completed quarters within the respective years and adjusted appropriately for any share issuances or repurchases during the applicable year.

[D] Reflected, on a gross basis, as a line item on our accompanying *Consolidated Statement of Operations* located elsewhere in this prospectus.

Realized Loss and Unrealized Appreciation

Net Realized Loss on Investments

For the year ended September 30, 2017, we recorded a net realized loss on investments of $3.5 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 on our investment in 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, which we exited in the prior year.

For the year ended September 30, 2016, we recorded a net realized gain on investments of $7.2 million, which resulted primarily from the sales of Funko, LLC, Southern Petroleum Laboratories, Inc., Westland Technologies, Inc., and Ashland Acquisitions, LLC (Ashland) for a combined realized gain of $18.7 million and net proceeds of $35.4 million. This realized gain was partially offset by a combined realized loss of $11.7 million recognized from the sale of Heartland Communications Group and the restructures of Targus Group International, Inc. (Targus) and Precision Acquisition Group Holdings, Inc. during the year ended September 30, 2016. We also recognized a realized loss of $0.6 million during the year ended September 30, 2016 related to a settlement associated with WP Evenflo Group Holdings, Inc., which we previously exited at a realized gain of $1.0 million in September 2014.

Net Realized Loss on Other

We incurred a loss on extinguishment of debt of $1.3 million during the year ended September 30, 2017, which resulted from the write-off of unamortized deferred issuance costs at the time of redemption of our Series 2021 Preferred Stock in September 2017. During the year ended September 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.

Net Unrealized Appreciation of Investments

During the year ended September 30, 2017, we recorded net unrealized appreciation of investments in the aggregate amount of $0.6 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2017, were as follows:

	Year Ended September 30, 2017			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
WadeCo Specialties, Inc.	$	$ 2,900	$	$ 2,900
SourceHOV LLC	(218)	1,756	97	1,635
Funko, LLC	1,273	(106)		1,167
Targus Cayman HoldCo, Ltd.		662		662
LWO Acquisitions Company, LLC		608		608
Flight Fit N Fun LLC		456		456
IA Tech, LLC		403		403
Vitera Healthcare Solutions, LLC		213	115	328
PIC 360, LLC		315		315
B+T Group Acquisition Inc.		305		305

Travel Sentry, Inc.		255		255
Leeds Novamark Capital I, L.P.		229		229
NetFortris Corp.	(14)	239		225
PSC Industrial Holdings Corp.		219		219
United Flexible, Inc.		177		177
Drumcree, LLC		169	(15)	154
Merlin International, Inc.		150		150
Vision Government Solutions, Inc.		141		141

	Year Ended September 30, 2017			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
TWS Acquisition Corporation		127		127
Westland Technologies, Inc.	126			126
Meridian Rack & Pinion, Inc.		(246)		(246)
L Discovery		(265)		(265)
Edge Adhesives Holdings, Inc.		(468)		(468)
FedCap Partners, LLC		(514)		(514)
Behrens Manufacturing, LLC	2,544		(3,211)	(667)
New Trident Holdcorp, Inc.		(878)		(878)
Defiance Integrated Technologies, Inc.		(1,125)		(1,125)
RBC Acquisition Corp.	(2,330)		1,119	(1,211)
Vertellus Holdings LLC	109	(1,456)		(1,347)
Francis Drilling Fluids, Ltd.		(2,066)		(2,066)
Alloy Die Casting, Corp.		(2,303)		(2,303)
Sunshine Media Holdings	(5,000)	(995)	3,612	(2,383)
Other, net (<$250)	35	33	(27)	41
Total:	**$ (3,475)**	**$ (1,065)**	**$ 1,690**	**$ (2,850)**

The primary drivers of our net unrealized appreciation for the year ended September 30, 2017, were an increase in the value of WadeCo, increased performance on certain of our portfolio companies, and the reversal of previously recorded depreciation on our investment in Sunshine upon partial write-off. These factors were partially offset by a decline in performance and decrease in comparable multiples used in the valuation of certain of our other portfolio companies and the reversal of $3.2 million of previously recorded unrealized appreciation on our investment in Behrens upon exit.

The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2016, were as follows:

	Year Ended September 30, 2016			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
RBC Acquisition Corp.	$ 1,207	$ 11,896	$	$ 13,103
Legend Communications of Wyoming, LLC		2,857	27	2,884
Behrens Manufacturing, LLC		2,206		2,206
Funko, LLC	16,874	98	(16,009)	963
Southern Petroleum Laboratories, Inc.	873	871	(995)	749
Precision Acquisition Group Holdings, Inc.	(3,821)	(1,282)	5,805	702
Westland Technologies, Inc.	909	622	(866)	665

J. America, Inc.		482		482
Triple H Food Processors, LLC		351		351
RP Crown Parent, LLC		276		276
GFRC Holdings, LLC		(271)		(271)
Ashland Acquisitions, LLC	72	183	(572)	(317)
Mikawaya		(379)		(379)
FedCap Partners, LLC		(381)		(381)
New Trident Holdcorp, Inc.		(442)		(442)
AG Transportation Holdings, LLC		(454)		(454)
WP Evenflo Group Holdings, Inc.	(550)			(550)
WadeCo Specialties, Inc.		(722)		(722)

	Year Ended September 30, 2016			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
Vision Government Solutions, Inc.		(779)		(779)
Vertellus Specialties Inc.		(975)		(975)
Lignetics, Inc.		(1,251)		(1,251)
SourceHOV LLC		(1,380)		(1,380)
LWO Acquisitions Company, LLC		(3,170)		(3,170)
Defiance Integrated Technologies, Inc.		(3,184)		(3,184)
Sunshine Media Holdings		(3,360)		(3,360)
Targus Cayman HoldCo, Ltd.	(5,500)	(2,952)	4,198	(4,254)
Francis Drilling Fluids, Ltd.		(8,156)		(8,156)
Other, net (<$250)	(2,848)	(528)	2,902	(474)
Total:	**$ 7,216**	**$ (9,824)**	**$ (5,510)**	**$ (8,118)**

The primary drivers of our net unrealized depreciation for the year ended September 30, 2016, were a decline in financial and operation performance of certain portfolio companies and the reversal of $16.0 million of previously recorded unrealized appreciation on our investment in Funko, LLC upon exit. This depreciation was partially offset by unrealized appreciation, primarily on RBC of $11.9 million, which was driven by proceeds received associated with the sale of RBC in November 2016, and the reversal of $4.2 million of previously recorded unrealized depreciation on our investment in Targus upon restructure.

As of September 30, 2017, the fair value of our investment portfolio was less than its cost basis by approximately $59.1 million and our entire investment portfolio was valued at 85.6% of cost, as compared to cumulative net unrealized depreciation of $59.7 million and a valuation of our entire portfolio at 84.4% of cost as of September 30, 2016. This year over year increase in the cumulative unrealized depreciation on investments represents net unrealized appreciation of $0.6 million for the year ended September 30, 2017.

The cumulative net unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

Net Unrealized (Appreciation) Depreciation of Other

During the year ended September 30, 2017, we recorded $0.1 million of unrealized depreciation on our Credit Facility at fair value. During the year ended September 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 and administrative fees to the Adviser and Administrator, and for other operating expenses.

Net cash used in operating activities for the year ended September 30, 2018 was $17.6 million as compared to $12.9 million for the year ended September 30, 2017. The change was primarily due to a decrease in principal repayments and net proceeds from sales of investments partially offset by a decrease in purchases of investments year over year. Repayments and net proceeds from sales were $67.9 million during the year ended September 30, 2018 compared to $83.4 million during the year ended September 30, 2017. Purchase of investments was $106.6 million during the year ended September 30, 2018, compared to $112.1 million during the year ended September 30, 2017.

Net cash used in operating activities for the year ended September 30, 2017 was $12.9 million as compared to net cash provided by operating activities of $60.0 million for the year ended September 30, 2016. The change was primarily due to an increase in purchases of investments and a decrease in principal repayments on investments and net proceeds from sale of investments period over period. Purchases of investments were $112.1 million during the year ended September 30, 2017 compared to $80.0 million during the prior year period. Repayments and net proceeds from sales were $83.4 million during the year ended September 30, 2017 compared to $121.1 million during the year ended September 30, 2016.

As of September 30, 2018, we had loans to, syndicated participations in or equity investments in 50 companies, with an aggregate cost basis of approximately $427.5 million. As of September 30, 2017, we had loans to, syndicated participations in or equity investments in 47 companies, with an aggregate cost basis of approximately $411.4 million.

The following table summarizes our total portfolio investment activity during the years ended September 30, 2018 and 2017:

	Year Ended September 30,	
	2018	**2017**
Beginning investment portfolio, at fair value	**$ 352,373**	$ 322,114
New investments	**67,936**	99,241
Disbursements to existing portfolio companies	**38,679**	12,851
Scheduled principal repayments	**(6,455)**	(3,646)
Unscheduled principal repayments	**(58,941)**	(71,558)
Net proceeds from sales of investments	**(2,548)**	(8,240)
Net unrealized depreciation of investments	**(4,393)**	(1,065)
Reversal of prior period net depreciation of investments	**26,034**	1,690
Net realized loss on investments	**(26,818)**	(3,475)
Increase in investment balance due to PIK interest[A]	**4,060**	4,729
Net change in premiums, discounts and amortization	**119**	(268)
Ending Investment Portfolio, at Fair Value	**$ 390,046**	$ 352,373

[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.

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at September 30, 2018.

Year Ending September 30,	**Amount**
2019	$ 39,272
2020	81,633
2021	68,819
2022	46,687
2023	115,796
Thereafter	38,975
Total contractual repayments	**$ 391,182**
Equity investments	36,961
Adjustments to cost basis on debt investments	(676)
Investment Portfolio as of September 30, 2018, at Cost:	**$ 427,467**

Financing Activities

Net cash provided by financing activities for the year ended September 30, 2018 was $14.5 million, which consisted primarily of $17.0 million in net borrowings on our Credit Facility and $22.0 million in proceeds from the issuance of common stock, partially offset by $22.8 million in distributions to common stockholders.

Net cash provided by financing activities for the year ended September 30, 2017 was $11.7 million, which consisted primarily of $21.7 million in net borrowings on our Credit Facility and $22.7 million in proceeds from the issuance of common stock, partially offset by $21.4 million in distributions to common stockholders and a net decrease of $9.3 million in term preferred stock due to the redemption of our Series 2021 Term Preferred Stock and issuance of a lesser amount of Series 2024 Term Preferred Stock.

Net cash used in financing activities for the year ended September 30, 2016 was $57.7 million, which consisted primarily of $56.0 million in net repayments on our Credit Facility and $19.5 million in distributions to common stockholders, partially offset by $19.7 million in proceeds from the issuance of common stock, net of underwriting costs.

Distributions 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 years ended September 30, 2018, 2017 and 2016, which totaled an aggregate of $22.8 million, $21.4 million and $19.5 million, respectively. In October 2018, our Board of Directors declared a monthly distribution of $0.07 per common share for each of October, November and December 2018. Our Board of Directors declared these distributions to our stockholders based on our estimates of our investment company taxable income for the fiscal year ending September 30, 2019. From inception through September 30, 2018, we have paid 188 either monthly or quarterly consecutive distributions to common stockholders totaling approximately $320.6 million or $18.61 per share.

For each of the fiscal years ended September 30, 2018, 2017, and 2016, Investment Company Taxable Income exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat

$0.3 million, $0.3 million, and $5.5 million, respectively, of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year.

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 month during the years ended September 30, 2017 and 2016, which totaled an aggregate of $4.1 million during each of the years ended September 30, 2017 and 2016. In October 2017, our Board of Directors declared a combined dividend for the pro-rated period from and including the issuance date, September 27, 2017, to and including September 30, 2017 and the full month of October 2017, which totaled $0.141667 per share, to the holders of our Series 2024 Term Preferred Stock and monthly cash dividends of $0.125 per share to holders of our Series 2024 Term Preferred Stock for each of the eleven months from November 2017 through September 2018.

In accordance with GAAP, we treat these monthly dividends as an operating expense. For federal income tax purposes, the dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits and is reported after the end of the calendar year based on tax information for the full fiscal year. Such a characterization made on an interim, quarterly basis may not be representative of the actual tax characterization for the full year.

Dividend Reinvestment Plan

Our common stockholders who hold their shares through our transfer agent, Computershare, Inc. (Computershare), have the option to participate in a dividend reinvestment plan offered by Computershare, as the plan agent. This is an opt in dividend reinvestment plan, meaning that common stockholders may elect to have their cash distributions automatically reinvested in additional shares of our common stock. Common stockholders who do make such election will receive their distributions in cash. Common stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. The common stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the date on which the shares are credited to the common stockholder s account. Computershare purchases shares in the open market in connection with the obligations under the plan. The Computershare dividend reinvestment plan is not open to holders of our preferred stock.

Equity

Registration Statement

We filed a universal shelf registration statement on Form N-2 (our Registration Statement) (File No. 333-228720) with the SEC on December 7, 2018. Once effective, our Registration Statement will permit 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 or preferred stock.

Common Stock

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. During the year ended September 30, 2018, we sold 2,341,296 shares of our common stock under the Sales Agreement with Cantor Fitzgerald & Co., at a weighted-average price of $9.39 per share and raised $22.0 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately $21.6 million. As of September 30, 2018, we had a remaining capacity to sell up to $20.5 million of common stock under the Sales Agreement with Cantor Fitzgerald & Co. During the year ended September 30, 2017, we sold 642,818 shares of our common stock under the Sales Agreement with Cantor Fitzgerald & Co., at a weighted-average price of $9.88 per share and raised $6.4 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately $6.1 million.

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.

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.

On November 13, 2018, the closing market price of our common stock was $9.28, an 11.5% premium to our September 30, 2018 NAV per share of $8.32.

Term Preferred Stock

In September 2017, we completed a public offering of approximately 2.1 million shares of our Series 2024 Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $51.8 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were approximately $49.8 million. We incurred approximately $1.9 million in total underwriting discounts and offering costs related to the issuance of the Series 2024 Term Preferred Stock, which have been recorded as discounts to the liquidation value on our accompanying Consolidated Statements of Assets and Liabilities and are being amortized over the period from issuance through September 30, 2024, the mandatory redemption date. The offering proceeds plus borrowings under our Credit Facility were used to voluntarily redeem all 2.4 million outstanding shares of our then existing Series 2021 Term Preferred Stock, par value $0.001 per share. In connection with the voluntary redemption of our Series 2021 Term Preferred Stock, we incurred a loss on extinguishment of debt of $1.3 million, which has been reflected in Realized loss on other in our accompanying Consolidated Statement of Operations and which is primarily comprised of the unamortized deferred issuance costs at the time of redemption.

The shares of our Series 2024 Term Preferred Stock are traded under the ticker symbol GLADN on the Nasdaq Global Select Market. Our Series 2024 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.00% per year, payable monthly (which equates in total to approximately $3.1 million per year). We are required to redeem all of the outstanding Series 2024 Term Preferred Stock on September 30, 2024 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions per 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 2024 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, or (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 2024 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. The asset coverage on our senior securities that are stock as of September 30, 2018 was 244.4%, calculated in accordance with Sections 18 and 61 of the 1940 Act.

We may also voluntarily redeem all or a portion of the Series 2024 Term Preferred Stock at our option at the Redemption Price at any time after September 30, 2019. If we fail to redeem our Series 2024 Term Preferred Stock pursuant to the mandatory redemption required on September 30, 2024, or in any other circumstance in which we are required to mandatorily redeem our Series 2024 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of September 30, 2018, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2024 Term Preferred Stock.

Revolving Credit Facility

On March 9, 2018, we, through Business Loan, entered into Amendment No. 4 to our Credit Facility with KeyBank, which increased the commitment amount from $170.0 million to $190.0 million, extended the revolving period end date by approximately 2 years to January 15, 2021, decreased the marginal interest rate added to 30-day LIBOR from 3.25% to 2.85% per annum, and changed the unused commitment fee from 0.50% of the total unused commitment amount to 0.50% when the average unused commitment amount for the reporting period is less than or equal to 50%, 0.75% when the average unused commitment amount for the reporting period is greater than 50% but less than or equal to 65%, and 1.00% when the average unused commitment amount for the reporting period is greater than 65%. If our Credit Facility is not renewed or extended by January 15, 2021, all principal and interest will be due and payable on or before April 15, 2022 (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 $265.0 million through additional commitments of new or existing lenders. We incurred fees of approximately $1.2 million in connection with this amendment, which are being amortized through our Credit Facility s revolving period end date of January 15, 2021.

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 25 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 $232.8 million as of September 30, 2018, (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 September 30, 2018, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $285.8 million, asset coverage on our   senior securities representing indebtedness   of 359.0% and an active status as a BDC and RIC. In addition, we had 32 obligors in our Credit Facility s borrowing base as of September 30, 2018. As of September 30, 2018, we were in compliance with all of our Credit Facility covenants. Refer to Note 5 Borrowings of our accompanying Note to Consolidated Financial Statements included elsewhere in this prospectus for additional information regarding our Credit Facility.

Off-Balance Sheet Arrangements

We generally recognize success fee income when the payment has been received. As of September 30, 2018 and 2017, we had off-balance sheet success fee receivables on our accruing debt investments of $5.1 million and $4.6 million (or approximately $0.18 per common share for each period), respectively, that would be owed to us, generally upon a change of control of the portfolio companies. Consistent with GAAP, we generally have not recognized our success fee receivables and related income in our Consolidated Financial Statements until earned. Due to the contingent nature of our success fees, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

Contractual Obligations

We have lines of credit, delayed draw term loans, and an uncalled capital commitment with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit, the unused delayed draw term loans and the uncalled capital commitment as of September 30, 2018 and September 30, 2017 to be immaterial.

The following table shows our contractual obligations as of September 30, 2018, at cost:

	Payments Due by Period				
Contractual Obligations[A]	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**	**Total**
Credit Facility[B]	$	$ 110,000	$	$	$ 110,000
Mandatorily Redeemable Preferred Stock			51,750		51,750
Interest expense on debt obligations[C]	9,249	24,932	6,210		40,391
Total	**$ 9,249**	**$ 134,932**	**$ 57,960**	**$**	**$ 202,141**

[A] Excludes our unused line of credit commitments, an unused delayed draw term loan and uncalled capital commitments to our portfolio companies in an aggregate amount of $10.1 million, at cost, as of September 30, 2018.

[B]

Principal balance of borrowings outstanding under our Credit Facility, based on the current contractual revolver period end date to the revolving nature of the facility.

(C) Includes estimated interest payments on our Credit Facility and dividend obligations on our Series 2024 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and balances as of September 30, 2018. Dividend payments on our Series 2024 Term Preferred Stock assume quarterly dividend declarations and monthly dividend distributions 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, which is described in Note 2 *Summary of Significant Accounting Policies* in the accompanying notes to our *Consolidated Financial Statements* included elsewhere in this prospectus. Additionally, refer to Note 3 *Investments* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus for additional information regarding fair value measurements and our application of Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures.* We have also identified our revenue recognition policy as a critical accounting policy, which is described in Note 2 *Summary of Significant Accounting Policies* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

Investment Valuation

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 an SEC registered Nationally Recognized Statistical Rating Organization (NRSRO), 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 would 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 (all of which were risk rated by our Adviser) at September 30, 2018 and 2017, representing approximately 92.3% and 91.9%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

	As of September 30,

Rating	**2018**	**2017**
Highest	**10.0**	**9.0**
Average	**6.7**	**5.7**
Weighted Average	**6.8**	**5.8**
Lowest	**0.0**	**1.0**

The following table reflects the risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO at September 30, 2018 and 2017, representing approximately 5.7% and 6.9%, respectively, of the principal balance of all debt investments in our portfolio at the end of each fiscal year:

	As of September 30,	
Rating	**2018**	**2017**
Highest	**6.0**	**6.0**
Average	**3.7**	**4.4**
Weighted Average	**4.0**	**4.6**
Lowest	**1.0**	**3.0**

The following table reflects the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO at September 30, 2018 and 2017, representing approximately 2.0% and 1.2%, respectively, of the principal balance of all debt investments in our portfolio at the end of each fiscal year:

	As of September 30,	
Rating	**2018**	**2017**
Highest	**5.0**	**3.0**
Average	**4.3**	**3.0**
Weighted Average	**4.7**	**3.0**
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 10 *Federal and State Income Taxes* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus for additional information regarding our tax status.

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 prospectus for a description of recent accounting pronouncements.

Quantitative and Qualitative Disclosures About Market Risk (Dollar Amounts in Thousands, Unless Otherwise Indicated)

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 September 30, 2018, our portfolio of debt investments on a principal basis consisted of the following:

90.6%	Variable rates with a LIBOR or prime rate floor
9.4	Fixed rates
100.0%	Total

To illustrate the potential impact of changes in market interest rates on our net increase in net assets resulting from operations, we have performed the following hypothetical analysis, which assumes that our balance sheet and contractual interest rates remain constant as of September 30, 2018 and no further actions are taken to alter our existing interest rate sensitivity.

Basis Point Change[A]	Increase (Decrease) in Interest Income	Increase (Decrease) in Interest Expense	Net Increase in Net Assets Resulting from Operations
Up 300 basis points	$ 10,300	$ 3,300	$ 7,000
Up 200 basis points	6,754	2,200	4,554
Up 100 basis points	3,209	1,100	2,109
Down 226 basis points	(3,481)	(2,487)	(994)

[A] As of September 30, 2018, our effective average LIBOR was 2.26%, therefore, the largest decrease in basis points that could occur was 226 basis points.

Although management believes that this analysis is indicative of our existing interest rate sensitivity, it does not adjust for potential changes in credit quality, size and composition of our loan portfolio on the balance sheet and other business developments that could affect net increase in net assets resulting from operations. Accordingly, actual results could differ significantly from those in the hypothetical analysis in the table above.

We may also experience risk associated with investing in securities of companies with foreign operations. Some of our portfolio companies have operations located outside the U.S. These risks include, but are not limited to, fluctuations in foreign currency exchange rates, imposition of foreign taxes, changes in exportation regulations and political and social instability.

SENIOR SECURITIES

Information about our senior securities is shown in the following table for the audited periods as of our last ten fiscal years, unless otherwise noted. The information has been derived from our audited financial statement for each respective period, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. PricewaterhouseCoopers LLP s report on the senior securities table as of September 30, 2018 is attached as an exhibit to the registration statement of which this prospectus is a part.

Class and Year	Total Amount Outstanding[1]	Asset Coverage per Unit[2]	Involuntary Liquidating Preference per Unit[3]	Average Market Value per Unit[4]
Revolving Credit Facilities				
September 30, 2018	$ 110,000,000	$ 3,590	$	N/A
September 30, 2017	93,000,000	3,882		N/A
September 30, 2016	71,300,000	4,623		N/A
September 30, 2015	127,300,000	2,946		N/A
September 30, 2014	36,700,000	3,054		N/A
September 30, 2013	46,900,000	3,410		N/A
September 30, 2012	58,800,000	2,296		N/A
September 30, 2011	99,400,000	3,150		N/A
September 30, 2010	16,800,000	14,187		N/A
September 30, 2009	83,000,000	3,963		N/A
Series 2016 Term Preferred Stock[5]				
September 30, 2018		N/A		N/A
September 30, 2017		N/A		N/A
September 30, 2016		N/A		N/A
September 30, 2015		N/A		N/A
September 30, 2014		N/A		N/A
September 30, 2013	$ 38,497,050	$ 3,410	$ 25.00	$ 25.49
September 30, 2012	38,497,050	2,963	25.00	25.55
Series 2021 Term Preferred Stock[6]				
September 30, 2018		N/A		N/A
September 30, 2017		N/A		N/A
September 30, 2016	$ 61,000,000	$ 2,495	$ 25.00	$ 25.55
September 30, 2015	61,000,000	1,993	25.00	25.02
September 30, 2014	61,000,000	3,054	25.00	24.45
Series 2024 Term Preferred Stock[7]				
September 30, 2018	$ 51,750,000	$ 2,444	$ 25.00	$ 25.63
September 30, 2017	51,750,000	2,496	25.00	25.09

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) Asset coverage ratio for a class of our senior securities representing indebtedness means the ratio of the value of our total assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness and asset coverage ratio for a class of our senior securities that are stock means the ratio of the value of our total assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness plus the aggregate involuntary liquidation preference of a class of senior security that is stock. Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Only applicable to our Term Preferred Stock because the other senior securities are not registered for public trading. Average market value per unit is the average of the closing prices of the shares on the Nasdaq during the last 10 trading days of the period. Average market value per unit for our Series 2024 Term

Preferred Stock for September 30, 2017 is the average of the closing prices of the shares on the Nasdaq during the last 7 trading days of the period as the stock started trading on September 21, 2017.

(5) In November 2011, we issued 1,539,882 shares of Series 2016 Term Preferred Stock through a public offering and subsequent exercise of an overallotment option. In May 2014, we voluntarily redeemed all outstanding shares of our Series 2016 Term Preferred Stock and therefore had no Series 2016 Term Preferred Stock outstanding at September 30, 2015.

(6) In May 2014, we issued 2,440,000 shares of Series 2021 Term Preferred Stock through a public offering and subsequent exercise of an overallotment option. In September 2017, we voluntarily redeemed all outstanding shares of our Series 2021 Term Preferred Stock and therefore had no Series 2021 Term Preferred Stock outstanding at September 30, 2017.

(7) In September 2017, we issued 2,070,000 shares of Series 2024 Term Preferred Stock through a public offering and subsequent exercise of an overallotment option. In addition to other redemption provisions discussed more fully in Note 6 *Mandatorily Redeemable Preferred Stock* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus*,* we may be required to mandatorily redeem some or all of the shares of our Series 2024 Term Preferred Stock early, at the Redemption Price, if we fail to maintain an asset coverage ratio of at least 200.0% on our senior securities that are stock and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report.

BUSINESS

Except for per share amounts, dollar amounts in tables included herein are in thousands unless otherwise indicated.

Overview

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. We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a BDC under the 1940 Act. In addition, we have elected to be treated for tax purposes as a RIC under 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 shares of common stock and mandatorily redeemable preferred stock are traded on Nasdaq under the trading symbols GLAD and GLADN, respectively and our 2023 Notes trade on Nasdaq under the trading symbol GLADD.

Investment Adviser and Administrator

We are externally managed by the Adviser, an affiliate of ours, under the Advisory Agreement and the Administrator, another of our affiliates, provides administrative services to us pursuant to 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 Lee 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, general counsel and secretary 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 the Affiliated Public Funds. 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 SEC 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 several other states.

Investment Objectives and Strategy

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 EBITDA 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. To achieve our objectives, our primary 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 lend to borrowers that need funds for growth capital, to finance acquisitions, or to 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 intend for our investment portfolio to consist of approximately 90.0% debt investments and 10.0% equity investments, at cost. As of September 30, 2018, our investment portfolio was made up of approximately 91.4% debt investments and 8.6% equity investments, at cost.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. In July 2012, the SEC granted us the Co-Investment Order that expanded our ability to co-invest, under certain circumstances, with certain of our affiliates, including Gladstone Investment and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser, or any combination of the foregoing, subject to the conditions in the Co-Investment Order. Since 2012, we have opportunistically made several co-investments with Gladstone Investment pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced and 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, whether or not an affiliate of ours, 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 LIBOR) and, 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 may include 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 business. 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 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.

Since our initial public offering in 2001 and through September 30, 2018, we have invested in over 226 different companies, while making 188 consecutive monthly or quarterly cash distributions to common stockholders. We expect that our investment portfolio will primarily include the following three categories of investments in private companies operating in the U.S.:

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

> *Second Lien Secured Debt Securities:* We seek to invest a portion of our assets in second lien secured debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These second lien secured debt securities rank junior to the borrowers first lien secured debt securities and may be secured by second priority liens on all or a portion of the assets of the business. 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 second lien secured debt securities. Second lien debt securities may include investments sourced from the syndicated loan market.

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.

Under the 1940 Act, we may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets and generally include each of the investment types listed above, unless, at the time the acquisition is made, qualifying assets represent at least 70.0% of our total assets. See *Regulation as a Business Development Company Qualifying Assets* 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. See *Regulation as a Business Development Company* for a further discussion on the regulatory framework in which we must operate to retain our status as a BDC.

Investment Policies

We seek to achieve a high level of current income and capital gains through investments in debt securities and preferred and common stock that we generally acquire in connection with buyouts and other recapitalizations. The following investment policies, along with these investment objectives, may not be changed without the approval of our board of directors (the Board of Directors):

We will at all times conduct our business so as to retain our status as a BDC. In order to retain that status, we must operate for the purpose of investing in certain categories of qualifying assets. In addition, we may not acquire any assets (other than non-investment assets necessary and appropriate to our operations as a BDC or qualifying assets) if, after giving effect to such acquisition, the value of our qualifying assets is less than 70.0% of the value of our total assets. We anticipate that the securities we seek to acquire will generally be qualifying assets.

We will at all times endeavor to conduct our business so as to retain our status as a RIC under the Code. To do so, we must meet income source, asset diversification and annual distribution requirements. We may issue senior securities, such as debt or preferred stock, to the extent permitted by the 1940 Act for the purpose of making investments, to fund share repurchases, or for temporary emergency or other purposes.

With the exception of our policy to conduct our business as a BDC, these policies are not fundamental and may be changed without stockholder approval.

Investment Concentrations

As of September 30, 2018, our investment portfolio consisted of investments in 50 companies located in 24 states across 18 different industries with an aggregate fair value of $390.0 million. Our five largest investments at fair value as of September 30, 2018, totaled $122.8 million, or 31.5% of our total investment portfolio.

The following table outlines our investments by security type at September 30, 2018 and 2017:

	September 30, 2018				September 30, 2017			
	Cost		Fair Value		Cost		Fair Value	
Secured first lien debt	**$ 206,523**	**48.3%**	**$ 199,625**	**51.2%**	$ 198,942	48.4%	$ 173,896	49.4%
Secured second lien debt	**180,274**	**42.2**	**156,373**	**40.1**	168,247	40.9	155,249	44.1
Unsecured debt	**3,708**	**0.9**	**3,655**	**0.9**	3,324	0.8	3,324	0.9
Total debt investments	**390,505**	91.4	359,653	92.2	370,513	90.1	332,469	94.4
Preferred equity	**12,920**	**3.0**	**7,749**	**2.0**	18,794	4.5	6,561	1.9
Common equity/equivalents	**24,042**	**5.6**	**22,644**	**5.8**	22,128	5.4	13,343	3.7
Total equity investments	**36,962**	**8.6**	**30,393**	**7.8**	40,922	9.9	19,904	5.6
Total Investments	$ 427,467	100.0%	$ 390,046	100.0%	$ 411,435	100.0%	$ 352,373	100.0%

Our investments at fair value consisted of the following industry classifications at September 30, 2018 and 2017:

	September 30, 2018		September 30, 2017	
Industry Classification	**Fair Value**	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Diversified/Conglomerate Service	**$ 79,066**	**20.3%**	$ 80,723	22.9%
Healthcare, education and childcare	**53,916**	**13.8**	46,288	13.1
Oil and gas	**50,172**	**12.9**	34,712	9.9
Telecommunications	**47,794**	**12.3**	31,350	8.9
Diversified/Conglomerate Manufacturing	**43,421**	**11.1**	40,843	11.6
Diversified natural resources, precious metals and minerals	**23,040**	**5.9**	18,949	5.4
Automobile	**18,209**	**4.7**	20,082	5.7
Cargo Transportation	**15,164**	**3.9**	13,081	3.7
Beverage, food and tobacco	**13,727**	**3.5**	14,103	4.0
Machinery	**11,058**	**2.8**	5,114	1.4
Home and Office Furnishings, Housewares and Durable Consumer Products	**10,125**	**2.6**	10,100	2.9
Textiles and leather	**6,556**	**1.7**	4,879	1.4
Hotels, Motels, Inns, and Gaming	**6,337**	**1.6**	7,136	2.0

Personal and non-durable consumer products	**4,892**	**1.3**	7,035	2.0
Buildings and real estate	**2,455**	**0.6**	3,004	0.9
Printing and publishing	**1,998**	**0.5**	3,628	1.0
Leisure, Amusement, Motion Pictures, Entertainment			9,225	2.6
Other, < 2.0%	**2,116**	**0.5**	2,121	0.6
Total Investments	**$ 390,046**	**100.0%**	$ 352,373	100.0%

Our investments at fair value were included in the following U.S. geographic regions and Canada at September 30, 2018 and 2017:

	September 30, 2018		September 30, 2017	
Location	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	**$ 168,917**	**43.3%**	$ 150,727	42.8%
West	**114,286**	**29.3**	116,302	33.0
Midwest	**61,733**	**15.8**	58,915	16.7
Northeast	**37,589**	**9.7**	26,429	7.5
Canada	**7,521**	**1.9**		
Total Investments	**$ 390,046**	**100.0%**	$ 352,373	100.0%

The geographic composition is determined by the location of the headquarters for each of our portfolio companies. A portfolio company may have a number of other business locations in other geographic locations.

Investment Process

Overview of Investment and Approval Process

To originate investments, the Adviser s investment professionals use an extensive referral network comprised primarily of private equity sponsors, leveraged buyout funds, investment bankers, attorneys, accountants, commercial bankers, and business brokers. The Adviser s investment professionals review information received from these and other sources in search of potential financing opportunities. If a potential opportunity matches our investment objectives, the investment professionals will seek an initial screening of the opportunity with our president, Robert L. Marcotte, to authorize the submission of an indication of interest (IOI) to the prospective portfolio company. If the prospective portfolio company passes this initial screening and the IOI is accepted by the prospective company, the investment professionals will seek approval to issue a letter of intent (LOI) to the prospective company from the Adviser s investment committee, which is composed of Messrs. Gladstone, Brubaker and Marcotte. If this LOI is issued, then the Adviser and Gladstone Securities (collectively, the Due Diligence Team), will conduct a due diligence investigation and create a detailed profile summarizing the prospective portfolio company s historical financial statements, industry, competitive position and management team, analyzing its conformity to our general investment criteria. The investment professionals then present this profile to the Adviser s investment committee, which must approve each investment. Further, each investment is available for review by the members of our Board of Directors, a majority of whom are not interested persons, as defined in Section 2(a)(19) of the 1940 Act.

Prospective Portfolio Company Characteristics

We have identified certain characteristics that we believe are important in identifying and investing in prospective portfolio companies. The criteria listed below provide general guidelines for our investment decisions, although not all of these criteria may be met by each portfolio company.

Growth-and-Income Orientation and Positive Cash Flow. Our investment philosophy places a premium on fundamental analysis from an investor s perspective and has a distinct growth-and-income orientation. In seeking income, we typically invest in companies that generate growing sales and cash flow to provide some assurance that they will be able to service their debt and deleverage over time. We do not expect to invest in start-up companies or companies with what we believe to be cyclical industries or speculative business plans.

Experienced Management. We typically require that the businesses in which we invest have experienced management teams. We also require the businesses to have proper incentives in place to induce management teams to succeed and act in concert with our interests as an investor, including having significant equity or other interests in the financial performance of their respective companies.

Strong Competitive Position in an Industry. We seek to invest in businesses that have developed strong market positions within their respective markets and that we believe are well-positioned to capitalize on growth opportunities. We seek businesses that demonstrate significant competitive advantages versus their competitors, which we believe will help to protect their market positions and profitability.

Enterprise Collateral Value. The projected enterprise valuation of the business, based on market based comparable cash flow multiples, is an important factor in our investment analysis in determining the collateral coverage of our debt securities.

Extensive Due Diligence

The Due Diligence Team conducts what we believe are extensive due diligence investigations of our prospective portfolio companies and investment opportunities. The due diligence investigation may begin with a review of publicly available information followed by in depth business analysis, including, but not limited to, any of the following:

a review of the prospective portfolio company s historical and projected financial information, including a quality of earnings analysis;

detailed review of the track record of the private equity firm or ownership group acquiring or controlling any prospective borrower;

visits to the prospective portfolio company s business site(s);

interviews with the prospective portfolio company s management, employees, customers, and vendors;

review of loan documents and material contracts;

background checks and a management capabilities assessment on the prospective portfolio company s management team and controlling shareholders; and

research on the prospective portfolio company s products, services or particular industry and its competitive position therein.

Upon completion of a due diligence investigation and a decision to proceed with an investment, the Adviser s investment professionals who have primary responsibility for the investment present the investment opportunity to the Adviser s investment committee. The investment committee then determines whether to pursue the potential investment. Prior to the closing of an investment, additional due diligence may be conducted on our behalf by attorneys, independent accountants, and other outside advisers, as appropriate.

We also rely on the long-term relationships that the Adviser s investment professionals have with leveraged buyout funds, investment bankers, commercial bankers, private equity sponsors, attorneys, accountants, and business brokers. In addition, the extensive direct experiences of our executive officers and managing directors in the operations of lower middle market companies and providing debt and equity capital to lower middle market companies plays a significant role in our investment evaluation and assessment of risk.

Investment Structure

Once the Adviser has determined that an investment meets our standards and investment criteria, the Adviser works with the management of that company, the private equity firm or ownership group controlling any prospective borrower, and other capital providers to structure the transaction in a way that we believe will provide us with the greatest opportunity to maximize our return on the investment, while providing appropriate incentives to the shareholders and management of the company. As discussed above, the capital classes through which we typically structure a deal include first lien secured debt, second lien secured debt, and preferred and common equity or equivalents. Through its risk management process, the Adviser seeks to limit the downside risk of our investments by:

seeking collateral or superior positions in the portfolio company s capital structure where possible;

negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility as possible in managing their businesses, consistent with preserving our capital;

securing board observation rights at the portfolio company;

incorporating call protection into the investment structure where possible; and

making investments with an expected total return (including both interest and potential equity appreciation) that it believes compensates us for the credit risk of the investment.

We expect to hold most of our debt investments until maturity or repayment, but may sell our investments (including our equity investments) earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company. Occasionally, we may sell some or all of our investment interests in a portfolio company to a third party in a privately negotiated transaction to manage our credit or sector exposures or to enhance our portfolio yield.

Competitive Advantages

A large number of entities compete with us and make the types of investments that we seek to make in lower middle market privately-owned businesses. Such competitors include other BDCs, non-equity based investment funds,