

GLADSTONE CAPITAL CORP

Form N-2

December 07, 2018

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As filed with the Securities and Exchange Commission on December 7, 2018

1933 Act File No. 333-[]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form N-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
PRE-EFFECTIVE AMENDMENT NO.
POST-EFFECTIVE AMENDMENT NO.

GLADSTONE CAPITAL CORPORATION
(Exact name of registrant as specified in charter)

1521 Westbranch Drive, Suite 100
McLean, Virginia 22102

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

Registrant's Telephone Number, Including Area Code: (703) 287-5800

David Gladstone

Chairman and Chief Executive Officer

Gladstone Capital Corporation

1521 Westbranch Drive, Suite 100

McLean, Virginia 22102

Name and Address (Number, Street, City, State, Zip Code) of Agent For Service

COPIES TO:

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Sehrish Siddiqui

Bass, Berry & Sims PLC

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Nashville, Tennessee 37201

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Approximate date of proposed public offering: From time to time after the effective date of this registration statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

When declared effective pursuant to Section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price⁽¹⁾	Amount of Registration Fee⁽¹⁾
Common Stock, \$0.001 par value per share ⁽²⁾		
Preferred Stock, \$0.001 par value per share ⁽²⁾		
Subscription Rights ⁽²⁾		
Warrants ⁽²⁾		
Debt Securities ⁽²⁾		
Total	\$300,000,000⁽³⁾	\$36,360⁽³⁾

- (1) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933, as amended (the Securities Act) which permits the registration fee to be calculated on the basis of the maximum offering price of all the securities listed, the table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price.
- (2) Subject to Note 3 below, there is being registered hereunder an indeterminate amount of common stock, preferred stock, subscription rights, warrants or debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$300,000,000. If any warrants are issued, they will represent rights to purchase common stock, preferred stock or debt securities.
- (3) In no event will the aggregate offering price of all securities issued from time to time pursuant to this Registration Statement exceed \$300,000,000. Pursuant to Rule 415(a)(6) under the Securities Act of 1933, as amended, this registration statement includes \$202,607,556 of unsold securities of the Registrant that have been previously registered on the Registration Statement on Form N-2 (File No. 333-208637) initially filed by the Registrant on December 18, 2015 and most recently declared effective on March 29, 2016 (the 2015 Registration Statement). A filing fee of \$8,240.69, was paid in connection with such unsold securities and will continue to be applied to such unsold securities, resulting in a registration fee of \$11,803.96 in connection with this Registration Statement. Pursuant to Rule 457(p) under the Securities Act, the Registrant is offsetting the registration fee due under this Registration Statement by \$2,479.98, which represents the portion of the registration fee previously paid with respect to \$20,461,914 of unsold securities previously registered on the Registration Statement on Form N-2 (File No. 333-208637) in connection with the Registrant's at-the-market offering, resulting in a payment of \$9,323.98 in connection with the filing of this Registration Statement being paid herewith. Pursuant to Rule 415(a)(6), the offering of the unsold securities registered under the prior registration statement will be deemed terminated as of the effective date of this Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 7, 2018

PRELIMINARY 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 stock, 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 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 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.

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 December 5, 2018, the last reported sales price for our common stock was \$8.53. 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 December 5, 2018, the last reported sales price for our Series 2024 Term Preferred Stock was \$25.12. Our 6.125% Notes due 2023 (2023 Notes) are also traded on the Nasdaq under the symbol GLADD. As of December 5, 2018, the last reported sales price for our 2023 Notes was \$25.49.

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 other information. 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 shares of closed-end investment companies frequently trade at a discount to their 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 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

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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 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 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 in this prospectus. To the extent required by law, we will amend or supplement the information contained 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* and *Risk Factors* before you make an investment decision.

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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

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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.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. 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 July 2012, the SEC granted us an exemptive order (the "Co-Investment Order") that expands our ability to co-invest with certain of our affiliates under certain circumstances and any future BDC 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, including approval of each such transaction by a required majority. A required majority is a vote of both a majority of our directors who have no financial interest in the transaction and a majority of the directors who are not interested persons

of the Company.

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.

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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.

Pursuant to the 1940 Act, we must maintain at least 70.0% of our total assets in qualifying assets, which generally include each of the investment types listed above. Therefore, the 1940 Act permits us to invest up to 30.0% of our assets in other non-qualifying assets. See *Regulation as a BDC 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

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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.

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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 common stockholders, 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 GLADN
Trading Symbol (Nasdaq)

6.125% Notes due 2023 Trading Symbol GLADD
(Nasdaq)

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 short-term 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

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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. Other types of securities we might offer will likely pay distributions in accordance with their terms.

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 shares of closed-end investment companies frequently trade at a discount to their NAV. The possibility that our common shares may trade at a discount to our NAV is separate and distinct from the risk that our NAV per common share may decline. We cannot predict whether our common shares 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

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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 *Management Certain Transactions*.

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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.

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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 Agreement* 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.

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.

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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:

$$= 100\% \times (2.00\% - 1.75\%)$$

$$= 0.25\%$$

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

$$= (100\% \times (\text{catch-up} : 2.1875\% - 1.75\%)) + (20\% \times (2.30\% - 2.1875\%))$$

$$= (100\% \times 0.4375\%) + (20\% \times 0.1125\%)$$

$$= 0.4375\% + 0.0225\%$$

$$= 0.46\%$$

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:

$$= 20\% \times (6\% - 1\%)$$

$$= 20\% \times 5\%$$

$$= 1\%$$

For a more detailed discussion of the calculation of the two-part incentive fee, see *Management Certain Transactions 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 incurred by the Administrator in performing its obligations

- under the Administration Agreement. 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.

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

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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.

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ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form N-2 under the Securities Act of 1933, as amended, which we refer to as the Securities Act, with respect to the Securities offered by this prospectus. 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*.

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RISK FACTORS

You should carefully consider the risks described below and all other information contained 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 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.

The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the volatility and dislocation that the capital markets have historically experienced, 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

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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 Fed has incrementally raised the target range for the federal funds rate, with additional increases expected to come 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 the Fed will make sound decisions as to when to raise rates. 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

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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

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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.

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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 approving, in good faith, the fair value of our investments, based on our investment 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. If applicable, new and follow-on proprietary debt and equity investments made during the current three month reporting period ended September 30, 2018 are generally valued at original cost basis. For additional information on our valuation policies, procedures and processes, refer to Note 2 *Summary of Significant Accounting Policies* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

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.

Our most recent NAV was calculated on September 30, 2018 and our NAV when calculated effective December 31, 2018 and thereafter may be higher or lower.

As of September 30, 2018, our NAV per share was \$8.32, which was based on the fair value of our investments that were reviewed and approved by the Valuation Committee and Board of Directors in connection with financial statements that were audited by our independent registered public accounting firm. NAV per share as of December 31, 2018 may be higher or lower than \$8.32 based on potential changes in valuations, our issuance of shares of common stock under our at-the-market program subsequent to September 30, 2018, or dividends paid and earnings for the quarter then ended. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis and if our December 31, 2018 fair value is less than the September 30, 2018 fair value, we will record an unrealized loss on our investment portfolio. If the fair value is greater, we will record an unrealized gain on our investment portfolio. Upon publication of our next quarterly NAV per share determination (generally in our next Quarterly Report on Form 10-Q), the market price of our common stock may fluctuate materially.

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

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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. Additional discussion regarding risks associated with determinations made by the Adviser is found in the risk factor *The valuation process for certain of our portfolio holdings creates a conflict of interest.*

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.

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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 generally will not be involved in the day-to-day operations and decision making of our portfolio companies.

We generally are not, and do not expect to be, involved in the day-to-day operations and decision making of our portfolio companies, even though we may have board observation rights and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common stock, may take risks or otherwise act in ways that do not serve our interests of maximizing our investment value.

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.

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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.

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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 litigations 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 the Company believes it would have valid defenses to potential claims brought due to our investment in any portfolio company, and will defend any such claims vigorously, it may nevertheless expend significant amounts of money in defense costs and expenses. Further, if the Company enters into settlements or suffers an adverse outcome in any litigation, the Company could be required to pay significant amounts. In addition, if any of the Company's portfolio companies become subject to direct or indirect claims or other obligations, such as defense costs or damages in litigation or settlement, the Company's investment in such companies could diminish in value and the Company could suffer indirect losses. Further, these matters could cause the Company 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

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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

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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

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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)	(18.4)%	(9.9)%	(1.5)%	6.9%	15.3%

^(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.

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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.

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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. 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 BDC 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 BDC*.

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

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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,

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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 Directors 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.

The recently enacted legislation informally titled the Tax Cuts and Jobs Act and other legislative, regulatory and administrative developments may adversely affect the Company or its stockholders.

On December 22, 2017, President Trump signed into law P.L. 115-97, informally titled the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes major changes to the Code, including a number of provisions of the Code that affect the taxation of RICs and their stockholders. Certain provisions of the Tax Act that may impact us and our stockholders include:

temporarily reducing individual U.S. federal income tax rates on ordinary income; the highest individual U.S. federal income tax rate will be reduced from 39.6% to 37% (through taxable years ending in 2025);

reducing the maximum corporate income tax rate from 35% to 21%;

permitting a deduction for certain pass-through business income, which generally will allow individuals, trusts, and estates to deduct up to 20% of such amounts, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such dividends (through taxable years ending in 2025);

limiting the deduction for net operating losses to 80% of taxable income (prior to the application of the dividends paid deduction);

amending the limitation on the deduction of net interest expense for all businesses, other than certain electing businesses; and

eliminating the corporate alternative minimum tax.

The individual and collective impact of these provisions and other provisions of the Tax Act on the Company and its stockholders remains uncertain, and may not become evident for some period of time. In addition, other

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legislative, regulatory or administrative changes may be enacted or promulgated, either prospectively or with retroactive effect, and may adversely affect the Company or its stockholders. The Company's stockholders should consult their individual tax advisors regarding the implications of the Tax Act and other potential legislative, regulatory or administrative changes on their investment in the Company's securities.

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

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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.

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,

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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. 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. Our Board of Directors approved a revision of our investment objectives and strategies that became effective on January 1, 2013, which may enhance the potential for conflicts in the allocation of investment opportunities to us and other entities 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.

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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

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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 on a quarterly basis 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 restricts 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 shares 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

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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 our common stockholders 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 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

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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 the 2023 Notes

The 2023 Notes 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).

The 2023 Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 2023 Notes 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 the 2023 Notes. In addition, the 2023 Notes rank pari passu with, or equal to, all outstanding and future unsecured indebtedness issued by us and our general liabilities (total liabilities, less debt).

The 2023 Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The 2023 Notes are obligations exclusively of the Company and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the 2023 Notes and the 2023 Notes 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 the 2023 Notes) 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, the 2023 Notes 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 the 2023 Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the 2023 Notes.

The indenture under which the 2023 Notes were issued contains limited protection for holders of the 2023 Notes.

The indenture under which the 2023 Notes were issued offers limited protection to holders of the 2023 Notes. The terms of the indenture and the 2023 Notes 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

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impact on your investment in the 2023 Notes. In particular, the terms of the indenture and the 2023 Notes 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 the 2023 Notes, (2) any indebtedness or other obligations that would be secured and therefore effectively rank senior in right of payment to the 2023 Notes 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 the 2023 Notes 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 the 2023 Notes 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 the 2023 Notes, 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 and the 2023 Notes will not require us to make an offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the 2023 Notes do not protect holders of the 2023 Notes 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 the 2023 Notes), and take a number of other actions that are not limited by the terms of the 2023 Notes may have important consequences for you as a holder of the 2023 Notes, including making it more difficult for us to satisfy our obligations with respect to the 2023 Notes or negatively affecting the trading value of the 2023 Notes.

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Other debt we issue or incur in the future could contain more protections for its holders than the indenture and the 2023 Notes, 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 the 2023 Notes.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the 2023 Notes.

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 the 2023 Notes and substantially decrease the market value of the 2023 Notes. 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, including the 2023 Notes, 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 the 2023 Notes or our other debt. 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 the 2023 Notes 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 the 2023 Notes when prevailing interest rates are relatively low.

On or after November 1, 2020, we may choose to redeem the 2023 Notes from time to time, especially if prevailing interest rates are lower than the rate borne by the 2023 Notes. If prevailing rates are lower at the time of redemption, and we redeem the 2023 Notes, 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 2023 Notes being redeemed. Our redemption right also may adversely impact your ability to sell the 2023 Notes 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 the 2023 Notes to decline significantly.

Any credit rating assigned to us or the 2023 Notes 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 the 2023 Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the 2023 Notes. 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.

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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. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems 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. As our 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. 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 supplement. 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 or 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 of 1933, as amended (the Securities Act).

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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 short-term 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 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 December 3, 2018 there were 34 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.

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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 December 6, 2018.

COMMON SHARE PRICE DATA

	Sales Price			Declared Common Distributions	Premium	Premium
	NAV ⁽¹⁾	High	Low		(Discount) of High to NAV ⁽²⁾	(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 (through December 6, 2018)	*	9.65	8.24	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.

Share Repurchases

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of the Company's common stock. The program expired on January 31, 2017. During the year ended September 30, 2016, we repurchased 87,200 shares of our common stock at an average share price of \$6.53, resulting in aggregate gross purchases of \$0.6 million. We did not repurchase any shares during the years ended September 30, 2018 and 2017. See *Share Repurchases*.

The following are our outstanding classes of securities as of September 30, 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		28,501,980
6.00% Series 2024 Term Preferred Stock	5,440,000		2,070,000

Table of Contents**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.

Table of Contents**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 accompanying *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)**

	Year Ended September 30,				
	2018	2017	2016	2015	2014
<u>Statement of Operations Data:</u>					
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
<u>Per Share Data:</u>					
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
<u>Statement of Assets and Liabilities Data:</u>					
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.

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

Table of Contents**SELECTED QUARTERLY DATA (UNAUDITED)**

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following analysis of our financial condition and results of operations should be read in conjunction with our 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.

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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.

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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.

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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 over-allotment, 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 over-allotment. 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*

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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. 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 meeting of stockholders held on February 8, 2018. 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.

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 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 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.

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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.

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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.

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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:

Portfolio Company	As of September 30, 2018		Year Ended September 30, 2018	
	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%

Portfolio Company	As of September 30, 2017		Year Ended September 30, 2017	
	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%
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(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.

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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,

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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:

Portfolio Company	Year Ended September 30, 2018			Net Gain (Loss)
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	
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

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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

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Portfolio Company	Year Ended September 30, 2018			Net Gain (Loss)
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	
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:

Portfolio Company	Year Ended September 30, 2017			Net Gain (Loss)
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	
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

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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)		225
PSC Industrial Holdings Corp.	219		219

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Portfolio Company	Year Ended September 30, 2017			Net Gain (Loss)
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	
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.

Table of Contents**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

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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:

Portfolio Company	As of September 30, 2017		Year Ended September 30, 2017	
	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%

Portfolio Company	As of September 30, 2016		Year Ended September 30, 2016	
	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 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%.

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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

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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:

Portfolio Company	Year Ended September 30, 2017			
	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

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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)

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Portfolio Company	Year Ended September 30, 2017			Net Gain (Loss)
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	
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:

Portfolio Company	Year Ended September 30, 2016			Net Gain (Loss)
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	
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

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GFRC Holdings, LLC		(271)		(271)
Ashland Acquisitions, LLC	72	183	(572)	(317)
Mikawaya		(379)		