GLADSTONE INVESTMENT CORPORATION\DE
Form 497
July 13, 2018
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Registration Statement No. 333-225447

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 primary offering price of our common stock, $0.001 par value per share, preferred stock, $0.001 par value per share, debt securities, subscription rights, warrants representing rights to purchase shares of our common stock, 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 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: (i) 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 (ii) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities, generally in combination with the aforementioned debt 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. 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 under the symbol GAIN. As of July 12, 2018, the last reported sales price of our common stock was $11.81, and the net asset value per share of our common stock on May 8, 2018 (the last date prior to the date of this prospectus as of which we determined our net asset value per share) was $10.85. Our 6.75% Series B Cumulative Term Preferred Stock, our 6.50% Series C Cumulative Term Preferred Stock and our 6.25% Series D Cumulative Term Preferred Stock trade on The Nasdaq Global Select Market under the symbols GAINO, GAINN, and GAINM, respectively. As of July 12, 2018, the last reported sales price of our 6.75% Series B Cumulative Term Preferred Stock, 6.50% Series C Cumulative Term Preferred Stock and 6.25% Series D Cumulative Term Preferred Stock was $25.59, $25.35, and $25.36, respectively.

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, the risk of leverage and 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 9. Common shares of closed-end investment companies frequently trade at a discount to their net asset value per share. If our shares trade at a discount to their net asset value, this will likely 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.

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 and current reports, has been filed with the SEC and can be accessed at its website at *www.sec.gov*. This information is also available free of charge by writing to us at Investor Relations, Gladstone Investment 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 *http://www.gladstoneinvestment.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 SEC has not approved or disapproved these Securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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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 Securities and Exchange Commission, or 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. We may sell the Securities 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 identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. 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 any exhibits, the additional information described under *Available 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, the Fund and Gladstone Investment refer to Gladstone Investment Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; Gladstone Commercial refers to Gladstone Commercial Corporation; Gladstone Capital refers to Gladstone Capital Corporation; Gladstone Land refers to Gladstone Land Corporation; Gladstone Securities refers to Gladstone Securities, LLC; and Gladstone Companies refers to our Adviser and its affiliated companies.

General

We were incorporated under the General Corporation Law of the State of Delaware on February 18, 2005. On June 22, 2005, we completed our initial public offering and commenced operations. 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. For federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of 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. Since our initial public offering in 2005 and through March 31, 2018, we have made 153 consecutive monthly distributions to common stockholders.

Our shares of common stock, 6.75% Series B Cumulative Term Preferred Stock, par value $0.001 per share (Series B Term Preferred Stock), 6.50% Series C Cumulative Term Preferred Stock due 2022, par value $0.001 per share (Series C Term Preferred Stock) and 6.25% Series D Cumulative Term Preferred Stock due 2023, par value $0.001 per share (Series D Term Preferred Stock , together with the Series B Term Preferred Stock and the Series C Term Preferred Stock, the Term Preferred Stock) are traded on the Nasdaq Global Select Market (Nasdaq) under the trading symbols GAIN, GAINO, GAINN, and GAINM, respectively.

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 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 Capital, 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 registered investment adviser under the Investment Advisers Act of 1940, as amended (the Advisers Act). The

Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Adviser also has offices in several other states.

Investment Objectives and Strategy

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (U.S.). Our investment objectives are to: (i) 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 (ii) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities, generally in combination with the aforementioned debt securities, of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with individual investments generally totaling up to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We intend that our investment portfolio over time will consist of approximately 75% in debt securities and 25% in equity securities, at cost. As of March 31, 2018, our investment portfolio was made up of 73.8% in debt securities and 26.2% in equity securities, at cost.

We focus on investing in lower middle market private businesses (which we generally define as private companies with annual earnings before interest, taxes, depreciation and amortization (EBITDA) of $3 million to $20 million) (Lower Middle Market) 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 portfolio company, reasonable capitalization of the portfolio company, including an ample equity contribution or cushion based on prevailing based on prevailing enterprise valuation multiples, and the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger, acquisition, or recapitalization of the portfolio company, a public offering of the portfolio company s stock or, to a lesser extent, by exercising our right to require the portfolio company to repurchase our warrants, as applicable, though there can be no assurance that we will always have these rights. We invest in portfolio companies that need funds for growth capital, to finance acquisitions, recapitalize or, to a lesser extent, refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. In July 2012, the SEC granted us an exemptive order (the Co-Investment Order) that expanded our ability to co-invest, under certain circumstances, with certain of our affiliates, including Gladstone Capital and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser, or any combination of the foregoing, subject to the conditions in the Co-Investment Order. Since 2012, we have opportunistically made several co-investments with Gladstone Capital pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced and will continue to enhance our ability to further our investment objectives and strategies. If we are participating in an investment with one or more co-investors, whether or not an affiliate of ours, our investment is likely to be smaller than if we were investing alone.

In general, our investments in debt securities have a term of five years, accrue interest at variable rates (based on the one-month London Interbank Offered Rate (LIBOR)) and, to a lesser extent, at fixed rates. As of March 31, 2018, our loan portfolio consisted of 97.0% variable rate loans with floors and 3.0% fixed rate loans based on the total principal balance of all outstanding debt investments. 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, to a lesser extent, deferred interest provision and are primarily interest only, with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due upon a change of control of the business. Some debt securities may 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. As of March 31, 2018, we did not have any securities with a PIK feature.

Typically, our investments in equity securities take the form of common stock, preferred stock, limited liability company interests, or warrants or options to purchase any of the foregoing. Often, these equity investments occur in connection with our original investment, buyouts and recapitalizations of a business, or refinancing existing debt. From our initial public offering in 2005 through March 31, 2018, we have made investments in 47 companies, excluding investments in syndicated loans.

We expect that our investment portfolio will continue to primarily include the following three categories of investments in private companies 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 secured 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.

Second Lien Secured Debt Securities: We seek to invest a portion of our assets in second lien secured debt securities, which may also be referred to as subordinated loans, subordinated notes and mezzanine loans.

These second lien secured debt securities rank junior to the borrower s 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, such as warrants to buy common and preferred stock or limited liability interests, in connection with these second lien secured debt securities.

Preferred and Common Equity/Equivalents: We seek to invest a portion of our assets in equity securities, which consist of preferred and common equity, limited liability company interests, warrants or options to acquire such securities, and are generally 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 many cases, we will own a significant portion of the equity of the businesses in which we invest.

Pursuant to the 1940 Act, we must maintain at least 70% 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% of our assets in other non-qualifying assets. See *Regulation as a Business Development Company Qualifying Assets* for a discussion of the types of qualifying assets in which we are permitted to invest pursuant to Section 55(a) of the 1940 Act.

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered higher risk as compared to investment grade debt instruments. With the exception of our policy to conduct our business as a BDC, these investment policies are not fundamental and may be changed without stockholder approval.

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Risk Factors

Investing in our securities involves a high degree of risk. You should consider carefully the information found in the section entitled *Risk Factors* on page 9 of this prospectus, including the following risks:

- general volatility of the capital markets and the market price of our common and preferred stock;
- the availability of additional capital on attractive terms or at all;
- uncertainty regarding the valuation of our portfolio investments;
- lack of liquidity of our portfolio investments;
- lack of control over our portfolio companies and the timing, form and amount of distributions from our portfolio companies;
- the size and concentration of our portfolio;
- our use of leverage;
- the impact of a decline in liquidity of credit markets and changes in interests rates on our business and portfolio of investments;
- our ability to maintain our status as a RIC and BDC;
- dilution risks related to issuance of shares at or below the then-current net asset value (NAV) per share;
- our ability to pay distributions on our common stock upon issuance of additional preferred stock or debt securities ranking senior to our common stock
- our Adviser s ability to attract and retain highly qualified personnel, and particularly its ability to retain our key officers, including Mr. Gladstone, our chairman and chief executive officer; Mr. David Dullum, our president; or Mr. Brubaker, our vice chairman and chief operating officer;

competition for investment opportunities;

our Adviser s ability to identify and invest in companies that meet our investment criteria; and

actual and potential conflicts of interest with our Adviser.

Recent Developments

Investment Activity

In June 2018, we sold our investment in Drew Foam Companies, Inc. which had a cost basis and fair value of $13.4 million and $28.1 million, respectively, as of March 31, 2018. In connection with the sale, we received net cash proceeds of approximately $27.2 million, including the repayment of our debt investment of $9.9 million at par.

Distributions and Dividends

In July 2018, our Board of Directors declared the following monthly distributions to common stockholders and monthly dividends to holders of our Series B Term Preferred Stock, Series C Term Preferred Stock, and Series D Term Preferred Stock:

Record Date	Payment Date	Distribution per Common Share	Dividend per Share of Series B Term Preferred Stock	Dividend per Share of Series C Term Preferred Stock	Dividend per Share of Series D Term Preferred Stock
July 20, 2018	July 31, 2018	$ 0.067	$ 0.140625	$ 0.135417	$ 0.13020833
August 21, 2018	August 31, 2018	0.067	0.140625	0.135417	0.13020833
September 19, 2018	September 28, 2018	0.067	0.140625	0.135417	0.13020833
	Total for the Quarter:	**$ 0.201**	**$ 0.421875**	**$ 0.406251**	**$ 0.39062499**

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THE OFFERING

We may offer, from time to time, up to $300,000,000 of our Securities, at prices and on terms to be determined at the time of the offering to be disclosed in one or more prospectus supplements. In the case of our common stock and warrants or rights to acquire such common stock hereunder in any offering, the offering price per share, less any underwriting commissions or discounts, will not be less than 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, as we did at times from March to May 2018 under the at-the-market program, and in other offerings in May 2017, March 2015, and October 2012, such sales would result in an immediate dilution to the NAV per share. Such a share issuance would also cause a proportionately greater decrease in a stockholder s interest in our earnings and assets 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)	GAIN
Series B Term Preferred Stock trading symbol (Nasdaq)	GAINO
Series C Term Preferred Stock trading symbol (Nasdaq)	GAINN
Series D Term Preferred Stock trading symbol (Nasdaq)	GAINM
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 outstanding debt, if any, then to make investments in accordance with our investment objectives and strategy, 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 July 2005 and intend to continue to do so. We have paid monthly dividends on each series of our Term Preferred Stock since the date of issuance of the respective series of such Term Preferred Stock. The amount of the monthly distribution on our common stock is determined by our

	board of directors (Board of Directors) on a quarterly basis and is based on our estimate of annual taxable ordinary income plus the excess of our net short-term capital gains over net long-term capital losses (Investment Company Taxable Income), if any. See *Price Range of Common Stock and Distributions*. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes or may be paid as supplemental distributions, as applicable. We expect other types of Securities to pay distributions in accordance with their terms.
Taxation	We have elected to be treated, and intend to maintain qualification as a RIC under Subchapter M of the Code and we generally do not expect to be subject to U.S. federal income taxes. To maintain our RIC status, we must maintain our status as a BDC, meet specified source-of-income and asset diversification requirements, and distribute annually at least 90% of our Investment Company Taxable Income, 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, including BDCs, frequently trade at a discount to their NAV per share. The possibility that our shares of common stock may trade at a discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether our shares will trade above, at or below NAV per share, although during the past three years, our common stock has frequently traded, and at times significantly, below NAV per share.
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 staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain provisions of Delaware law and other measures we have adopted. See *Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws*.
Dividend reinvestment plan	Our transfer agent, Computershare Inc. (Computershare), offers a dividend reinvestment plan for our common stockholders. This is an opt in dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Stockholders who do not elect to do so will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See *Dividend Reinvestment Plan* and *Material U.S. Federal Income Tax Considerations*.
Management arrangements	Gladstone Management serves as our investment adviser, and Gladstone Administration serves as our administrator. For a description of our Adviser, our Administrator, the Gladstone Companies and our contractual arrangements with these companies, see *Business Transactions with Related Parties Investment Advisory and Management Agreement* and *Management Certain Transactions Investment Advisor and Administrator.*

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FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Investment, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Investment. The following annualized percentages were calculated based on actual expenses incurred in the quarter ended March 31, 2018, and average net assets for the quarter ended March 31, 2018. The table and examples below include all fees and expenses of our consolidated subsidiaries.

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]	3.44%
Loan servicing fee[5]	1.93%
Incentive fees payable under the Advisory Agreement (20% of net realized capital gains in excess of unrealized depreciation and 20% of pre-incentive fee net investment income)[6]	6.23%
Interest payments on borrowed funds[7]	1.96%
Dividend expense on mandatorily redeemable preferred stock[8]	2.85%
Other expenses[9]	1.00%
Total annual expenses[10]	17.41%

(1) The amounts set forth in the table above do not reflect the impact of any sales load or other offering expenses borne by Gladstone Investment and its stockholders. The prospectus supplement relating to an offering of securities pursuant to this prospectus will disclose the offering price and the estimated offering expenses and total stockholder transaction expenses borne by Gladstone Investment 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 also bear a transaction

fee, plus per share brokerage commissions, incurred with respect to open market purchases. 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 the Advisory Agreement between us and our Adviser, our annual base management fee is 2.00% (0.50% quarterly) of our average gross assets, which are defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, and adjusted appropriately for any share issuances or repurchases. In accordance with the requirements of the SEC, the table above shows our base management fee as a percentage of average net assets attributable to common stockholders. For purposes of the table, the annualized base management fee has been converted to 3.44% of the average net assets for the three months ended March 31, 2018 by dividing the total annualized amount of the base management fee by our average net assets. The base management fee for the three months ended March 31, 2018 before application of any credits was $3.0 million.

Pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser non-contractually, unconditionally, and irrevocably credits 100% of these fees against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser and primarily for the valuation of portfolio companies. For the three months ended March 31, 2018, $1.1 million of these fees were non-contractually, unconditionally and irrevocably credited against the base management fee. See *Business Transactions with Related Parties Investment Advisory and Management Agreement* and *Management Certain Transactions Investment Advisor and Administrator* and footnote 5 below.

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(5) The Adviser services, administers and collects on the loans held by Gladstone Business Investment, LLC, our wholly-owned subsidiary (Business Investment), in return for which our Adviser receives a 2.0% annual loan servicing fee payable monthly by Business Investment based on the monthly aggregate balance of loans held by Business Investment in accordance with the Fifth Amended and Restated Credit Agreement, as further amended, (the Credit Facility), with KeyBank National Association as administrative agent, lead arranger and a lender. Since Business Investment is a consolidated subsidiary of ours, coupled with the fact that the total base management fee paid to the Adviser pursuant to the Advisory Agreement cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given calendar year, we treat payment of the loan servicing fee pursuant to our Credit Facility as a pre-payment of the base management fee under the Advisory Agreement. Accordingly, these loan servicing fees are 100% non-contractually, unconditionally and irrevocably credited back to us by the Adviser. The loan servicing fee for the three months ended March 31, 2018 was $1.7 million. See *Business Transactions with Related Parties Loan Servicing Fee Pursuant to Credit Facility* and *Management Certain Transactions Loan Servicing Fee Pursuant to Credit Facility.*

(6) The incentive fee payable to the Adviser under the Advisory Agreement consists of two parts: an income-based fee and a capital gains-based fee. The income-based incentive fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate of our net assets, adjusted appropriately for any share issuances or repurchases, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100% 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% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide our Adviser with 20% 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% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). For the three months ended March 31, 2018, the income-based incentive fee was $1.7 million.

The capital gains-based incentive fee equals 20% of our net realized capital gains in excess of unrealized depreciation since our inception, if any, computed as all realized capital gains 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. For the three months ended March 31, 2018, we recorded a capital gains-based incentive fee of $3.6 million in accordance with the provisions of U.S. generally accepted accounting principles (GAAP), which is not contractually due under the terms of the Advisory Agreement.

No credits were applied to the incentive fee for the three months ended March 31, 2018; however, the Adviser may credit such fee in the future.

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

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

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

= 100% × (2.00%   1.75%)

= 0.25%

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

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

= (100% × 0.4375%) + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

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

= 20% × (6% 1%)

= 20% × 5%

= 1%

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

(7) Includes amortization of deferred financing costs. As of March 31, 2018, we had $107.0 million in borrowings outstanding under our Credit Facility.

(8) Includes dividends paid on our Series B Term Preferred Stock, Series C Term Preferred Stock, and Series D Term Preferred Stock and amortization of deferred financing costs. See *Description of Our Securities Preferred Stock Term Preferred Stock* for additional information.

(9) Includes our overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under the administration agreement. See *Business Transactions with Related Parties Administration Agreement* and *Management Certain Transactions Investment Advisor and Administrator.*

(10) Total annualized gross expenses, based on actual amounts incurred for the three months ended March 31, 2018, would be $59.9 million. After all non-contractual, unconditional, and irrevocable credits described in footnote 4 and footnote 5 above are applied to the base management fee and the loan servicing fee, total annualized expenses after fee credits, based on actual amounts incurred for the three months ended March 31, 2018, would be $48.7 million, or 14.16% as a percentage of average net assets.

Example

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above. The amounts set forth below do not reflect the impact of any sales load or offering expenses to be borne by Gladstone Investment and 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 Investment 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 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)	$ 117	$ 329	$ 513	$ 875
assuming a 5% annual return consisting entirely of capital gains(2)(3)	$ 126	$ 351	$ 542	$ 907

(1) For purposes of this example, we have assumed that the entire amount of the assumed 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) in excess of unrealized depreciation on our investments through March 31, 2018. While we recorded a capital gains-based incentive fee of $3.6 million in accordance with GAAP during the three months ended March 31, 2018, this amount is not contractually due under the terms of the Advisory Agreement. 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 distributions at NAV per share, participants in the dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution, and this price per share may differ from NAV per share. See *Dividend Reinvestment Plan* for additional information regarding the dividend reinvestment plan.

(3) For purposes of this example, we have assumed that the entire amount of the assume 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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RISK FACTORS

You should carefully consider the risks described below and all other information provided in this prospectus (and 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 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 Our Investments

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us to make the types of investments we seek to make in Lower Middle Market companies. We generally 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, mutual funds, and private equity. 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 portfolio companies are extremely risky and could cause you to lose all or a part of your investment.

Investments in Lower Middle Market portfolio companies are subject to a number of significant risks including the following:

- *Lower Middle Market businesses are likely to be more significantly impacted in economic downturns than larger businesses*. Our portfolio companies may have fewer resources than larger businesses, and any economic downturns or recessions, are more likely to have a material adverse effect on them. In the event that the economy contracts, it is likely that the financial results of Lower Middle Market businesses, like those in which we invest, could experience deterioration or limited growth from current levels, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in defaults.

Consequently, if one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan(s) or engage in a liquidity event, such as a sale, recapitalization or initial public offering would be diminished.

Lower Middle Market businesses 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(s) 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 realizing on any guaranties we may have obtained from the borrower s management. As of March 31, 2018, certain loans to two portfolio companies were on non-accrual status with an aggregate debt cost basis of $15.6 million, or 3.6%, of the cost basis of all debt investments in our portfolio. While we are working with the portfolio companies to improve their profitability and cash flows, there can be no assurance that our efforts will prove successful. Although we will generally seek to be a secured first lien lender to a borrower, in some of our loans we expect to be subordinated to a senior lender and our security interest in any collateral would, accordingly, likely be second lien and subordinate to another lender s security interest.

Lower Middle Market businesses typically have narrower product lines and smaller market shares than large businesses. Our target portfolio companies 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.

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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 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 businesses 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 our loan(s) would be jeopardized.

Lower Middle Market businesses 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 businesses may have limited operating histories. While we intend to continue 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 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.

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

Substantially all of 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 the investment valuation policy (the Policy). Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator, with oversight and direction from our chief valuation officer, an employee of the Administrator that reports directly to our Board of

Directors, (collectively, the Valuation Team). In valuing our investment portfolio, several techniques are used, including, but not limited to, a total enterprise value approach, a yield analysis, and market quotes. Currently, ICE Data Pricing and Reference Data, LLC (formerly Standard and Poor s Securities Evaluations, Inc.) provides estimates of fair value on generally all of our debt investments that are not valued using total enterprise value (TEV) and we use another independent valuation firm to provide valuation inputs for our significant equity investments, generally valued using TEV, including earnings multiple ranges, as well as other information. In addition to these techniques, inputs and information, other factors are considered when determining fair value of our investments, including but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; timing of expected loan repayments; and the markets in which the portfolio company operates. If applicable, new and follow-on debt and equity investments made during the current three month reporting period are generally valued at original cost basis. Refer to *Business Ongoing Management of Investments and Portfolio Company Relationships Valuation Process* for additional information on our valuation policies, procedures, and processes.

Fair value measurements of our investments may involve subjective judgments and estimates and, due to the uncertainty inherent in valuing these securities, the Adviser s determination of fair value may fluctuate from period to period and may differ materially from the values that could be obtained if a ready market for these securities existed. 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.

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.

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Our most recent NAV was calculated on May 8, 2018 and our NAV when calculated effective June 30, 2018 and thereafter may be higher or lower.

As of May 8, 2018, our NAV per share was $10.85, 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 as of March 31, 2018. NAV per share as of June 30, 2018 may be higher or lower than $10.85 based on potential changes in valuations, issuance of shares of common stock subsequent to May 8, 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 June 30, 2018 fair value is less than the March 31, 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 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 Policy. In connection with that determination, our 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 our Adviser s investment professionals in our valuation process and Mr. Gladstone s pecuniary interest in our Adviser may result in a conflict of interest, as the management fees that we pay our Adviser are based on our average 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, the Administrator, or our respective officers, or affiliates have material non-public information regarding such portfolio company.

Due to the uncertainty inherent in valuing these securities, the Adviser 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 Adviser s determinations regarding the fair value of our investments 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.*

Our financial results could be negatively affected if a significant portfolio investment fails to perform as expected.

Our total investment in one or more companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. Our five largest investments represented 30.5% of the fair value of our total portfolio as of March 31, 2018, compared to 27.4% as of March 31, 2017. Any disposition of a significant investment in one or more portfolio companies may negatively impact our net investment income and limit our ability to pay distributions.

The tightening of the U.S. monetary policy through the increase in the Federal Reserve System (Fed) interest rate has resulted in several interest rate raises of 25 basis points each. The increase in the Fed rate can have a negative effect on our investments by making it harder and more expensive to refinance capital structures or even obtain financing.

In recent years, the Fed has incrementally raised the target range for the federal funds rate to its current range of 1.5% to 1.75%, 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.

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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 years, accrue interest at variable rates based on LIBOR and, to a lesser extent, at fixed rates. As of March 31, 2018, our loan portfolio consisted of 97.0% variable rate loans with floors and 3.0% fixed rate loans based on the total principal balance of all outstanding debt investments.

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 representation or 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 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, financial condition, and cash flows.

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 primarily invest in secured first and second lien 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 securities 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. Additionally, depending on the facts and circumstances, including the extent to which we provide managerial assistance to any portfolio company subject to bankruptcy, 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 for repaying 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 as a result of actions taken in rendering any managerial assistance. Furthermore, in the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company.

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

In addition to risks associated with delays in investing our capital, to a lesser extent, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. During the fiscal year 2018, we experienced prepayments of term debt investments of $13.6 million. We will first use any proceeds from prepayments to repay any borrowings outstanding on the Credit Facility. In the event that funds remain after repayment of our outstanding borrowings, then we may 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. While we generally do not provide for prepayments of our debt investments where we also own a significant equity investment in a portfolio company, prepayments allowable under pure debt investments could negatively impact our return on those investments, which could negatively impact our operating results, financial condition, and cash flows and could lead to a decline in the market price of our common stock.

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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 March 31, 2018, we had investments in 33 portfolio companies, the five largest of which included Cambridge Sound Management, Inc. (Cambridge), Nth Degree, Inc. (Nth Degree), J.R. Hobbs Co. Atlanta, LLC (JR Hobbs), Brunswick Bowling Products, Inc. (Brunswick), and ImageWorks Display and Marketing Group, Inc. (ImageWorks), and collectively comprised $183.4 million, or 30.5%, of our total investment portfolio, at fair value. A consequence of 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, as well as Credit Facility 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% 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% of the value of our total assets. A downturn in a particular industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us. As of March 31, 2018, our largest industry concentration was in Diversified/Conglomerate Services, representing 22.8% of our total investments, at fair value.

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 equity positions until the loans mature and/or we exit the investment, investors should not expect realization events, if any, to occur over the near term. In addition, we expect that any equity investments 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 but one 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 may ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

Portfolio company-related litigation could result in costs, including defense costs or damages, 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 sometimes serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, even if meritless, 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. 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.

In view of the inherent difficulty of predicting the outcome of legal actions and regulatory matters, we cannot provide assurance as to the outcome of any threatened or pending matter or, if resolved adversely, the costs associated with any such matter, particularly where the claimant seeks very large or indeterminate damages or where the matter presents novel legal theories, involves a large number of parties or is at a preliminary stage. The resolution of any such matters may be time consuming, expensive, and may distract management from the conduct of our business. The resolution of certain threatened or pending legal actions or regulatory matters, if unfavorable, whether in settlement or a judgment, could have a material adverse effect on our financial condition, results of operations, or cash flows for the quarter in which such actions or matters are resolved or a reserve is established.

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. No range of potential expenses, costs or damages in connection with these matters can be estimated at this time.

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

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

During the fiscal years ended March 31, 2018 and 2017, we recorded net realized gains on investments of $1.3 million and $15.6 million, respectively. During the fiscal year ended March 31, 2016, we recorded a net realized loss on investments of $4.6 million. There can be no guaranties that such net realized gains can be achieved in future periods and the impact of such sales on our results of operations in prior periods should not be relied upon as being indicative of performance in future periods. For the fiscal years ended March 31, 2018, 2017 and 2016, success fee income totaled $5.3 million, $2.4 million and $1.6 million, respectively.

Any unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce any gains 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 any gains 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, the 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, cash flows, and ability to pay distributions.

We will have a continuing need for capital to finance our investments. As of March 31, 2018, we, through our wholly-owned subsidiary, Business Investment, had $107.0 million in borrowings, at cost, outstanding under the Credit Facility, which provides for maximum borrowings of $165.0 million, with a revolving period end date of November 15, 2019 (the Revolving Period End Date). The Credit Facility permits us to fund additional loans and investments as long as we are within the conditions and covenants set forth in the credit agreement. Among other things, the Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to our credit and collection policy without the lenders consent. The Credit Facility also generally seeks to restrict distributions to stockholders to the sum of (i) our net investment income, (ii) net capital gains, and (iii) amounts deemed by the Company to be considered as having been paid during the prior fiscal year in accordance with Section 855(a) of the Code. Loans eligible to be pledged as collateral are subject to certain limitations, including, among other things, restrictions on geographic concentrations, industry concentrations, loan size, payment frequency and status, average life, portfolio company leverage, and lien property. The Credit

Facility also requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base. Additionally, the Credit Facility contains a performance guaranty that requires the Company to maintain (i) a minimum net worth (defined in the Credit Facility to include our mandatory redeemable term preferred stock) of the greater of $210.0 million or $210.0 million plus 50% of all equity and subordinated debt raised minus 50% of any equity or subordinated debt redeemed or retired after November 16, 2016, which equated to $221.2 million as of March 31, 2018, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200% (or such higher percentage as may be set forth in Section 61 of the 1940 Act), and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2018, and as defined in the performance guaranty of the Credit Facility, we had a net worth of $488.8 million, an asset coverage ratio on our senior securities representing indebtedness of 525.7%, calculated in compliance with the requirements of Sections 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. As of March 31, 2018, we were in compliance with all covenants under the Credit Facility; however, our continued compliance depends on many factors, some of which are beyond our control.

Given the continued uncertainty in the capital markets, any 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 the 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, cash flows, and ability to pay distributions to our stockholders.

Any inability to renew, extend or replace the 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.

If the 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 November 15, 2021 (two years after the Revolving Period End Date). Subject to certain terms and conditions, the Credit Facility may be expanded to a total of $250 million through additional commitments of existing or new lenders. However, if such lenders are unwilling to provide additional commitments under the terms of the Credit Facility, we will be unable to expand the Credit Facility and thus will continue to have limited availability to finance new investments under the Credit Facility. There can be no guaranty that we will be able to renew, extend or replace the Credit Facility upon its Revolving Period End Date on terms that are favorable to us, if at all. Our ability to expand the Credit Facility, and to obtain replacement financing at or before the time of its 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 the Credit Facility, or to renew, extend or refinance the 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 Term Preferred Stock, which could potentially require us to sell more assets. In addition to selling assets, or as an alternative, we may issue common equity in order to repay amounts outstanding under the Credit Facility. Depending upon the trading prices of our common stock, such an equity offering may have a dilutive impact on our existing stockholders interest in our earnings, assets and voting interest in us. If we are able to renew, extend or refinance the Credit Facility prior to maturity, renewal, extension or refinancing, it could potentially 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 common and preferred stockholders.

Because we expect to distribute substantially all of our Investment Company Taxable Income on an annual basis, our business plan is dependent upon external financing, which is constrained by the limitations of the 1940 Act.

Although we completed equity offerings of our Series D Term Preferred Stock, Series C Term Preferred Stock and Series B Term Preferred Stock in September 2016, May 2015 and November 2014, respectively, a common stock offering in May 2017, and initiated our at-the-market program in February 2018, 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 the Credit Facility) and senior securities that are stock (including our Series B Term Preferred Stock, Series C Term Preferred Stock, and Series D Term Preferred Stock), up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue senior securities representing indebtedness and senior securities which are stock, in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200% (currently) or 150% (effective April 10, 2019; refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Developments Small Business Credit Availability Act* for a discussion of changes to the asset coverage requirements pursuant to the Small Business Credit Availability Act (SBCAA)) on each such senior security immediately after each issuance of each 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%. If the aggregate fair value of our assets declines, we might be unable to satisfy that 200% requirement. To satisfy the 200% 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 costs will not be available for distributions to stockholders. Furthermore, if we have to issue common stock below NAV per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a) 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 common stockholders at the time of the issuance would decrease and our existing common stockholders 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 common 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, as we did at times during March and April 2018 under the at-the-market program, and in other offerings in May 2017, March 2015, and October 2012, 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 common shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a common 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% of our common stock at a 5% discount from NAV, a common 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 for the last several 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 Term Preferred Stock. Refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Developments At-the-Market Program* for a discussion of our at-the-market program.

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 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)%	(5)%	0%	5%	10%
Corresponding return to common stockholder[(A)]	(21.4)%	(12.8)%	(4.2)%	4.4%	13.1%

(A) The hypothetical return to common stockholders is calculated by multiplying our total assets as of March 31, 2018 by the assumed rates of return and subtracting all interest on our debt and dividends on our Term Preferred Stock expected to be paid or declared during the twelve months following March 31, 2018; and then dividing the resulting difference by our total net assets attributable to common stock as of March 31, 2018. Based on $610.9 million in total assets, $107.0 million in borrowings outstanding on the Credit Facility, at cost, $5.1 million in a secured borrowing, $41.4 million in aggregate liquidation preference of Series B Term Preferred Stock, $40.3 million in aggregate liquidation preference of Series C Term Preferred Stock, $57.5 million in aggregate liquidation preference of Series D Term Preferred Stock, and $354.2 million in net assets as of March 31, 2018.

Based on an aggregate outstanding indebtedness of $112.1 million at principal as of March 31, 2018, the effective annual interest rate of 5.2% as of that date, and aggregate liquidation preference of our Term Preferred Stock of $139.2 million, our investment portfolio at fair value would have to produce an annual return of at least 2.5% to cover annual interest payments on the outstanding debt and dividends on our Term Preferred Stock.

A change in interest rates may adversely affect our profitability and hedging arrangements 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 spread between the rate at which we borrow funds and the rate at which we loan these funds. An increase or decrease in interest rates could reduce the spread between the rate at which we invest and the rate at which we borrow, and thus, adversely affect our profitability, if we have not appropriately hedged against such event. Alternatively, interest rate hedging arrangements may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio.

Ultimately, we expect approximately 90.0% of the loans in our portfolio to be at variable rates determined on the basis of the LIBOR and approximately 10.0% to be at fixed rates. As of March 31, 2018, based on the total principal balance of debt investments outstanding, our portfolio consisted of 97.0% of loans at variable rates with floors and 3.0% at fixed rates.

As of March 31, 2018, we did not have any hedging arrangement, such as interest rate hedges. While hedging arrangements 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, results of operations, and cash flows. Our ability to receive payments pursuant to a hedging arrangement is linked to the ability of the counter-party to that hedging arrangement to make the required payments. To the extent that the counter-party to the hedging arrangement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the arrangement.

Also, the fair value of certain of our debt investments is based, in part, on the current market yields or interest rates of similar securities. A change in interest rates could have a significant impact on our determination of the fair value of these debt investments. In addition, a change in interest rates could also have an impact on the fair value of any hedging arrangements then in effect that could result in the recording of unrealized appreciation or depreciation in future periods. Therefore, adverse developments resulting from changes in interest rates could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Refer to *Management s Discussion and Analysis of Financial Conditions and Results of Operations Contractual Obligations Quantitative and Qualitative Disclosures About Market Risk* for additional information on interest rate fluctuations.

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 maintain our status as a BDC and meet annual distribution, income source, and asset diversification requirements. The annual distribution requirement is satisfied if we distribute at least 90% 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 may receive with respect to debt investments generally create original issue discount (OID), which we must recognize as ordinary income over the term of the debt investment. Similarly, PIK interest which is accrued generally over the term of the debt investment but not paid in cash, is recognized as ordinary income. Both OID and PIK interest will increase the amounts we are required to distribute to maintain our 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. As of March 31, 2018, we did not have investments with OID or a PIK feature. Additionally, we must meet asset diversification and income source requirements 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 as of a calendar quarter or annually 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 common stock. Refer to *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 Recent Developments Small Business Credit Availability Act* 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 generally generate payments to us upon a change of control. Because the satisfaction of these success fees, and the ultimate payment of these fees, is uncertain and highly contingent, 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 our RIC status.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC under the 1940 Act or be precluded from investing according to our current business strategy.

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

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

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. 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 *Regulation as a Business Development Company Qualifying Assets* for additional information regarding qualifying assets.

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

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

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Provisions of the Delaware General Corporation Law and of our certificate of incorporation and bylaws could restrict a change in control and have an adverse impact on the price of our common stock.

We are subject to provisions of the Delaware General Corporation Law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for three years unless the holder s acquisition of our stock was either approved in advance by our Board of Directors or ratified by our Board of Directors and stockholders owning two-thirds of our outstanding stock not owned by the acquiring holder. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our Board of Directors, they would apply even if the offer may be considered beneficial by some stockholders.

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our certificate of incorporation classifying our Board of Directors in three classes serving staggered three-year terms, and provisions of our certificate of incorporation authorizing our Board of Directors to induce the issuance of additional shares of our stock. These provisions, as well as other provisions of our certificate of incorporation and bylaws, may delay, defer, or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

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 Series B Term Preferred Stock, our Series C Term Preferred Stock, and our Series D Term Preferred Stock, only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% (currently) or 150% (effective April 10, 2019; refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Developments Small Business Credit Availability Act* 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 this test. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder dilution. We have incurred leverage to generate capital to make additional investments. If the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which could prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous.

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

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

On April 10, 2018, our Board of Directors, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) thereof, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the Company s asset coverage requirements for senior securities will be changed from 200% to 150%, effective one year after the date of the Board of Director s approval; or on April 10, 2019. Under the current 200% asset coverage standard, we may borrow debt or issue senior securities in the amount of $1.00 for every $1.00 of equity in the Company. Starting from April 10, 2019, under the 150% asset coverage standard, we may borrow debt or issue senior securities in the amount of $2.00 for every $1.00 of equity in the Company. This reduction in the asset coverage ratio will allow us to double the amount of debt that we may incur and, therefore, your risk of an investment in us may increase. In addition, our management fee is based on our average gross assets, which include investments made with proceeds of borrowings, and, as a result, if we were to incur additional leverage, management fees paid to the Advisor 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 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 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 is uncertain, and may not become evident for some period of time. In addition, other 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 stock.

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, David Dullum and Terry Lee Brubaker, 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, chief valuation officer, 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, David Dullum and Terry Lee Brubaker 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.

We are dependent upon the contacts and relationships of the Adviser to provide us with potential investment opportunities.

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. Failure of the Adviser to maintain such relationships or enter into new relationships that would generate additional investment opportunities, could have a material adverse effect on our business.

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

The Adviser has the right to resign under the Advisory Agreement at any time upon not less than 60 days written notice, whether we have found a replacement or not. If the Adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our common stock 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 investment 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 investment income may lead the Adviser to place undue emphasis on the maximization of net investment 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 net decrease in net assets.

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 net investment income for that quarter (before deducting the incentive fee) above a threshold return of 1.75% of our net assets, as adjusted, for that quarter. When calculating our incentive fee, our pre-incentive fee net investment income excludes realized losses and unrealized depreciation that we may incur in the fiscal quarter, even if such losses or depreciation result in a net decrease in net assets 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 realized or unrealized loss for that quarter. For additional information on incentive compensation under the Advisory Agreement with the Adviser, see *Business Transactions with Related Parties Investment Advisory and Management Agreement*.

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

The part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include income that has been accrued but not yet received in cash, such as debt instruments with PIK interest. 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. During the years ended March 31, 2018, 2017, and 2016, we did not record any PIK income or any other non-cash income.

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

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

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 the Adviser and Administrator, and the Affiliated Public Funds. In addition, Mr. Brubaker, our vice chairman and chief operating officer, is the vice chairman and chief operating officer of the Adviser and Administrator, and the Affiliated Public Funds. Mr. Dullum, our president, 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 Company or 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.

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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, the prior approval of our Board of Directors. As of March 31, 2018, our Board of Directors has approved the following types of 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 Capital 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, we may co-invest, under certain circumstances, with certain of our affiliates, including Gladstone Capital 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. In connection with investments made pursuant to the Co-Investment Order a required majority of our Board of Directors must approve the transaction. 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.

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

In the course of our investing activities, we will pay 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 receive 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 services other than managerial assistance as discussed in *Business Ongoing Management of Investments and Portfolio Company Relationships Managerial Assistance and Services.*

The Adviser is not obligated to provide credits of the base management fee or incentive fees, 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, that is based on our income and capital gains. Our Board of Directors has accepted in the past and may accept in the future non-contractual, unconditional, and irrevocable credits to reduce the annual 2.0% base management fee or the incentive fee, on a quarterly or annual basis. Any fees credited 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. If the Adviser does not issue these credits in the future, 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 common 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.

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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 level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, placing and removing investments on non-accrual status, the degree to which we encounter competition in our markets, the ability to sell investments at attractive terms, the ability to fund and close suitable investments, and general economic conditions, including the impacts of inflation. The majority of our portfolio companies are in industries that are directly impacted by inflation, such as manufacturing and consumer goods and services. Our portfolio companies may not be able to pass on to customers increases in their costs of production which could greatly affect their operating results, impacting their ability to service and repay our loans. In addition, any potential 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. 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.

Our current intention is to distribute up to 100% of our Investment Company Taxable Income to our stockholders by paying monthly distributions. We may retain some or all of our net realized long-term capital gains, if any, or retain and designate them as deemed distributions to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine to distribute these net realized long-term capital gains to our stockholders in cash. In addition, the Credit Facility restricts the amount of distributions we are permitted to make annually. We cannot assure investors 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 common stock may not be suitable for someone with lower risk tolerance.

Increase in market interest rates may negatively impact 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 have been low relative to historical rates, may lead prospective purchasers of our Securities to expect a higher distribution yield and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our Securities to decrease.

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

Our Board of Directors declares monthly common distributions each quarter based on estimates of Investment Company Taxable Income and capital gains for each fiscal year, which may differ, and in the past have differed, from actual results. Because our common distributions are based on estimates of Investment Company Taxable Income and capital gains that may differ from actual results, future common distributions payable to our common stockholders may include a return of capital. To the extent that we distribute amounts that exceed our accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a common stockholder s original investment in common 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 common stock by reducing the investor s tax basis for such common stock. 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 a 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 their NAV per share and have a material adverse effect on the trading price of our common stock.

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

Common 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 per share and at times below NAV per share. During the past year, our common stock has at times traded significantly below NAV per share. Subsequent to March 31, 2018, and through June 1, 2018, our common stock has traded at discounts of up to 9.6%, and premiums of up to 6.8%, of our NAV per share, which was $10.85 as of March 31, 2018. 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 common shares will fluctuate with market conditions and other factors. If common 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 common 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 common shares will trade at, below or above our NAV per share.

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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 common stockholders through a rights offering without first obtaining the approval of our stockholders and our independent directors. Additionally, at times 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 common shares in such circumstances. Thus, for as long as our common stock may trade below NAV per share, we generally 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.

At our most recent annual meeting of stockholders on August 24, 2017, our stockholders approved a proposal designed to allow us to sell shares of our common stock below the then current NAV per share in one or more offerings for a period of one year from the date of such approval, subject to certain conditions (including, but not limited to, that the number of common shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale).

Subject to a previous approval from our stockholders, we exercised this right with Board of Director approval from March through May 2018 for certain sales under the at-the-market program (Refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Developments At-the-Market Program* for a discussion of our at-the-market program.), and in May 2017, when we completed a public offering of 2.1 million shares of our common stock at a public offering price of $9.38 per share, which was below our then current NAV of $9.95 per share. In June 2017, the underwriters partially exercised their over-allotment option and purchased an additional 155,265 shares at the public offering price of $9.38 per share and on the same terms and conditions solely to cover over-allotments. The net dilutive effect of the issuance of common stock from the May and June 2017 offerings, net of discounts, commissions, and offering costs borne by us, below NAV was $0.07 per share of common stock.

Also subject to a previous approval from our stockholders, we exercised this right with Board of Director approval in March 2015, when we completed a public offering of 3.3 million shares of our common stock at a public offering price of $7.40 per share, which was below our then current NAV of $8.55 per share. In April 2015, the underwriters exercised their option to purchase an additional 495,000 shares at the public offering price of $7.40 per share and on the same terms and conditions solely to cover over-allotments. The net dilutive effect of the issuance of common stock, net of discounts, commissions, and offering costs borne by us, below NAV was $0.29 per share of common stock.

Additionally and subject to a previous approval from our stockholders, we also exercised this right with our Board of Director s approval in October 2012, when we completed a public offering of 4.4 million shares of our common stock at a public offering price of $7.50 per share, which was below our then current NAV of $9.10 per share. The net dilutive effect of the issuance of common stock, net of discounts, commissions, and offering costs borne by us, below NAV was $0.39 per share of common stock.

At the upcoming annual stockholders meeting scheduled for August 2, 2018, we expect that our stockholders will again be asked to vote in favor of renewing this proposal for another year. During the past year, our common stock has frequently traded, and at times significantly, below NAV per share. Any decision to sell shares of our common stock below the then current NAV per share of our common stock would be subject to the determination by our Board of

Directors that such issuance is in our and our stockholders best interests.

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 common 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% of our common stock at a 5% discount from NAV, an existing common 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 Term Preferred Stock for two years, the holders of our preferred stock will be entitled to elect a majority of our directors.

The terms of our Term Preferred Stock provide for annual dividends of $1.6875, $1.6250 and $1.5625 per outstanding share of our Series B Term Preferred Stock, Series C Term Preferred Stock and Series D Term Preferred Stock, respectively. In accordance with the terms of each of our Term Preferred Stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of such series of stock will be entitled to elect a majority of our Board of Directors.

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Holders of our debt or Term Preferred Stock have liquidation and other rights that are senior to the rights of the holders of our common stock. Any future issuance of debt or preferred stock could adversely affect the market price of our common stock.

We may in the future raise additional capital through the issuance of debt or additional shares of preferred stock. Our Board of Directors is authorized to issue one or more classes or series of preferred stock (so long as such stock is issued in parity with our Term Preferred Stock in accordance with Section 18(c) of the 1940 Act) from time to time without any action on the part of the stockholders, as it has done with respect to our Term Preferred Stock. Our Board of Directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over our common stock with respect to dividends or upon our dissolution, winding-up or liquidation, and other terms. Holders of our Term Preferred Stock have, and holders of any future debt securities will have, preference over our common stock with respect to the payment of dividends and upon our liquidation, dissolution or winding-up. This will reduce the amount of our assets, if any, available for distribution to holders of our common stock. The decision to issue debt or preferred stock is dependent on market conditions and other factors that may be beyond our control. As a result, we cannot predict or estimate the amount, timing or nature of our future issuances. Any such future issuance could reduce the market price of our common stock.

Additionally, if we issue additional preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

An active trading market for the Term Preferred Stock may not exist or continue, which could adversely affect the market price of the Term Preferred Stock or a holder s ability to sell its shares.

Our Series B Term Preferred Stock, Series C Term Preferred Stock and Series D Term Preferred Stock are listed on Nasdaq. However, we cannot provide any assurances that an active trading market for the Term Preferred Stock will exist in the future or that stockholders will be able to sell their shares of Term Preferred Stock. Even if an active trading market does exist, shares of the Term Preferred Stock may trade at a discount from the liquidation preference for such shares depending on prevailing interest rates, the market for similar securities, general economic conditions, our issuance of debt or preferred equity securities and our financial condition, results of operation and prospects. To the extent an active trading market does not exist, the liquidity and trading price for shares of the Term Preferred Stock may be harmed. Accordingly, holders may be required to bear the financial risk of an investment in the Term Preferred Stock for an indefinite period of time.

An investment in preferred stock with a fixed interest rate bears interest rate risk.

Our series of Term Preferred Stock pays dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to our Term Preferred Stock may increase, which would likely result in a decline in the secondary market price of the Term Preferred Stock prior to the mandatory redemption date for that series of Term Preferred Stock.

The Term Preferred Stock is not rated.

Our series of Term Preferred Stock are not rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, our Term Preferred Stock may trade at a price that is lower than it might otherwise trade if rated by a rating agency.

Our Term Preferred Stock bears a risk of early redemption by us.

We may voluntarily redeem some or all of the Series B Term Preferred Stock and the Series C Term Preferred Stock at any time, and the Series D Term Preferred Stock on or after September 30, 2018. We also may be forced to redeem some or all of the outstanding shares of Term Preferred Stock to meet regulatory requirements or the asset coverage requirements of such shares. We are also required to redeem all of the Term Preferred Stock upon certain change of control transactions. Any such redemption may occur at a time that is unfavorable to holders of the affected series of Term Preferred Stock. We may have an incentive to redeem a series of Term Preferred Stock voluntarily before the mandatory redemption date for such series if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the dividend rate on such series of Term Preferred Stock or for other reasons. If we redeem shares of the Term Preferred Stock before the mandatory redemption date for such series of Term Preferred Stock, the holders of such redeemed shares face the risk that the return on an investment purchased with proceeds from such redemption may be lower than the return previously obtained from the investment in the Term Preferred Stock.

Claims of holders of the Term Preferred Stock will be subject to a risk of subordination relative to holders of our debt instruments.

While holders of the Term Preferred Stock will have equal liquidation rights to the holder of any other outstanding series of our Term Preferred Stock, such holders will be subordinated to the rights of holders of our current and any future indebtedness, including the Credit Facility. Even though the Term Preferred Stock is classified as a liability for purposes of GAAP and considered senior securities under the 1940 Act, the Term Preferred Stock are not debt instruments. Therefore, dividends, distributions and other payments to holders of Term Preferred Stock in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. In addition, under some circumstances the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of holders of the Term Preferred Stock.

Holders of the Term Preferred Stock will bear dividend risk.

We may be unable to pay dividends on the Term Preferred Stock under some circumstances. The terms of our indebtedness, including the Credit Facility, preclude the payment of dividends in respect of equity securities, including the Term Preferred Stock, under certain conditions.

There is a risk of delay in our redemption of the Term Preferred Stock, and we may fail to redeem such securities as required by their terms.

We 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 obtain cash equal to the value at which we record our investments quickly if a need arises. If we are unable to obtain sufficient liquidity prior to the mandatory redemption date or any other date on which we are required by law or the terms of a series of Term Preferred Stock to redeem shares of such series, we may be forced to engage in a partial redemption or to delay a required redemption. If such a partial redemption or delay were to occur, the market price of the Term Preferred Stock might be adversely affected.

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.

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.

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 accompanying 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 Gladstone Management Corporation 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, should, would, if, seek, possible, potential, likely or the negative or other variations of such terms or comp 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, David Dullum 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;
- 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 and any accompanying prospectus supplement.

We caution readers not to place undue reliance on any such forward-looking statement, which speak only as of the date made. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from our historical performance. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports we have filed, or in the future may file with the SEC, including subsequent annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement 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).

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of the Securities first to pay down outstanding debt (which may include borrowings under the Credit Facility), if any, then to make investments in accordance with our investment objectives and strategy, with any remaining proceeds to be used for other general corporate purposes. Indebtedness outstanding under our Credit Facility as of March 31, 2018 was $107.0 million, at cost, and advances under the Credit Facility generally bear interest at 30-day LIBOR plus 3.15% per annum until November 15, 2019, with the margin then increasing to 3.40% for the period from November 15, 2019 to November 15, 2020, and increasing further to 3.65% thereafter through maturity. If not renewed or extended by November 15, 2019, all principal and interest will be due and payable on or before November 15, 2021. We intend to re-borrow under our Credit Facility to make investments in portfolio companies in accordance with our investment objectives and strategy depending on the availability of appropriate investment opportunities consistent with our investment objectives and strategy and market conditions. 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. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in lower yielding interest-bearing deposits or other short-term instruments.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash distributions, up to 100% of our Investment Company Taxable Income, if any, to our stockholders in the form of monthly distributions. We may retain net long-term capital gains in excess of net short-term capital losses and treat them as deemed distributions for tax purposes or may distribute such amounts as supplemental distributions. The tax characteristics of distributions are reported annually to each stockholder on Internal Revenue Service (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 with respect to shares of our common stock can be reinvested automatically under the dividend reinvestment plan. A stockholder whose shares of our common stock are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in the dividend reinvestment plan on the stockholder s behalf. 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 common stock is traded on Nasdaq under the symbol GAIN. The following table reflects, by quarter, the high and low intraday sales prices per share of our common stock on Nasdaq, the intraday sales prices as a percentage of NAV and distributions declared per share of our common stock for each fiscal quarter during the last two completed fiscal years and the current fiscal year through June 1, 2018.

	Net Asset Value Per Share(1)	Sales Price High	Sales Price Low	Distribution Declared	Premium/ (Discount) of High Sales Price to Net Asset Value(2)	Discount of Low Sales Price to Net Asset Value(2)
Fiscal Year ended March 31, 2017						
First Quarter	$ 9.84	$ 7.24	$ 6.65	$ 0.1875	(26)%	(32)%
Second Quarter	9.65	9.30	7.16	0.1875	(4)	(26)
Third Quarter	9.82	9.15	7.16	0.1875	(7)	(27)
Fourth Quarter	9.95	9.36	8.45	0.1875	(6)	(15)
Fiscal Year ended March 31, 2018						
First Quarter	9.88	9.84	8.90	0.2520(3)	(0)	(10)
Second Quarter	10.10	9.84	9.04	0.1920	(3)	(10)
Third Quarter	10.37	11.50	9.48	0.2550(3)	11	(9)
Fourth Quarter	10.85	11.42	9.00	0.1950	5	(17)
Fiscal Year ending March 31, 2019						
First Quarter (through June 1, 2018)	*	11.59	9.81	0.2610(3)	*	*

(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 intra-day sales prices. The NAVs per share shown are based on outstanding shares at the end of each period.

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

(3) Includes a supplemental distribution of $0.06 per share of common stock in each of June and December 2017 and in June 2018.

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

Common shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV per share. The possibility that our common shares may trade at such discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether our common shares will trade at prices above, at or below our NAV per share, although during the past two years, our common stock has frequently traded, and at times significantly, below NAV per share.

As of June 1, 2018, there were 21 record owners of our common stock. This number does not include stockholders for whom shares are held in street name.

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RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND DIVIDENDS ON MANDATORILY REDEEMABLE PREFERRED STOCK

For the years ended March 31, 2018, 2017, 2016, 2015 and 2014, the ratio of earnings to combined fixed charges and dividends on mandatorily redeemable preferred stock of the Company, computed as set forth below, was as follows:

	Year Ended March 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Ratio of earnings to combined fixed charges and dividends on mandatorily redeemable preferred stock	2.5x	2.6x	2.5x	3.3x	4.2x

For purposes of computing the ratio, earnings consist of net investment income before fixed charges and dividends on mandatorily redeemable preferred stock. Fixed charges and dividends on mandatorily redeemable preferred stock consist of interest expense, amortization of deferred financing costs and discounts, dividends on mandatorily redeemable preferred stock on our outstanding series of mandatorily redeemable preferred stock, and the portion of operating lease expense that represents interest. The portion of operating lease expense that represents interest is calculated by dividing the amount of rent expense, allocated to us by our Administrator as part of the administration fee payable under the Administration Agreement, by three. You should read these ratios of earnings to combined fixed charges and dividends on mandatorily redeemable preferred stock in connection with our consolidated financial statements, including the notes to those statements, included elsewhere in this prospectus.

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CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA

The following consolidated selected financial data as of and for the fiscal years ended March 31, 2018, 2017, 2016, 2015 and 2014, are derived from our audited *Consolidated Financial Statements* found elsewhere in this prospectus. The other data included in the second table below is unaudited. The data should be read in conjunction with our audited *Consolidated Financial Statements* and notes thereto and *Management s Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this prospectus.

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended March 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Statement of Operations Data:					
Total investment income	**$ 58,355**	$ 51,875	$ 50,955	$ 41,643	$ 36,264
Total expenses, net of credits from Adviser	**36,395**	29,453	30,239	21,746	16,957
Net investment income	**21,960**	22,422	20,716	19,897	19,307
Net realized and unrealized gain (loss)	**38,727**	22,341	4,138	30,317	(20,636)
Net increase (decrease) in net assets resulting from operations	**$ 60,687**	$ 44,763	$ 24,854	$ 50,214	$ (1,329)
Per Common Share Data:					
Net increase (decrease) in net assets resulting from operations per common share basic and diluted(A)	**$ 1.88**	$ 1.48	$ 0.82	$ 1.88	$ (0.05)
Net investment income before net gain (loss) per common share basic and diluted(A)	**0.68**	0.74	0.68	0.75	0.73
Cash distributions declared per common share(B)	**0.89**	0.75	0.75	0.77	0.71
Statement of Assets and Liabilities Data:					
Total assets	**$ 610,899**	$ 515,195	$ 506,260	$ 483,521	$ 330,694
Net assets	**354,200**	301,082	279,022	273,429	220,837
Net asset value per common share	**10.85**	9.95	9.22	9.18	8.34
Common shares outstanding	**32,653,635**	30,270,958	30,270,958	29,775,958	26,475,958
Weighted common shares outstanding basic and diluted	**32,268,776**	30,270,958	30,268,253	26,665,821	26,475,958
Senior Securities Data:					
Total borrowings, at cost(C)	**$ 112,096**	$ 74,796	$ 100,096	$ 123,896	$ 66,250
	139,150	139,150	121,650	81,400	40,000

Mandatorily redeemable preferred stock(D)	

(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, refer to Note 9 *Distributions to Common Stockholders* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

(C) Includes borrowings under the Credit Facility and other secured borrowings, as applicable.

(D) Represents the total liquidation preference of our mandatorily redeemable preferred stock.

	Year Ended March 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Other Unaudited Data:					
Number of portfolio companies	**33**	35	36	34	29
Average size of portfolio company investment at cost	**$ 17,723**	$ 15,005	$ 14,392	$ 14,861	$ 13,225
Principal amount of new investments	**59,424**	54,370	69,380	108,197	132,291
Proceeds from loan repayments and investments sold	**39,859**	68,825	44,582	11,260	83,415
Weighted average yield on investments, excluding loans on non-accrual status(A)	**13.06%**	12.65%	12.62%	12.60%	12.61%
Weighted average yield on investments, including loans on non-accrual status(B)	**12.35**	12.44	12.33	12.12	11.65
Total return(C)	**21.82**	41.58	4.82	11.96	24.26

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

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

(C) Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account common dividends reinvested in accordance with the terms of the dividend reinvestment plan. Total return does not take into account common 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* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

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SELECTED QUARTERLY FINANCIAL DATA

The following tables set forth certain quarterly financial information for each of the eight quarters in the two years ended March 31, 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.

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

Year ended March 31, 2018	Quarter Ended			
	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018
Total investment income	$ 13,620	$ 13,132	$ 16,184	$ 15,419
Net investment income	5,435	5,750	7,531	3,244
Net increase in net assets resulting from operations	8,141	13,556	17,144	21,846
Net increase in net assets resulting from operations per weighted average common share basic & diluted	0.26	0.42	0.53	0.67

Year ended March 31, 2017	Quarter Ended			
	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017
Total investment income	$ 14,393	$ 11,744	$ 13,374	$ 12,364
Net investment income	6,812	5,112	5,204	5,294
Net increase (decrease) in net assets resulting from operations	24,534	(102)	10,955	9,376
Net increase (decrease) in net assets resulting from operations per weighted average common share basic & diluted	0.81		0.36	0.31

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollar amounts in thousands, except per share data and as otherwise indicated)

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto contained elsewhere herein. 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. 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 General Corporation Laws of the State of Delaware on February 18, 2005. On June 22, 2005, we completed our initial public offering and commenced operations. 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. For federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Code. In order 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: (i) 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 (ii) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities, generally, in combination with the aforementioned debt securities, of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with individual investments generally totaling up to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We intend that our investment portfolio over time will consist of approximately 75% in debt securities and 25% in equity securities, at cost. As of March 31, 2018, our investment portfolio was made up of 73.8% in debt securities and 26.2% in equity securities, at cost.

We focus on investing in Lower Middle Market private businesses 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 portfolio company, reasonable capitalization of the portfolio company, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples, and the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the portfolio company, a public offering of the portfolio company s stock or, to a lesser extent, by exercising our right to require the portfolio company to repurchase our warrants, as applicable, though there can be no assurance that we will always have these rights. We invest in portfolio companies that need funds for growth capital or to finance acquisitions or recapitalize or, to a lesser extent, refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises.

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 Capital pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced and will continue to enhance our ability to further our investment objectives and strategies. If we are participating in an investment with one or more co-investors, whether or not an affiliate of ours, our investment is likely to be smaller than if we were investing alone.

Business

Portfolio Activity

While the business environment remains competitive, we continue to see new investment opportunities consistent with our investment strategy of providing a combination of debt and equity in support of management and independent sponsor-led buyouts of Lower Middle Market companies in the U.S. For the fiscal year ended March 31, 2018, we exited two portfolio companies with fair values prior to their sales of $19.2 million and $3.4 million, respectively, invested $59.4 million in two new portfolio companies, and completed two separate mergers (in each case, one of our existing portfolio companies merged with another one of our portfolio companies), resulting in a net reduction of two companies from our portfolio, which was comprised of 33 companies as of March 31, 2018. From our initial public offering in June 2005 through March 31, 2018, we have made investments in 47 companies, excluding investments in syndicated loans, for a total of approximately $1 billion, before giving effect to principal repayments and divestures.

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The majority of the debt securities in our portfolio have a success fee component, which enhances the yield on our debt investments. Unlike PIK income, we generally do not recognize success fees as income until payment has been received. Due to the contingent nature of success fees, there are no guarantees that we will be able to collect any or all of these success fees or know the timing of any such collections. As a result, as of March 31, 2018, we had unrecognized, contractual success fees of $28.3 million, or $0.87 per common share. Consistent with GAAP, we generally have not recognized success fee receivables and related income in our *Consolidated Financial Statements* until earned.

From inception through March 31, 2018, we have completed 12 buyout liquidity events, which, in the aggregate, have generated $85.7 million in net realized gains and $22.0 million in other income upon exit, for a total increase to our net assets of $107.7 million. We believe each of these transactions was an equity-oriented investment success and exemplifies our investment strategy of striving to achieve returns through current income on the debt portion of our investments and capital gains from the equity portion. The 12 liquidity events have offset any realized losses since inception, which were primarily incurred during the recession in connection with the sale of performing syndicated loans at a realized loss to pay off a former lender. These successful exits, in part, enabled us to increase the monthly distribution by 62.5% from March 2011 through March 31, 2018, and allowed us to pay a $0.03 per common share supplemental distribution in fiscal year 2012, a $0.05 per common share supplemental distribution in November 2013, a $0.05 per common share supplemental distribution in December 2014, a $0.06 per common share supplemental distribution in June 2017, and a $0.06 per common share supplemental distribution in December 2017.

Capital Raising Efforts

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 offerings of common and preferred stock. We have successfully extended the Credit Facility s revolving period multiple times, most recently to November 2019, and currently have a total commitment amount of $165.0 million (with a potential total commitment of $250.0 million through additional commitments of new or existing lenders). During the year ended March 31, 2018, we sold 127,412 shares of our common stock under our at-the-market program for gross proceeds of approximately $1.3 million. Additionally, we issued approximately 2.3 million shares of common stock for gross proceeds of $21.2 million in May 2017, inclusive of the June 2017 over-allotment, and 2.3 million shares of our Series D Term Preferred Stock for gross proceeds of $57.5 million in September 2016. Refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Developments At-the-Market Program* for a discussion of our at-the-market program, to *Liquidity and Capital Resources Revolving Line of Credit* for further discussion of the Credit Facility and to *Liquidity and Capital Resources Equity Common Stock* and *Liquidity and Capital Resources Equity Te Preferred Stock* for further discussion of our common stock and mandatorily redeemable preferred stock.

Although we have been able to access the capital markets historically, market conditions may continue to affect the trading price of our common stock and thus our ability to finance new investments through the issuance of common equity. On May 14, 2018, the closing market price of our common stock was $11.25 per share, which represented a 3.7% premium to our March 31, 2018 NAV per share of $10.85. When our common stock trades below NAV, our ability to issue additional equity is constrained by provisions of the 1940 Act, which generally prohibits the issuance and sale of our common stock at an issuance price below the then current NAV per share without stockholder approval, other than through sales to our then existing stockholders pursuant to a rights offering.

At our 2017 Annual Meeting of Stockholders held on August 24, 2017, our stockholders approved a proposal authorizing us to issue and sell shares of our common stock at a price below our then current NAV per share, subject to certain limitations, including that the number of common shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale, provided that our Board of

Directors makes certain determinations prior to any such sale. This August 2017 stockholder authorization is in effect for one year from the date of stockholder approval. We sought and obtained stockholder approval concerning similar proposals at each Annual Meeting of Stockholders since 2008, and with our Board of Directors subsequent approval, we issued shares of our common stock in three offerings at a price below the then current NAV per share, once in May 2017, once in March 2015, and once in October 2012. Certain sales under the at-the-market program in March 2018 were also below the then current estimated NAV per share. The resulting proceeds, in part, have allowed us to (i) grow our portfolio by making new investments, (ii) generate additional income through these new investments, (iii) ensure continued compliance with regulatory tests and (iv) increase our debt capital while still complying with our applicable debt-to-equity ratios. Refer to *Liquidity and Capital Resources Equity Common Stock* for further discussion of our common stock.

Regulatory Compliance

Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have an asset coverage ratio (as defined in Sections 18 and 61 of the 1940 Act), of at least 200.0% (currently) or 150.0% (effective April 10, 2019; refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Developments Small Business Credit Availability Act* for a discussion of changes to the asset coverage requirements pursuant to the SBCAA) on each of our senior securities representing indebtedness and our senior securities that are stock (such as our three series of term preferred stock). As of March 31, 2018, our asset coverage ratio on our senior securities representing indebtedness was 525.7% and our asset coverage ratio on our senior securities that are stock was 237.3%.

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Investment Highlights

For the fiscal year ended March 31, 2018, and inclusive of non-cash transactions, we invested $59.4 million in two new portfolio companies, received $83.2 million in proceeds from repayments and sales, and extended $82.1 million of follow-on investments to existing portfolio companies through revolver draws, term loans, and additions to equity, as applicable.

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Investment Activity

During the fiscal year ended March 31, 2018, the following significant transactions occurred:

In April 2017, we sold our investment in Mitchell Rubber Products, Inc. (Mitchell), which resulted in success fee income of $1.7 million and a realized gain of $1.0 million. In connection with the sale, we received net cash proceeds of $19.0 million, including the repayment of our debt investment of $13.6 million at par.

In May and June 2017, we sold a portion of our common stock investment in AquaVenture Holdings Limited f/k/a Quench Holdings Corp. (AquaVenture) resulting in net cash proceeds of $2.0 million, which represented a return of capital. In December 2017, we sold another portion of our common stock investment in AquaVenture resulting in net cash proceeds of $1.2 million, which also represented a return of capital. In March 2018, we sold the remaining portion of our common stock investment in AquaVenture resulting in net cash proceeds of $0.2 million, which resulted in a nominal realized gain.

In June 2017, one of our portfolio companies, Mathey Investments, Inc. (Mathey) merged with and into another one of our portfolio companies, SBS Industries, LLC (SBS). As a result of this transaction, we received success fee income of $0.3 million from Mathey. Our debt investments in Mathey, which totaled $8.6 million at principal and cost, were assumed by SBS and combined with our existing debt investment in SBS, which totaled $11.4 million at principal and cost, into a new secured first lien term loan totaling $20.0 million. Our common equity investment in Mathey, with a cost basis of $0.8 million, was converted into a preferred equity investment in SBS with the same cost basis. In connection with the merger, we also extended a secured first lien revolving line of credit to SBS with a total facility amount of $1.5 million, which was undrawn at the time of the transaction.

In August 2017, we invested $28.3 million in Pioneer Square Brands, Inc. (Pioneer) through a combination of secured first lien debt and preferred equity. Pioneer, headquartered in Seattle, Washington, is a designer, manufacturer, and marketer of premium mobile technology bags and cases serving a diverse customer base, primarily in the education and corporate sectors.

In November 2017, one of our portfolio companies, GI Plastek, Inc. (GI Plastek) merged with another one of our portfolio companies, Precision Southeast, Inc. (Precision), into a new company, PSI Molded Plastics, Inc. (PSI Molded). As a result of this transaction, our debt investments in GI Plastek and Precision, which totaled $15.0 million and $9.6 million, respectively, at principal and cost, were assumed by PSI Molded and combined into a new secured second lien term loan totaling $24.6 million. Our preferred equity investment in GI Plastek, with a cost basis of $5.2 million and our preferred and common equity investments in Precision, with a combined cost basis of $3.8 million, were converted into a preferred equity investment in PSI Molded with the same cost basis.

In November 2017, we invested $31.1 million in ImageWorks through a combination of secured first lien debt and preferred equity. ImageWorks, headquartered in Winston-Salem, North Carolina, is a market leading point-of-purchase display provider specializing in the design, engineering and production of custom semi-permanent and permanent displays across a variety of brands and consumer product end markets.

In December 2017, we invested $6.9 million in an existing portfolio company, Brunswick, through a secured first lien debt investment. In January 2018, we refinanced our existing loans to Brunswick into a new secured first lien debt investment with a principal and cost basis of $17.7 million.

In January 2018, we invested $8.5 million in an existing portfolio company, Schylling, Inc., through a secured first lien debt investment and also provided a $6.0 million secured first lien bridge loan.

In January 2018, we provided an $11.0 million secured first lien bridge loan to an existing portfolio company, Nth Degree, which was repaid at par in March 2018.

The following significant investment activity occurred subsequent to March 31, 2018. Also refer to Note 15 *Subsequent Events* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

In April 2018, we invested $29.2 million in Bassett Creek Restoration, Inc. (d/b/a J.R. Johnson, LLC) (Bassett Creek) through a combination of secured first lien debt and preferred equity. Bassett Creek, headquartered in Portland, Oregon, is a leading provider of commercial restoration and renovation services to the Oregon and Southwest Washington region.

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Recent Developments

At-the-Market Program

In February 2018, we entered into equity distribution agreements (commonly referred to as at-the-market (ATM) programs) with Cantor Fitzgerald & Co. (Cantor), Ladenburg Thalmann & Co., Inc., and Wedbush Securities, Inc. (each a Sales Agent), under which we have the ability to issue and sell shares of our common stock, from time to time, through the Sales Agents, up to an aggregate offering price of $35.0 million. During the year ended March 31, 2018, we sold 127,412 shares of our common stock under the ATM program with Cantor at a weighted-average gross price of $10.45 per share and raised approximately $1.3 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was $10.24 and resulted in total net proceeds of approximately $1.3 million. These sales were below our then current estimated NAV per share during the sales period, with such discounts ranging from $0.01 per share to $0.07 per share, when comparing the sales price per share, after deducting commissions, to the then current estimated NAV per share; however, the net dilutive effect (after commissions and offering costs borne by us) of these sales was $0.00 per common share as a result of the small number of shares sold at a slight discount to NAV per share and resulting rounding. As of March 31, 2018, we had a remaining capacity to sell up to $33.7 million of common stock under the ATM program.

Subsequent to March 31, 2018 and through May 8, 2018, we sold an additional 168,824 shares of our common stock under our ATM program with Cantor at a weighted-average gross price of $11.09 per share and raised approximately $1.9 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was $10.87 and resulted in total net proceeds of approximately $1.8 million. Certain of these sales were below our then current estimated NAV per share during the sales period, with a discount of $0.002 per share, when comparing the sales price per share, after deducting commissions, to the then current estimated NAV per share; however, the net dilutive effect (after commissions and offering costs borne by us) of these sales was $0.00 per common share as a result of the small number of shares sold at a slight discount to NAV per share and resulting rounding. In aggregate, these sales were above our then current estimated NAV per share.

Small Business Credit Availability Act

On April 10, 2018, our Board of Directors, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) thereof, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the Company s asset coverage requirements for senior securities will be changed from 200% to 150%, effective one year after the date of the Board of Directors approval; or April 10, 2019. 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 three series of mandatorily redeemable preferred stock.

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Distributions and Dividends

In April 2018, our Board of Directors declared the following monthly and supplemental distributions to common stockholders and monthly dividends to holders of our Series B Term Preferred Stock, Series C Term Preferred Stock, and Series D Term Preferred Stock:

Record Date	**Payment Date**	**Distribution per Common Share**	**Dividend per Share of Series B Term Preferred Stock**	**Dividend per Share of Series C Term Preferred Stock**	**Dividend per Share of Series D Term Preferred Stock**
April 20, 2018	April 30, 2018	$ 0.067	$ 0.140625	$ 0.135417	$ 0.13020833
May 22, 2018	May 31, 2018	0.067	0.140625	0.135417	0.13020833
June 6, 2018	June 15, 2018	0.060[(A)]			
June 20, 2018	June 29, 2018	0.067	0.140625	0.135417	0.13020833
	Total for the Quarter:	**$ 0.261**	**$ 0.421875**	**$ 0.406251**	**$ 0.39062499**

(A) Represents a supplemental distribution to common stockholders.

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RESULTS OF OPERATIONS

Comparison of the Fiscal Year Ended March 31, 2018 to the Fiscal Year Ended March 31, 2017

	For the Fiscal Years Ended March 31,			
	2018	**2017**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 48,799**	$ 46,147	$ 2,652	5.7%
Other income	**9,556**	5,728	3,828	66.8
Total investment income	**58,355**	51,875	6,480	12.5
EXPENSES				
Base management fee	**10,796**	9,925	871	8.8
Loan servicing fee	**6,277**	6,606	(329)	(5.0)
Incentive fee	**10,648**	4,750	5,898	124.2
Administration fee	**1,087**	1,120	(33)	(2.9)
Interest and dividend expense	**13,039**	12,223	816	6.7
Amortization of deferred financing costs and discounts	**1,468**	1,875	(407)	(21.7)
Other	**3,031**	3,066	(35)	(1.1)
Expenses before credits from Adviser	**46,346**	39,565	6,781	17.1
Credits to fees from Adviser	**(9,951)**	(10,112)	161	(1.6)
Total expenses, net of credits to fees	**36,395**	29,453	6,942	23.6
NET INVESTMENT INCOME	**21,960**	22,422	(462)	(2.1)
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain on investments	**1,336**	15,641	(14,305)	(91.5)
Net realized loss on other		(254)	254	(100.0)
Net unrealized appreciation of investments	**37,891**	6,879	31,012	450.8
Net unrealized appreciation of other	**(500)**	75	(575)	NM
Net realized and unrealized gain	**38,727**	22,341	16,386	73.3
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 60,687**	$ 44,763	$ 15,924	35.6
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	**$ 0.68**	$ 0.74	$ (0.06)	(8.1)%

Net increase in net assets resulting from operations	**1.88**	1.48	0.40	27.0

NM = Not Meaningful

Investment Income

Total investment income increased by 12.5% for the year ended March 31, 2018 as compared to the prior year. This increase was due to increases in both interest income and other income for the year ended March 31, 2018 as compared to the prior year.

Interest income from our investments in debt securities increased 5.7% for the year ended March 31, 2018 as compared to the prior year. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the year ended March 31, 2018, was $373.4 million, compared to $364.7 million for the prior year. This increase was primarily due to $47.2 million in new debt investments and $68.8 million in follow-on debt investments to existing portfolio companies originated after March 31, 2017, partially offset by the pay-off or restructure of $65.3 million of debt investments principally related to the exit, merger, or restructure of portfolio companies, and their respective impact on the weighted average principal balance when considering the timing of new investments, pay-offs, mergers, restructures, and non-accruals, as applicable. The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 13.1% and 12.7% for the year ended March 31, 2018 and 2017, respectively. The weighted average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

At March 31, 2018, and March 31, 2017, certain of our loans to two portfolio companies, Alloy Die Casting Co. (ADC) and Tread Corporation (Tread), were on non-accrual status, with an aggregate debt cost basis of $15.6 million as of both periods.

Other income for the year ended March 31, 2018 increased 66.8% from the prior year. During the year ended March 31, 2018, other income primarily consisted of $4.2 million of dividend income and $5.3 million of success fee income. During the year ended March 31, 2017, other income primarily consisted of $3.3 million of dividend income and $2.4 million of success fee income.

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The following table lists the investment income for our five largest portfolio company investments, at fair value, during the respective fiscal years:

	As of March 31, 2018		Year Ended March 31, 2018	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
Cambridge Sound Management, Inc.	$ 42,178	7.0%	$ 3,383	5.8%
Nth Degree, Inc.	39,714	6.6	2,636	4.5
J.R. Hobbs Co. Atlanta, LLC	35,480	5.9	3,386	5.8
Brunswick Bowling Products, Inc.	34,315	5.7	2,239	3.8
ImageWorks Display and Marketing Group, Inc.(A)	31,722	5.3	1,080	1.9
Subtotal five largest investments	**183,409**	**30.5**	**12,724**	**21.8**
Other portfolio companies	415,738	69.5	45,610	78.2
Total investment portfolio	**$ 599,147**	**100.0%**	**$ 58,334**	**100.0%**

	As of March 31, 2017		Year Ended March 31, 2017	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
J.R. Hobbs Co. Atlanta, LLC(A)	$ 29,870	6.0%	$ 359	0.7%
Counsel Press, Inc.	29,617	5.9	3,118	6.0
Cambridge Sound Management, Inc.	27,046	5.4	2,065	4.0
Nth Degree, Inc.	25,761	5.1	1,684	3.2
Drew Foam Companies, Inc.	25,242	5.0	1,666	3.2
Subtotal five largest investments	**137,536**	**27.4**	**8,892**	**17.1**
Other portfolio companies	364,043	72.6	42,980	82.9
Total investment portfolio	**$ 501,579**	**100.0%**	**$ 51,872**	**100.0%**

(A) New investment during the applicable year.

Expenses

Total expenses, net of any non-contractual, unconditional, and irrevocable credits from the Adviser, increased 23.6% for the year ended March 31, 2018, as compared to the prior year, primarily due to an increase in the incentive fee, the base management fee, and interest and dividend expense, partially offset by a decrease in amortization of deferred financing fees and discounts.

The income-based incentive fee increased for the year ended March 31, 2018, as compared to the prior year, as pre-incentive fee net investment income increased, partially offset by an increase in net assets, which drives the hurdle rate. Additionally, in accordance with GAAP, we recorded a capital gains-based incentive fee of $4.4 million during the year ended March 31, 2018, which is not contractually due under the terms of the Advisory Agreement. There was no capital gains-based incentive fee recorded or paid during the prior year.

The base management fee increased for the year ended March 31, 2018, as compared to the prior year, as average total assets increased over the period.

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

	Year Ended March 31, 2018	2017
Average total assets subject to base management fee(A)	**$ 539,800**	$ 496,250
Multiplied by annual base management fee of 2.0%	**2.0%**	2.0%
Base management fee(B)	**10,796**	9,925
Credits to fees from Adviser other(B)	**(3,674)**	(3,506)
Net base management fee	**$ 7,122**	$ 6,419
Loan servicing fee(B)	**$ 6,277**	$ 6,606
Credits to base management fee loan servicing fee(B)	**(6,277)**	(6,606)
Net loan servicing fee	**$**	$
Incentive fee income-based	**$ 6,249**	$ 4,750
Incentive fee capital gains-based(C)	**4,399**	
Total incentive fee(B)	**10,648**	4,750
Credits to fees from Adviser other(B)		
Net total incentive fee	**$ 10,648**	$ 4,750

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

(B) Reflected as a line item on our accompanying *Consolidated Statement of Operations*.

(C) The capital gains-based incentive fee is not contractually due under the terms of the Advisory Agreement.

Interest and dividend expense increased 6.7% during the year ended March 31, 2018, as compared to the prior year, primarily due to higher costs of borrowings under the Credit Facility. The effective interest rate on the Credit Facility, excluding the impact of deferred financing costs, during the year ended March 31, 2018 was 5.4%, as compared to 4.7% in the prior year. Dividends on our mandatorily redeemable preferred stock increased $0.3 million in the current year, when the Series D Term Preferred Stock was outstanding for the entire year, as compared to the prior year, when the Series D Term Preferred Stock was newly issued and only outstanding for a portion of the period and the 7.125% Series A Cumulative Term Preferred Stock (our Series A Term Preferred Stock or Series A) was outstanding until September 2016.

Amortization of deferred financing costs and discounts decreased 21.7% for the year ended March 31, 2018 as compared to the prior year, primarily as a result of the write-off of previously deferred costs in the prior year related to the Credit Facility s amendment in November 2016.

Realized and Unrealized Gain (Loss)

Net Realized Gain on Investments

During the year ended March 31, 2018, we recorded a net realized gain on investments of $1.3 million, primarily related to a $1.0 million realized gain from the exit of Mitchell, compared to net realized gains on investments of $15.6 million during the prior year period, primarily related to an $18.9 million realized gain from the exit of Acme Cryogenics, Inc. (Acme), a $5.9 million realized gain from the exit of Behrens Manufacturing, LLC (Behrens), and a $1.3 million realized gain related to an additional earn-out from Funko, LLC, which was exited during the fiscal year ended March 31, 2016, partially offset by a $10.2 million realized loss from the restructure of D.P.M.S., Inc. (Danco).

Net Realized Loss on Other

There were no realized gains or losses on other during the year ended March 31, 2018. During the year ended March 31, 2017, we recorded a net realized loss on other of $0.3 million, of which $0.2 million related to the redemption of our Series A Term Preferred Stock in September 2016 and $0.1 million related to the expiration of our interest rate cap agreement in April 2016.

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Net Unrealized Appreciation of Investments

During the year ended March 31, 2018, we recorded net unrealized appreciation of investments of $37.9 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2018, were as follows:

	Year Ended March 31, 2018			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized (Appreciation) Depreciation**	**Net Gain (Loss)**
Cambridge Sound Management, Inc.	$	$ 15,132	$	$ 15,132
Nth Degree, Inc.		13,953		13,953
J.R. Hobbs Co. Atlanta, LLC		8,560		8,560
Ginsey Home Solutions, Inc.		5,380		5,380
Brunswick Bowling Products, Inc.		5,286		5,286
Tread Corporation		4,534		4,534
Precision Southeast, Inc.		2,776	1,054	3,830
Star Seed, Inc.		3,290		3,290
Old World Christmas, Inc.		3,276		3,276
Frontier Packaging, Inc.		3,121		3,121
Drew Foam Companies, Inc.		2,865		2,865
ImageWorks Display and Marketing Group, Inc.		2,673		2,673
Mathey Investments, Inc.			2,658	2,658
Pioneer Square Brands, Inc.		2,300		2,300
SBS Industries, LLC		1,974		1,974
Acme Cryogenics, Inc.	236			236
Schylling, Inc.		(262)		(262)
Logo Sportswear, Inc.		(509)		(509)
GI Plastek, Inc.		(1,856)	1,252	(604)
B-Dry, LLC		(873)		(873)
Alloy Die Casting Co.		(875)		(875)
Jackrabbit, Inc.		(903)		(903)
Mitchell Rubber Products, Inc.	982		(2,783)	(1,801)
Meridian Rack & Pinion, Inc.		(2,716)		(2,716)
Head Country, Inc.		(3,197)		(3,197)
Galaxy Tool Holding Corporation		(3,785)		(3,785)
SOG Specialty Knives & Tools, LLC		(4,182)		(4,182)
Country Club Enterprises, LLC		(4,246)		(4,246)
PSI Molded Plastics, Inc.		(5,964)		(5,964)
The Mountain Corporation		(10,061)		(10,061)
Other, net (<$250 Net)	118	(128)	147	137
Total	**$ 1,336**	**$ 35,563**	**$ 2,328**	**$ 39,227**

The primary drivers of net unrealized appreciation of investments of $37.9 million for the year ended March 31, 2018 were increased performance of certain of our portfolio companies and an increase in comparable multiples used to estimate the fair value of certain of our portfolio companies, partially offset by the reversal of previously recorded unrealized appreciation upon the exit of our investment in Mitchell and a decline in performance of certain of our other portfolio companies.

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During the year ended March 31, 2017, we recorded net unrealized appreciation of investments of $6.9 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2017 were as follows:

	Year Ended March 31, 2017			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized (Appreciation) Depreciation**	**Net Gain (Loss)**
Mitchell Rubber Products, Inc.	$	$ 14,079	$	$ 14,079
Logo Sportswear, Inc.		8,375		8,375
Galaxy Tool Holding Corporation		6,242		6,242
Brunswick Bowling Products, Inc.		6,062		6,062
Head Country, Inc.		5,752		5,752
Drew Foam Companies, Inc.		5,287		5,287
Nth Degree, Inc.		4,760		4,760
Old World Christmas, Inc.		2,975		2,975
Ginsey Home Solutions, Inc.		2,362		2,362
Meridian Rack & Pinion, Inc.		1,757		1,757
Edge Adhesives Holdings, Inc.		1,628		1,628
Funko Acquisition Holdings, LLC	1,087	36		1,123
Diligent Delivery Systems		907		907
Counsel Press, Inc.		717		717
Behrens Manufacturing, LLC	5,935	1,820	(7,491)	264
Auto Safety House, LLC		146	(457)	(311)
SBS Industries, LLC		(794)		(794)
Frontier Packaging, Inc.		(843)		(843)
AquaVenture Holdings Limited		(925)		(925)
B-Dry, LLC		(987)		(987)
D.P.M.S., Inc.	(10,226)	(3,848)	12,601	(1,473)
Tread Corporation		(1,737)		(1,737)
Cambridge Sound Management, Inc.		(1,789)		(1,789)
Mathey Investments, Inc.		(1,934)		(1,934)
Jackrabbit, Inc.		(1,984)		(1,984)
Acme Cryogenics, Inc.	18,904		(21,216)	(2,312)
Alloy Die Casting Co.		(3,283)		(3,283)
Schylling, Inc.		(3,842)		(3,842)
Precision Southeast, Inc.		(3,922)		(3,922)
The Mountain Corporation		(6,747)		(6,747)
SOG Specialty Knives & Tools, LLC		(7,036)		(7,036)
Other, net (<$250 Net)	(59)	208		149
Total	**$ 15,641**	**$ 23,442**	**$ (16,563)**	**$ 22,520**

The primary drivers of net unrealized appreciation of investments of $6.9 million for the year ended March 31, 2017 were the reversal of previously recorded unrealized depreciation related to our investment in Danco upon its restructure, an increase in the fair value of our investment in Mitchell based on its sale in April 2017, and increased performance and comparable multiples used to estimate the fair value of certain of our investments, which was partially offset by unrealized depreciation resulting from the reversal of previously recorded unrealized appreciation related to the exit of our investments in Acme and Behrens and a decrease in performance of certain of our portfolio companies.

Across our entire investment portfolio, we recorded $13.9 million of net unrealized depreciation on our debt positions and $51.8 million of net unrealized appreciation on our equity holdings for the year ended March 31, 2018. At March 31, 2018, the fair value of our investment portfolio was greater than our cost basis by $14.3 million, as compared to March 31, 2017, when the fair value of our investment portfolio was less than our cost basis by $23.6 million at March 31, 2017, representing net unrealized appreciation of $37.9 million for the year ended March 31, 2018. Our entire portfolio was fair valued at 102.4% of cost as of March 31, 2018.

Net Unrealized Appreciation on Other

During the year ended March 31, 2018, we recorded net unrealized appreciation of other of $0.5 million related to the Credit Facility recorded at fair value. During the year ended March 31, 2017, we recorded net unrealized appreciation on other of $0.1 million due to the reversal of previously recorded depreciation upon the expiration of our interest rate cap agreement in April 2016.

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Comparison of the Fiscal Year Ended March 31, 2017, to the Fiscal Year Ended March 31, 2016

	For the Fiscal Years Ended March 31,			
	2017	**2016**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 46,147**	$ 46,397	$ (250)	(0.5)%
Other income	**5,728**	4,558	1,170	25.7
Total investment income	**51,875**	50,955	920	1.8
EXPENSES				
Base management fee	**9,925**	9,925		
Loan servicing fee	**6,606**	6,697	(91)	(1.4)
Incentive fee	**4,750**	5,179	(429)	(8.3)
Administration fee	**1,120**	1,190	(70)	(5.9)
Interest and dividend expense	**12,223**	12,117	106	0.9
Amortization of deferred financing costs and discounts	**1,875**	1,908	(33)	(1.7)
Other	**3,066**	3,046	20	0.7
Expenses before credits from Adviser	**39,565**	40,062	(497)	(1.2)
Credits to fees from Adviser	**(10,112)**	(9,823)	(289)	2.9
Total expenses, net of credits to fees	**29,453**	30,239	(786)	(2.6)
NET INVESTMENT INCOME	**22,422**	20,716	1,706	8.2
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss) on investments	**15,641**	(4,599)	20,240	NM
Net realized loss on other	**(254)**		(254)	NM
Net unrealized appreciation of investments	**6,879**	8,737	(1,858)	(21.3)
Net unrealized appreciation of other	**75**		75	NM
Net realized and unrealized gain	**22,341**	4,138	18,203	439.9
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 44,763**	$ 24,854	$ 19,909	80.1
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	**$ 0.74**	$ 0.68	$ 0.06	8.8%
Net increase in net assets resulting from operations	**1.48**	0.82	0.66	80.5

NM = Not Meaningful

Investment Income

Total investment income increased by 1.8% for the year ended March 31, 2017, as compared to the prior year. This increase was due to an increase in other income, partially offset by a slight decline in interest income for the same period, which resulted primarily from a small decrease in the size of our interest-bearing portfolio during the year ended March 31, 2017.

Interest income from our investments in debt securities remained relatively flat for the year ended March 31, 2017, as compared to the prior year. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the year ended March 31, 2017, was $364.7 million, compared to $367.6 million for the prior year. This slight decrease was primarily due to the pay-off or restructure of $48.4 million of debt investments principally related to the exit or restructure of portfolio companies, and to $41.6 million in new debt investments and $15.5 million in follow-on debt investments to existing portfolio companies originated after March 31, 2016, and their respective impact on the weighted average principal balance when considering timing of new investments, pay-offs, restructures, and non-accruals, as applicable. The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 12.7% and 12.6% for the year ended March 31, 2017 and 2016, respectively. The weighted average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

At March 31, 2017, certain of our loans to two portfolio companies, ADC and Tread, were on non-accrual status, with an aggregate debt cost basis of $15.6 million. At March 31, 2016, our loan to Tread was on non-accrual status, with an aggregate debt cost basis of $1.4 million.

Other income for the year ended March 31, 2017 increased 25.7% from the prior year. During the year ended March 31, 2017, other income primarily consisted of $3.3 million of dividend income and $2.4 million of success fee income. During the year ended March 31, 2016, other income primarily consisted of $2.9 million of dividend income and $1.6 million of success fee income.

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The following table lists the investment income for our five largest portfolio company investments, at fair value, during the respective fiscal years:

	As of March 31, 2017		Year Ended March 31, 2017	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
J.R. Hobbs Co. Atlanta, LLC[(A)]	$ 29,870	6.0%	$ 359	0.7%
Counsel Press, Inc.	29,617	5.9	3,118	6.0
Cambridge Sound Management, Inc.	27,046	5.4	2,065	4.0
Nth Degree, Inc.	25,761	5.1	1,684	3.2
Drew Foam Companies, Inc.	25,242	5.0	1,666	3.2
Subtotal five largest investments	**137,536**	**27.4**	**8,892**	**17.1**
Other portfolio companies	364,043	72.6	42,980	82.9
Total investment portfolio	**$ 501,579**	**100.0%**	**$ 51,872**	**100.0%**

	As of March 31, 2016		Year Ended March 31, 2016	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
Acme Cryogenics, Inc.[(B)]	$ 44,894	9.2%	$ 1,695	3.3%
Counsel Press, Inc.	28,899	5.9	3,183	6.3
Cambridge Sound Management, Inc.	27,835	5.7	1,983	3.9
SOG Specialty Knives & Tools, LLC	26,147	5.4	2,665	5.2
Nth Degree, Inc.[(A)]	21,002	4.3	503	1.0
Subtotal five largest investments	**148,777**	**30.5**	**10,029**	**19.7**
Other portfolio companies	338,879	69.5	40,924	80.3
Total investment portfolio	**$ 487,656**	**100.0%**	**$ 50,953**	**100.0%**

(A) New investment during the applicable year.

(B) Investment exited subsequent to March 31, 2016.

Expenses

Total expenses, net of any non-contractual, unconditional, and irrevocable credits from the Adviser, decreased 2.6% for the year ended March 31, 2017, as compared to the prior year, primarily due to a decrease in the incentive fee. The incentive fee decreased as a result of an increase in net assets, which drives the hurdle rate, period over period.

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

	Year Ended March 31, 2017	2016
Average total assets subject to base management fee[(A)]	**$ 496,250**	$ 496,250
Multiplied by annual base management fee of 2.0%	2.0%	2.0%
Base management fee[(B)]	**9,925**	9,925
Credits to fees from Adviser other[(B)]	(3,506)	(3,126)
Net base management fee	**$ 6,419**	$ 6,799
Loan servicing fee[(B)]	**$ 6,606**	$ 6,697
Credits to base management fee loan servicing fee[(B)]	(6,606)	(6,697)
Net loan servicing fee	**$**	$
Incentive fee[(B)]	**4,750**	5,179
Credits to fees from Adviser other[(B)]		
Net incentive fee	**$ 4,750**	$ 5,179