GLADSTONE CAPITAL CORP
Form 497
February 27, 2015
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Filed Pursuant to Rule 497

Registration Statement No. 333-185191

PROSPECTUS SUPPLEMENT

(To Prospectus dated January 30, 2015)

Up to $50,000,000

Common Stock

We are an externally managed specialty finance company that provides capital to small and medium-sized private U.S. businesses. We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC , under the Investment Company Act of 1940, as amended, or the 1940 Act . For federal income tax purposes, we have elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code.

We have entered into separate equity distribution agreements, each dated February 27, 2015, each a Sales Agreement and collectively the Sales Agreements, with KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., each a Sales Agent and collectively the Sales Agents, relating to the shares of our common stock, par value $0.001 per share, offered pursuant to this prospectus supplement and the accompanying prospectus. The Sales Agreements provide that we may offer and sell up to an aggregate offering price of $50,000,000 of our common stock from time to time through the Sales Agents. As of the date of this prospectus supplement, we have not sold any shares of our common stock under the Sales Agreements.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers transactions on the NASDAQ Global Select Market, or NASDAQ, or that otherwise qualify for delivery of a prospectus to the NASDAQ in accordance with Rule 153 under the Securities Act of 1933, as amended, or the Securities Act, at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with each Sales Agent. Our common stock is traded on the NASDAQ Global Select Market under the symbol GLAD. On February 26, 2015 the last reported sale price of our common stock on the NASDAQ Global Select Market was $8.65 per share. The net asset value of our common stock on December 31, 2014 (the last date of this prospectus supplement on which we determined net asset value) was $9.31. You are urged to obtain current market quotations of our common stock.

The Sales Agents will receive from us a commission of up to 2.0% of the gross proceeds of any shares sold through the Sales Agreements pursuant to this prospectus supplement. The Sales Agents are not required to sell any specific number or dollar amount of common stock, but each will use its commercially reasonable efforts consistent with its sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution beginning on page S-41 of this prospectus supplement

Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it will likely increase the risk of loss for purchasers in this offering. In this regard, on February 12, 2015, our stockholders voted to allow us to issue common stock at a price below net asset value per share for the period ending on the one year anniversary of the date of our 2015 Annual Meeting of Stockholders. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock, although the number of shares sold in each offering may not exceed 25% of our outstanding common stock immediately prior to such sale. In addition, we cannot issue shares of our common stock below net asset value unless our board of directors determines that it would be in our and our stockholders best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See Risk Factors and Sale of Common Stock Below Net Asset Value in this prospectus supplement and Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

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.

Investing in shares of our common stock involves a high degree of risk. Before investing, you should read the material risks described in the Risk Factors section beginning on page S-8 of this prospectus supplement, and the Risk Factors sections on page 9 of the accompanying prospectus.

The Securities and Exchange Commission, or SEC has not approved or disapproved these securities or passed upon the adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

KeyBanc Capital Markets **Cantor Fitzgerald & Co.**

The date of this prospectus supplement is February 27, 2015

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ABOUT THIS PROSPECTUS SUPPLEMENT

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

This prospectus supplement is part of a registration statement on Form N-2 (Registration No. 333-185191) that we have filed with the SEC relating to the securities offered hereby. This prospectus supplement does not contain all of the information that we have included in the registration statement and the accompanying exhibits and schedules thereto in accordance with the rules and regulations of the SEC, and we refer you to such omitted information. It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying prospectus before making your investment decision. You should also read and consider the additional information incorporated by reference into this prospectus supplement and the accompanying prospectus. See Where You Can Find More Information in this prospectus supplement.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, expect, should, would, potential, likely or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include:

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, Terry Lee Brubaker or Robert L. Marcotte;

changes in our business strategy;

availability, terms and deployment of capital;

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- changes in our industry, interest rates, exchange rates or the general economy;
- our business prospects and the prospects of our portfolio companies;
- the degree and nature of our competition;
- our ability to maintain our qualification as a RIC and as a BDC; and
- those factors described in the Risk Factors section of this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus supplement or the accompanying prospectus. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act.

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PROSPECTUS SUPPLEMENT SUMMARY

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

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

Gladstone Capital Corporation

Gladstone Capital Corporation is an externally managed specialty finance company that provides capital to small and medium-sized private U.S. businesses and commenced investment operations in September 2001. We are a Maryland corporation and operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act . For federal income tax purposes, we have elected to be treated as a regulated investment company, or RIC , under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code.

As of December 31, 2014, our portfolio consisted of loans to 49 companies in 21 states in 19 different industries with a fair value of $326.6 million, consisting of senior term debt, senior subordinated term debt, preferred equity and common equity.

As of December 31, 2014, we had outstanding 21,000,160 shares of common stock, par value $0.001 per share, or common stock, and 2,440,000 shares of 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share, or our Series 2021 Term Preferred Shares (also referred to as our Series 2021 Term Preferred Stock), respectively. Since our initial public offering of common stock in 2001, we have made 145 consecutive distributions on our common stock (including 8 quarterly distributions and 137 monthly distributions). Since our public offering of shares of Series 2021 Term Preferred Stock in May 2014, we have made 9 consecutive distributions on our Series 2021 Term Preferred Shares. Our monthly common stock distributions for the month of January 2015, paid in February, were per share were $0.07 and our monthly distributions for the Series 2021 Term Preferred Shares were $0.140625.

Our principal executive offices are located at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, and our telephone number is (703) 287-5800. Our corporate website is located at *http://www.GladstoneCapital.com*.

Information that is contained in, or can be accessed from, our website is not incorporated into and is not a part of this prospectus supplement or the accompanying prospectus.

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, or the U.S. . Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $5 million to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We aim to maintain a portfolio allocation of approximately 95.0% debt investments and 5.0% equity investments, at cost.

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

We expect that our target portfolio over time will primarily include the following four categories of investments in private U.S. companies:

Senior Debt Securities: We seek to invest a portion of our assets in senior 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 senior debt to cover a substantial portion of the funding needs of the business. The senior debt security usually takes the form of first priority liens on the assets of the business. Senior debt securities may include our participation and investment in the syndicated loan market.

Senior Subordinated Debt Securities: We seek to invest a portion of our assets in senior subordinated debt securities, also known as senior subordinated loans and senior subordinated notes. These senior subordinated debts also include second lien notes and may include participation and investment in syndicated second lien loans. Additionally, we may receive other yield enhancements, such as success fees, in connection with these senior subordinated debt securities.

Junior Subordinated Debt Securities: We seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior subordinated debts include second lien notes and unsecured loans. Additionally, we may receive other yield enhancements and warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.

Preferred and Common Equity/Equivalents: In some cases we will purchase equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of the businesses in which we invest.

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

Our Investment Adviser and Administrator

Gladstone Management Corporation, or Adviser , is our affiliated investment adviser and a privately-held company led by a management team that has extensive experience in our lines of business. Another of our and the Adviser s affiliates, a privately-held company, Gladstone Administration, LLC, or the Administrator , employs, among others, our chief financial officer, treasurer, chief compliance officer, internal legal counsel and secretary and their respective staffs. Excluding our chief financial officer and treasurer, all of our executive officers serve as directors or executive officers, or both, of the following of our affiliates: Gladstone Commercial Corporation, or Gladstone

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Commercial , a publicly traded real estate investment trust; Gladstone Investment Corporation, or Gladstone Investment , a publicly traded BDC and RIC; Gladstone Land Corporation, or Gladstone Land , a publicly traded real estate company that invests in farmland and farm related property; the Adviser; and the Administrator. Our chief financial officer is also the chief accounting officer of the Adviser and the Administrator and the chief financial officer and treasurer of Gladstone Investment. David Gladstone, our chairman and chief executive officer, also serves on the board of managers of our affiliate, Gladstone Securities, LLC, or Gladstone Securities, a privately-held broker-dealer registered with the Financial Industry Regulatory Authority, or FINRA , and insured by the Securities Investor Protection Corporation.

The Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to: Gladstone Commercial; Gladstone Investment; and Gladstone Land. In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

We have been externally managed by the Adviser pursuant to an investment advisory and management agreement since October 1, 2004. The investment advisory and management agreement originally included administrative services; however, it was amended and restated on October 1, 2006 and at that time we entered into an administration agreement with the Administrator to provide such services. The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Adviser also has offices in several other states.

Recent Developments

Investments

The following significant investments occurred subsequent to December 31, 2014:

Precision Metal Hose, Inc. In February 2015, we invested $25.3 million in Precision Metal Hose, Inc., or Precision Hose, through a combination of senior term debt and equity. Precision Hose, headquartered in Romeoville, Illinois, is a global leader in the design, development, manufacture and support of performance critical flexible engineered solutions for the transfer of fluids and gases in extreme environments.

Lignetics, Inc. In February 2015, we invested $6.6 million in a follow-on investment in Lignetics, Inc., an existing portfolio company, through a combination of subordinated term debt and equity.

Annual Meeting of Stockholders

At our 2015 Annual Meeting of Stockholders, held on February 12, 2015, our stockholders approved a proposal authorizing us to sell shares of our common stock at a price below our then current net asset value, or NAV per share subject to certain limitations (including, but not limited to, that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale) for a period of one year from the date of approval, provided that our Board of Directors makes certain determinations prior to any such sale. The Stockholders also elected Caren D. Merrick, Walter H. Wilkinson Jr. and Terry L. Brubaker as directors to hold office for a three-year term expiring at the 2018 Annual Meeting of Stockholders.

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Distributions

On January 13, 2015, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

Record Date	**Payment Date**	**Distribution per Common Share**	**Distribution per Series 2021 Term Preferred Share**
January 23, 2015	February 3, 2015	$ 0.07	$ 0.140625
February 18, 2015	February 27, 2015	0.07	0.140625
March 20, 2015	March 31, 2015	0.07	0.140625
	Total for the Quarter	**$ 0.21**	**$ 0.421875**

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THE OFFERING

Common stock offered	Shares with an aggregate offering price of up to $50,000,000.
Common stock outstanding prior to this offering	21,000,160 shares of common stock.
Manner of offering	At-the-market offerings made from time to time through KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co. See Plan of Distribution beginning on page S-41 of this prospectus supplement.
Use of Proceeds	To repay outstanding indebtedness under our $137.0 million revolving line of credit, or Credit Facility , to fund new investment opportunities, and for other general corporate purposes. See Use of Proceeds on page S-10 below.
NASDAQ Global Select Market symbol	GLAD
Distributions on common stock	Our distributions, if any, are authorized and paid at the discretion of our Board of Directors and are based upon the circumstances at the time of declaration. We currently intend to make distributions to stockholders on a monthly basis (declared quarterly) at the rate of $0.07 per share of common stock. Because our distributions to common stockholders are based on estimates of taxable income that may differ from actual results, future distributions payable to our common stockholders may also include, and past distributions have included, a return of capital. See Risk Factors Distributions to our stockholders have included and may in the future include a return of capital in the accompanying prospectus.
Tax Matters	See Material U.S. Federal Income Tax Considerations beginning on page 112 of the accompanying prospectus for a discussion of material U.S. federal income tax considerations applicable to an investment in shares of our common stock.
Risk Factors	Investing in shares of our common stock involves substantial risks. Please carefully read and consider the information described under Risk Factors on page S-8 of this prospectus supplement, and on page 9 of the accompanying prospectus before making an investment decision.

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RISK FACTORS

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

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

The number of shares of our common stock available for future issuance or sale could adversely affect the per share trading price of our common stock.

We cannot predict whether future issuances or sales of our common stock or the availability of shares for resale in the open market will decrease the per share trading price of our common stock. The issuance of substantial numbers of shares of our common stock in the public market or the perception that such issuances might occur, the issuance of our common stock in connection with funding future portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the per share trading price of our common stock. In addition, future issuances of our common stock may be dilutive to existing stockholders.

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

Delays in investing the net proceeds of this offering may impair our performance. We cannot assure you that we will be able to identify investments that meet our investment objectives or that any investment we make will produce a positive return. We may be unable to invest the net proceeds of this offering on acceptable terms within the time period that we anticipate or at all, which could adversely affect our financial condition and operating results.

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

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

Our ability to pay distributions is limited by the requirements of Maryland law.

Our ability to pay distributions on our common stock is limited by the laws of Maryland. Under applicable Maryland law, a Maryland corporation generally may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its debts as the debts become due in the usual course of business or the corporation s total assets would be less than the sum of its total liabilities plus, unless the corporation s charter permits otherwise, the amount that would be needed, if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. Accordingly, we generally may not make a distribution on our common stock if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus, unless the terms of such class or series provide otherwise, the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any class or series of preferred stock then outstanding, if any, with preferences upon dissolution senior to those of our common stock.

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Our most recent NAV was calculated on December 31, 2014 and our NAV when calculated effective March 31, 2015 may be higher or lower.

Our most recently estimated NAV per common share is $9.31 as determined by us as of December 31, 2014. NAV per share as of March 31, 2015, and following quarters, may be higher or lower than $9.31 based on potential changes in valuations, issuances of securities, distributions paid and earnings for the quarter then ended. Our management has not yet determined, and recommended to our Board of Directors for approval, the fair value of our portfolio investments at any date subsequent to December 31, 2014. On a quarterly basis, our Board of Directors reviews and approves, in good faith, the fair value of our portfolio investments pursuant to our established investment valuation policy, based on recommendations provided by professionals of our Adviser and Administrator with oversight and direction from our valuation officer.

If we sell shares of our common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

At our 2015 Annual Meeting of Stockholders held on February 12, 2015, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share for a period of 12 months. It should be noted that, theoretically, we may offer up to 25% of our then outstanding common stock each day. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have not sold shares of our common stock at prices below net asset value per share in the past but may do so in this offering. For additional information about possible sales below NAV per share, see Sales of Common Stock Below Net Asset Value in this prospectus supplement and for additional information and hypothetical examples of these risks, see Sales of Common Stock Below Net Asset Value in this prospectus supplement and in the accompanying prospectus.

The market price of our common stock may fluctuate significantly.

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance, conditions and prospects. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of the companies;

- changes in regulatory policies, accounting pronouncements or tax guidelines, particularly with respect to BDCs or RICs;

loss of our qualification as a RIC or BDC;

changes in earnings or variations in operating results;

changes in the value of our portfolio of investments;

changes in accounting guidelines governing valuation of our investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

departure of our Adviser s or any of its affiliates key personnel;

operating performance of companies comparable to us;

general economic trends and other external factors; and

loss of a major funding source.

It is impossible to provide any assurance that the market price of our common stock will not decline in the future, and it may be difficult for our stockholders to resell their shares of our common stock in the amount or at prices or times that they find attractive, or at all.

USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers transactions on the NASDAQ or that otherwise qualify for delivery of a prospectus to the NASDAQ in accordance with Rule 153 under the Securities Act, at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with each Sales Agent. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. However, if we sell shares of our common stock with the maximum aggregate offering price of $50,000,000, we anticipate that our net proceeds from this offering will be approximately $48,750,000 after deducting the estimated sales commission payable to the Sales Agents and our estimated offering expenses of 250,000.

We intend to use the net proceeds from this offering to repay a portion of the amount outstanding under our Credit Facility, to fund new investment opportunities, and for other general corporate purposes. As of February 27, 2015, we had $114.1 million outstanding under our Credit Facility. The Credit Facility has a revolving period end date of January 19, 2016. The interest rates on advances under our Credit Facility generally bear interest at a 30-day LIBOR plus 3.75% per annum, with a commitment fee of 0.5% per annum on undrawn amounts when our facility is drawn more than 50% and 1.0% per annum on undrawn amounts when our facility is drawn less than 50%. If our Credit Facility is not renewed or extended by January 19, 2016, all principal and interest will be due and payable on or before November 30, 2016. An affiliate of KeyBanc Capital Markets Inc. is administrative agent and a lender under our Credit Facility and may receive a portion of the net proceeds from this offering.

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

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We intend to seek to invest the net proceeds received in this offering as promptly as practicable after receipt thereof consistent with our investment objectives. We anticipate that the remainder will be used for working capital and other general corporate purposes, including potential payments or distributions to shareholders. Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objectives.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Capital, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital.

Stockholder Transaction Expenses:	
Sales load or other commission (as a percentage of offering price)(1)	2.00%
Offering expenses (as a percentage of offering price)(2)	0.50%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.50%
Annual expenses (as a percentage of net assets attributable to common stock) (4):	
Management fees(5)	5.75%
Loan Servicing fees(6)	1.68%
Incentive fees (20% of realized capital gains and 20% of pre-incentive fee net investment income)(7)	1.87%
Interest payments on borrowed funds(8)	1.81%
Dividend expense on mandatorily redeemable preferred stock(9)	2.26%
Other expenses(10)	1.86%
Total annual expenses(10)	15.23%

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

(2) The percentage reflects estimated offering expenses of approximately $250,000 and assumes we sell $50,000,000 of common stock under the Sales Agreements.

(3) The expenses of the reinvestment plan, if any, are included in stock record expenses, a component of other expenses.

(4) The numbers presented in this table do not account for any credits or waivers for these fees. There can be no guarantee that the Adviser will waive or credit any portion of such fees in the future.

(5) Our annual base management fee is 2.0% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings and are estimated by assuming the base management fee remains consistent with fees incurred for the three months ended December 31, 2014. Under the investment advisory and management agreement, the Adviser has provided and continues to provide managerial assistance to our portfolio companies. It may also provide services other than managerial assistance to our portfolio companies and receive fees therefor. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii)

negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. At the end of each quarter, 100.0% of these fees are voluntarily and irrevocably credited against the base management fee that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser. For the quarter ended December 31, 2014, $0.4 million, or 7.5% of total net annual expenses, of these fees were voluntarily and irrevocably credited against the base management fee.

For the three months ended December 31, 2014, the Adviser voluntarily and irrevocably agreed to credit the annual base management fee of 2.0% to 0.5% for those senior syndicated loan participations to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations. For the three months ended December 31, 2014, $36,408, or 0.7% of total net annual expenses, of these fees were voluntarily and irrevocably credited against the base management fee. See Management- Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus.

(6) In addition, the Adviser services, administers and collects on the loans held by Gladstone Business Loan, LLC (Business Loan), in return for which the Adviser receives a 1.5% annual loan servicing fee payable monthly by Business Loan based on the monthly aggregate balance of loans held by Business Loan in accordance with our Credit Facility. The Loan Servicing Fee is estimated by assuming the Loan Servicing Fee remains consistent with the fees incurred for the three months ended December 31, 2014. For the three months ended December 31, 2014, the total gross loan servicing fees were $0.8 million. The entire loan servicing fee paid to the Adviser by Business Loan is voluntarily credited against the base management fee otherwise payable to the Adviser since Business Loan is a consolidated subsidiary of the Company, and overall, the base management fee (including any loan servicing fee) cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement. After all voluntary and irrevocable credits described in this footnote and footnote 5 above that are applied against the base management fee, the total annual expenses after fee waivers would be 10.20% for the quarter ended December 31, 2014. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus and footnote 7 below.

(7) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20.0% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100.0% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125.0% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide the Adviser with 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125.0% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 2.0% base management fee (see footnote 5 above). The capital gains-based incentive fee equals 20.0% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year. We have not recorded any capital gains-based

incentive fee from our inception through December 31, 2014.

From time to time, the Adviser has voluntarily and irrevocably agreed to waive a portion of the incentive fees, to the extent net investment income did not cover 100.0% of the distributions to common stockholders during the period.

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

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

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

= 100.0% × (2.00% - 1.75%)

= 0.25%

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

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

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

= 0.4375% + 0.0225%

= 0.46%

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

= 20.0% × (6.0% - 1.0%)

= 20.0% × 5.0%

= 1.0%

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

(8) Includes deferred financing costs. On April 26, 2013, we extended the maturity date of our credit facility to January 19, 2016, under which our borrowing capacity is $137.0 million. In addition, on January 29, 2013, we removed the LIBOR minimum of 1.50% on advances under our credit facility. We have drawn down on our Credit Facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200.0% after each issuance of our senior securities. Assuming that we borrowed $137.0 million at an interest rate of 4.00% plus an additional fee related to borrowings of 0.63%, for an aggregate rate of 4.63%, interest payments and amortization of deferred financing costs on borrowed funds would have been 3.21% of our average net assets for the quarter ended December 31, 2014.

(9) In May 2014, we completed a public offering of 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share, at a public offering price of $25.00 per share. In the offering, we issued approximately 2.4 million shares of 6.75% Series 2021 Term Preferred Stock. Dividend expense includes the amounts paid to preferred stockholders during the three months ended September 30, 2014. Also included in this line item is the amortization of the offering costs related to our term preferred stock offering. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Equity Series 2021 Term Preferred Stock in the accompanying prospectus for additional information.

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

Examples

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our securities. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above.

	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)	$ 183	$ 479	$ 702	$ 1,046
assuming a 5% annual return consisting entirely of capital gains(2)(3)	$ 191	$ 497	$ 722	$ 1,059

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(1) While the example assumes, as required by the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. Additionally, we have assumed that the entire amount of such 5.0% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5.0% annual return is significantly below the hurdle rate of 7.0% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5.0% annual return on our investments.

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

(3) 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%. For purposes of this example, we have assumed that the entire amount of such 5% annual return would constitute capital gains.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

Our common stock is quoted on the NASDAQ under the symbol GLAD. Our common stock has historically traded at prices both above and below its NAV. There can be no assurance that any premium to NAV will be attained or maintained. As of February 26, 2015 there were 41 stockholders of record, meaning individuals or entities that we carry in our records as the registered holder (although not necessarily the beneficial owner) of our common stock.

The following table sets forth the range of high and low intraday sale prices of our common stock as reported on the NASDAQ and the distributions declared by us for the last two completed fiscal years and the current fiscal year through February 26, 2015.

COMMON SHARE PRICE DATA

	NAV(1)	High	Low	Distribution Declared	(Discount) or Premium of High Sales Price to NAV(2)	(Discount) or Premium of Low Sales Price to NAV(2)
Fiscal Year ending September 30, 2013(3)						
First Quarter	$ 9.17	$ 9.02	$ 7.25	$ 0.21	(1.6)%	(20.9)%
Second Quarter	8.91	9.46	8.24	0.21	6.2	(7.5)
Third Quarter	8.60	9.45	7.76	0.21	9.9	(9.8)
Fourth Quarter	9.81	8.92	8.05	0.21	(9.1)	(17.9)
Fiscal Year ending September 30, 2014(4)						
First Quarter	10.10	9.92	8.60	0.21	(1.8)	(14.9)
Second Quarter	9.79	10.37	9.27	0.21	5.9	(5.3)
Third Quarter	8.62	10.21	9.41	0.21	18.4	9.2
Fourth Quarter	9.51	10.27	8.06	0.21	8.0	(15.2)

Fiscal Year ending September 30, 2015(5)						
First Quarter	9.31	9.41	8.02	0.21	1.1	(13.9)
Second Quarter (through February 26, 2015)	*	8.75	7.25	0.21	*	*

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(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low intraday sale prices. The NAV per shares shown are based on outstanding shares at the end of each period.
(2) The (discounts) premiums to NAV per share set forth in these columns represent the high or low, as applicable, intraday sale price per share for the relevant quarter minus the NAV per share as of the end of such quarter, and therefore may not reflect the (discount) premium to NAV per share on the date of the high and low intraday sale prices.
(3) For the fiscal year ended September 30, 2013, common stockholder distributions declared and paid exceeded our accumulated earnings and profits (after taking into account term preferred stock distributions), which resulted in a partial return of capital of approximately $1.3 million, or approximately $0.06 per share. The return of capital for the year ended September 30, 2013, primarily resulted from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.
(4) For the fiscal year ended September 30, 2014, common stockholder distributions declared and paid exceeded our accumulated earnings and profits (after taking into account term preferred stock distributions), which resulted in a partial return of capital of approximately $15.2 million, or approximately $0.72 per share. The return of capital for the year ended September 30, 2014, primarily resulted from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.
(5) The characterization of the common stockholder distributions declared and paid for the fiscal year ending September 30, 2015 will be determined at fiscal year-end based upon taxable income for the full year and distributions paid during the full year.
* Not yet available, as the NAV per share as of the end of this quarter has not yet been determined.

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CONSOLIDATED SELECTED FINANCIAL DATA

The following consolidated selected financial data for the fiscal years ended September 30, 2014, 2013, 2012, 2011 and 2010 are derived from our audited consolidated financial statements. The consolidated selected financial data for the three months ended December 31, 2014 and 2013 are derived from our unaudited consolidated financial statements included in this prospectus supplement. The other data included in the second table below is unaudited. The data should be read in conjunction with our accompanying consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement.

GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT DATA)

	Three Months Ended December 31,		Year Ended September 30,				
	2014	**2013**	**2014**	**2013**	**2012**	**2011**	**2010**
Statement of Operations Data:							
Total Investment Income	**$ 8,726**	$ 8,392	**$ 36,585**	$ 36,154	$ 40,322	$ 35,211	$ 35,539
Total Expenses, Net of Credits from Adviser	**5,035**	3,982	**18,217**	17,768	21,278	16,799	17,780
Net Investment Income	**3,691**	4,410	**18,368**	18,386	19,044	18,412	17,759
Net Realized and Unrealized (Loss) Gain on Investments, Borrowings and Other	**(3,360)**	6,096	**(7,135)**	13,833	(27,052)	(39,511)	(1,365)

Net Increase (Decrease) in Net Assets Resulting from Operations	**$ 331**	$ 10,506	**$ 11,233**	$ 32,219	$ (8,008)	$ (21,099)	$ 16,394
<u>Per Share Data:</u>							
Net Investment Income per Common Share Basic and Diluted(A)	**$ 0.18**	$ 0.21	**$ 0.87**	$ 0.88	$ 0.91	$ 0.88	$ 0.84
Net Increase (Decrease) in Net Assets Resulting from Operations per Common Share Basic and Diluted(A)	**0.16**	0.29	**0.53**	1.53	(0.38)	(1.00)	0.78
Cash Distributions Declared Per Common Share	**0.21**	0.21	**0.84**	0.84	0.84	0.84	0.84
<u>Statement of Assets and Liabilities Data:</u>							
Total Assets	**$ 343,981**	$ 301,462	**$ 301,429**	$ 295,091	$ 293,402	$ 317,624	$ 270,518
Net Assets	**195,581**	212,088	**199,660**	205,992	188,564	213,721	249,246
Net Asset Value Per Common Share	**9.31**	10.10	**9.51**	9.81	8.98	10.16	11.85
Common Shares Outstanding	**21,000,160**	21,000,160	**21,000,160**	21,000,160	21,000,160	21,039,242	21,039,242
Weighted Common Shares	**21,000,160**	21,000,160	**21,000,160**	21,000,160	21,011,123	21,039,242	21,060,351

Outstanding Basic and Diluted							
Senior Securities Data:							
Borrowings under Credit Facility, at cost[B]	**$ 83,500**	$ 47,700	**$ 36,700**	$ 46,900	$ 58,800	$ 99,400	$ 16,800
Mandatorily redeemable preferred stock[B]	**61,000**	38,497	**61,000**	38,497	38,497		
Asset coverage ratio [C]	**236%**	346%	**305%**	341%	296%	315%	1,419%
Asset coverage per unit [D]	**$ 2,356**	$ 3,459	**$ 3,054**	$ 3,410	$ 2,963	$ 3,150	$ 14,187

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

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

(C) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200.0% on our Senior Securities. Our mandatorily redeemable preferred stock is a Senior Security that is stock.

(D) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

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	Three Months Ended December 31,		Year Ended September 30,				
	2014	2013	2014	2013	2012	2011	2010
Other Unaudited Data:							
Number of Portfolio Companies at Year End	**49**	**52**	**45**	47	50	59	39
Average Size of Portfolio Company Investment at Cost	**$ 7,875**	**$ 6,571**	**$ 7,762**	$ 7,069	$ 7,300	$ 6,488	$ 7,654
Principal Amount of New Investments	**44,099**	**44,111**	**81,731**	80,418	45,050	110,903	23,245
Proceeds from Loan Repayments and Investments Sold	**12,210**	**24,667**	**72,560**	117,048	73,857	50,002	85,634
Weighted Average Yield on Investments[E]	**10.8%**	**11.6%**	**11.5%**	11.6%	11.3%	11.2%	11.0%
Total Return[F]	**(3.45)**	**12.10**	**9.62**	9.90	41.39	(33.77)	37.46

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

(F) Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders* elsewhere in this Annual Report on Form 10-K.

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

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

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

The following analysis of our financial condition and results of operations should be read in conjunction with our accompanying *Condensed Consolidated Financial Statements* and the notes thereto contained elsewhere in this prospectus supplement and the accompanying prospectus. Historical financial condition and results of operations and percentage relationships among any amounts in the financial statements are not necessarily indicative of financial condition or results of operations for any future periods.

OVERVIEW

General

We were incorporated under the Maryland General Corporation Law on May 30, 2001. We were established for the purpose of investing in debt and equity securities of established private businesses in the United States (U.S.). We operate as an externally managed, closed-end, non-diversified management investment company, and have elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for federal income tax purposes we have elected to be treated as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). As a BDC and RIC, we are subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $5 million to $25 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We expect that our investment portfolio over time will consist of approximately 95.0% debt investments and 5.0% equity investments, at cost. As of December 31, 2014, our investment portfolio was made up of approximately 92.4% debt investments and 7.6% equity investments, at cost.

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We focus on investing in small and medium-sized 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 borrower, reasonable capitalization of the borrower, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples and, to a lesser extent, the potential to realize appreciation and gain liquidity in our equity position, if any. We lend to borrowers that need funds for growth capital or to finance acquisitions or recapitalize or refinance their existing debt facilities. We typically avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

In July 2012, the SEC granted us an exemptive order that expanded our ability, under certain circumstances, to co-invest with Gladstone Investment Corporation (Gladstone Investment) and any future BDC or closed-end management investment company that is advised (or sub-advised if it controls the fund) by Gladstone Management Corporation, our external investment adviser (the Adviser) or any combination of the foregoing subject to the conditions in the SEC s order. We believe this ability to co-invest has enhanced and will continue to enhance our ability to further our investment objectives and strategies. Pursuant to this exemptive order, we co-invested with Gladstone Investment in one new proprietary investment during the three months ended December 31, 2014, as discussed under Investment Highlights.

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

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

Business Environment

The strength of the global economy and the U.S. economy in particular, continues to be uncertain, although economic conditions generally appear to be improving, albeit slowly. The impacts from the 2008 recession in general, and the resulting disruptions in the capital markets in particular, have had lingering effects on our liquidity options and have increased our cost of debt and equity capital. Many of our portfolio companies, as well as those small and medium-sized companies that we evaluate for prospective investment, may remain vulnerable to the impacts of the uncertain economy. Concerns linger over the ability of the U.S. Congress to pass additional debt ceiling legislation prior to March 2015, given the budget impasse that resulted in the partial shutdown of the U.S. government in October 2013. Uncertain political, regulatory and economic conditions, including the current volatility of oil and gas demand and prices, could disproportionately impact some of the industries in which we have invested, causing us to be more vulnerable to losses in our portfolio, resulting in an increase in the number of our non-performing assets and a decrease in the fair market value of our portfolio.

We believe several factors impacting commercial banks, including industry consolidation, capital constraints and regulatory changes, have benefited our fund and other lenders like us. There has been, however, increased competitive pressure in the middle market lending marketplace from other BDCs and investment companies, as well as small banks and some private investors, for senior and senior subordinated debt. We have seen an increase in refinancing and recapitalization transactions and there has been increased competitive pressures resulting in reduced investment yields and/or higher leverage and increasingly riskier investments in the middle market segment we focus on. In addition, there has been an increase in new entrants (financial services companies, BDCs and other investment funds) seeking to capitalize on middle market lending opportunities. Many of our competitors have lower cost of capital than we do and also may be willing to take on riskier investments than we are. We do not know if general economic conditions will continue to improve or if adverse conditions will recur and we do not know the full extent to which the inability of the U.S. government to address its fiscal condition in the near and long term will affect us. If market instability persists or intensifies, we may experience difficulty in successfully raising and investing capital. In summary, we believe we are in a prolonged economic recovery; however, we do not know the full extent to which the impact of the current economic conditions will affect us or our portfolio companies.

Portfolio Activity

While conditions remain somewhat challenging in the marketplace, we have seen many investment opportunities that are consistent with our investment objectives and strategies and whereby we can achieve attractive risk-adjusted returns. During the three months ended December 31, 2014, we invested an aggregate of $44.1 million in six new proprietary and syndicate investments, resulting in a net expansion in our overall portfolio of four portfolio companies, due to one portfolio company paying off early resulting in a realized gain of $1.6 million and the sale of one of our non-accrual portfolio companies for net proceeds of $6.1 million. We will continue to focus on exiting challenged and non-strategic investments in our portfolio over the next several quarters in an orderly manner.

Capital Raising

Despite the challenges in the economy for the past several years, we met our capital needs through enhancements to our $137.0 million revolving line of credit (our Credit Facility) and by accessing the capital markets in the form of public offerings of preferred stock. For example, in May 2014, we issued approximately 2.4 million shares of our Series 2021 Term Preferred Stock (for gross proceeds of $61.0 million), which we used to redeem our previously issued 7.125% Series 2016 Term Preferred Stock (Series 2016 Term Preferred Stock) issued in November 2011 and also to primarily repay outstanding borrowings on our Credit Facility. Refer to Liquidity and Capital Resources Equity Term Preferred Stock for further discussion of our term preferred stock. In addition, in January 2013, we removed the LIBOR minimum of 1.5% on advances on our Credit Facility and in April 2013, we extended the revolving period end date for an additional year to January 19, 2016. Refer to Liquidity and Capital Resources Revolving Credit Facility for further discussion of our revolving line of credit.

Although we were able to access the capital markets in 2014, we believe uncertain market conditions continue to affect the trading price of our capital stock and thus may challenge our ability to finance new investments through the issuance of equity. The current volatility in the credit market and the uncertainty surrounding the U.S. economy have led to significant stock market fluctuations, particularly with respect to the stock of financial services companies like ours. During times of increased price volatility, our common stock may be more likely to trade at a price below our net asset value (NAV) per share, which is not uncommon for BDCs like us.

On February 26, 2015, the closing market price of our common stock was $8.65, a 7.1% discount to our December 31, 2014, NAV per share of $9.31. When our stock trades below NAV per common share, as it has at times traded over the last several years, our ability to issue equity is constrained by provisions of the 1940 Act, which generally prohibits the issuance and sale of our common stock below NAV per common share without stockholder approval, other than through sales to our then-existing stockholders pursuant to a rights offering. At our annual meeting of stockholders held on February 12, 2015, our stockholders approved a proposal which authorizes us to sell shares of our common stock at a price below our then current NAV per common share subject to certain limitations (including, but not limited to, that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale) for a period of one year from the date of approval, provided that our board of directors (our Board of Directors) makes certain determinations prior to any such sale. Although we have not utilized this authorization to date, we may do so in the future.

The current uncertain and volatile economic conditions may also continue to cause the value of the collateral securing some of our loans to fluctuate, as well as the value of our equity investments, which has impacted and may continue to impact our ability to borrow under our Credit Facility. Additionally, our Credit Facility contains covenants regarding the maintenance of certain minimum loan concentrations and net worth, which are affected by the decrease in the aggregate value of our portfolio. Failure to meet these requirements would result in a default which, if we are unable to obtain a waiver from our lenders, would cause an acceleration of our repayment obligations under our Credit Facility. As of December 31, 2014, we were in compliance with all of our Credit Facility s covenants.

Regulatory Compliance

Challenges in the current market are intensified for us by certain regulatory limitations under the Code and the 1940 Act that may further constrain our ability to access the capital markets. To qualify to be taxed as a RIC, we must distribute at least 90.0% of our investment company taxable income, which is generally our net ordinary income plus the excess of our net short-term capital gains over net long-term capital losses. Because we are required to satisfy the RIC annual stockholder distribution requirement, and because the illiquidity of many of our investments makes it difficult for us to finance new investments through the sale of current investments, our ability to make new investments is highly dependent upon external financing. Our external financing sources may include the issuance of equity securities, debt securities or other leverage, such as borrowings under our Credit Facility. 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 that require us to have an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200.0% on our senior securities representing indebtedness and our senior securities that are stock, (collectively, our Senior Securities).

We expect that, given these regulatory and contractual constraints in combination with current market conditions, debt and equity capital may not be sufficient in the near term. However, we believe that our amendments to our Credit Facility to decrease the interest rate on advances and extend its maturity until 2016 (refer to Liquidity and Capital Resources Revolving Credit Facility for further discussion of our revolving line of credit) and our ability to co-invest with Gladstone Investment and certain other affiliated investment funds, has increased our ability to make investments in businesses that we believe will be generally resistant to a recession and, as a result, will be likely to achieve attractive long-term returns for our stockholders.

During the quarter ended December 31, 2014, we continued to focus on building our pipeline with deals that we believe are generally recession resistant and are in businesses with steady cash flows, while providing appropriate returns, given the risks. We will also continue to work through some of the older investments in our portfolio to enhance overall returns to our stockholders.

Investment Highlights

During the three months ended December 31, 2014, we invested an aggregate of $44.1 million in six new portfolio companies and an aggregate of $17.4 million in existing portfolio companies. In addition, during the three months ended December 31, 2014, we sold our investment in one portfolio company for net proceeds of $6.1 million and we received scheduled and unscheduled principal repayments of approximately $4.5 million from existing portfolio companies. Since our initial public offering in August 2001, we have made 385 different loans to, or investments in, 191 companies for a total of approximately $1.4 billion, before giving effect to principal repayments on investments and divestitures.

Investment Activity

During the three months ended December 31, 2014, we executed the following transactions with certain of our portfolio companies:

Issuances and Originations

During the three months ended December 31, 2014, we extended an aggregate of $31.6 million of investments in three new proprietary portfolio companies and an aggregate of $12.5 million in three new syndicated portfolio companies (PSC Industrial Holdings Corp, SourceHOV, LLC and Vertellus Specialties, Inc.). Below are significant issuances and originations during the three months ended December 31, 2014:

In December 2014, we invested $8.4 million in B+T Holdings Inc. (B+T), through a combination of senior term debt and equity. B+T, headquartered in Tulsa, Oklahoma, is a full-service provider of structural

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engineering, construction, and technical services to the wireless tower industry for tower upgrades and modifications. This was a co-investment with Gladstone Investment, which invested an additional $19.6 million under the same terms as us.

In December 2014, we invested $15.0 million in Circuitronics, Inc. (Circuitronics) through a combination of senior term debt and equity. Circuitronics, headquartered in Dallas, Texas, is a premier electronic manufacturing services company focused on the design and production of specialized printed circuit board assemblies and related services.

In December 2014, we invested $11.0 million in Vision Government Solutions, Inc. (Vision) through senior term debt. Vision, headquartered in Northboro, Massachusetts, is a leading provider of land parcel management software technology and appraisal services to local government organizations, enabling efficient assessment, billing, collections, mapping, and permitting.

Repayments and Sales:

During the three months ended December 31, 2014, ten borrowers made principal repayments totaling $4.5 million in the aggregate, consisting of $4.4 million of unscheduled principal and revolver repayments, as well as $0.1 million in contractual principal amortization. Below are the significant repayments and exits during the three months ended December 31, 2014.

In October 2014, North American Aircraft Services, LLC (NAAS) paid off early resulting in a $1.6 million realized gain and success fees of $0.6 million. The resulting IRR at payoff was 18.0%.

In December 2014, we sold our investment in Midwest Metal Distribution, Inc. (Midwest Metal) for net proceeds of $6.1 million, which resulted in a realized loss of $14.5 million recorded in the three months ended December 31, 2014. Midwest Metal had been on non-accrual status at the time of the sale.

Recent Developments

Executive Officers

On January 9, 2015, David Watson resigned as the Company s treasurer. On January 13, 2015, our Board of Directors accepted Mr. Watson s resignation and appointed Melissa Morrison, the Company s then-current assistant treasurer as the Company s treasurer.

Registration Statement

On December 1, 2014, we filed Post-effective Amendment No. 4 to our universal shelf registration statement (our Registration Statement) on Form N-2 (File No. 333-185191) and subsequently filed Post-effective Amendment No. 5 on January 29, 2015, which the SEC was declared effective as of January 30, 2015. Our Registration Statement registers an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock or preferred stock. We currently have the ability to issue up to $239.0 million in securities under our Registration Statement through one or more transactions, including any sales of common stock pursuant to this prospectus supplement and the accompanying prospectus.

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RESULTS OF OPERATIONS

Comparison of the Three Months Ended December 31, 2014, to the Three Months Ended December 31, 2013

	Three Months Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 7,648**	$ 8,191	$ (543)	(6.6)%
Other income	**1,078**	201	877	436.3
Total investment income	**8,726**	8,392	334	4.0
EXPENSES				
Base management fee	**1,597**	1,456	141	9.7
Loan servicing fee	**832**	884	(52)	(5.9)
Incentive fee	**922**	974	(52)	(5.3)
Administration fee	**281**	203	78	38.4
Interest expense on borrowings	**678**	615	63	10.2
Distribution expense on mandatorily redeemable preferred stock	**1,029**	686	343	50.0
Amortization of deferred financing fees	**302**	315	(13)	(4.1)
Other expenses	**638**	611	27	4.4
Expenses before credits from Adviser	**6,279**	5,744	535	9.3
Credits to base management fee loan servicing fee	**(832)**	(884)	52	5.9
Credits to fees from Adviser - other	**(412)**	(878)	466	53.1
Total expenses net of credits	**5,035**	3,982	1,053	26.4
NET INVESTMENT INCOME	**3,691**	4,410	(719)	(16.3)
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized loss on investments and escrows	**(12,858)**	(10,774)	2,084	19.3
Net unrealized appreciation of investments	**8,763**	16,877	(8,114)	(48.1)
Net unrealized depreciation (appreciation) of other	**735**	(7)	742	NM
Net (loss) gain from investments and other	**(3,360)**	6,096	(9,456)	NM
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 331**	$ 10,506	$ (10,175)	(96.8)%

NM = Not Meaningful

Investment Income

Total interest income decreased by 6.6% for the three months ended December 31, 2014, as compared to the prior year period. This decrease was due primarily to the increase in early payoffs at par during the year, resulting in a lower weighted average principal balance of interest-bearing investments compared to the prior period. This was partially offset by six new investments that we funded during the three months ended December 31, 2014. In addition, we recorded an allowance on certain interest receivables totaling $0.5 million, which reduces interest income, during the three months ended December 31, 2014, which resulted in a lower weighted average yield on the portfolio. The level of interest income from investments is directly related to the principal balance of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended December 31, 2014, was $283.0 million, compared to $299.6 million for the prior year period, a decrease of 5.5%. The annualized weighted average yield on our interest-bearing investment portfolio is based on the current stated interest rate on interest-bearing investments and decreased to 10.8% for the three months ended December 31, 2014 compared to 11.6% for the three months ended December 31, 2013. The weighted average yield on our interest-bearing investments for the three months ended December 31, 2014 includes any allowances on interest receivables made during that period.

As of December 31, 2014, two portfolio companies were on non-accrual status, with an aggregate debt cost basis of approximately $33.6 million, or 9.4%, of the cost basis of all debt investments in our portfolio. As of December 31, 2013, one portfolio company was on non-accrual status, with an aggregate debt cost basis of approximately $29.2 million, or 9.2%, of the cost basis of all debt investments in our portfolio. During the three months ended December 31, 2014, one non-accrual portfolio company was sold. See Overview Investment Highlights for more information. There were no new non-accruals added and no non-accruals placed on accrual status during the three months ended December 31, 2014 and 2013.

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For the three months ended December 31, 2014, other income consisted primarily of $0.6 million in success fees received from the early payoff of NAAS, $0.3 million in success fees prepaid by Francis Drilling Fluids, Ltd. (FDF), $0.1 million in dividend income and $0.1 million in other fees, both received from FDF. Other income for the three months ended December 31, 2013, consisted of $0.2 million in success fees received related to the sale of substantially all of the assets of Lindmark Acquisition, LLC (Lindmark) and the ensuing pay down of our debt investments at par in September 2013.

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

	As of December 31, 2014		Three Months Ended December 31, 2014	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Income**
RBC Acquisition Corp.	$ 28,283	8.7%	$ 433	5.0%
Francis Drilling Fluids, Ltd.	21,523	6.6	1,075	12.3
WadeCo Specialties, Inc.(A)	21,097	6.5	324	3.7
Funko, LLC	19,011	5.8	249	2.9
J.America, Inc.(B)	16,103	4.9	478	5.5
Subtotal five largest investments	**106,017**	**32.5**	**2,559**	**29.4**
Other portfolio companies	220,607	67.5	6,165	70.6
Other non-portfolio company revenue			2	
Total Investment Portfolio	**$ 326,624**	**100.0%**	**$ 8,726**	**100.0%**

	As of December 31, 2013		Three Months Ended December 31, 2013	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Income**
RBC Acquisition Corp.	$ 34,219	12.1%	$ 817	9.7%
Midwest Metal Distribution, Inc.(C)	18,098	6.4	561	6.7
J.America, Inc.(B)	17,000	6.0	26	0.3
Francis Drilling Fluids, Ltd.	14,773	5.2	462	5.5
AG Transportation Holdings, LLC	13,065	4.6	461	5.5
Subtotal five largest investments	**97,155**	**34.3**	**2,327**	**27.7**
Other portfolio companies	186,051	65.7	6,061	72.2
Other non-portfolio company revenue			4	0.1
Total Investment Portfolio	**$ 283,206**	**100.0%**	**$ 8,392**	**100.0%**

(A) Investment added in March 2014.
(B) Investment added in December 2013.
(C) Investment exited in December 2014.

Expenses

Expenses, excluding any voluntary, irrevocable and non-contractual credits from the Adviser to the base management, loan servicing, and incentive fees, increased for the three months ended December 31, 2014, by 26.4%, as compared to the prior year period. This increase was primarily due to the increases in the net incentive fee and distribution expense on our mandatorily redeemable preferred stock during the three months ended December 31, 2014.

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The increase of $0.5 million in the net incentive fee earned by the Adviser during the three months ended December 31, 2014, as compared to the prior year period, was due to the partial incentive fee credit taken in the prior year period. There was no incentive fee credit granted by the Adviser during the three months ended December 31, 2014, due to a change in the assessment of distribution coverage of net investment income to a fiscal year end basis rather than a quarterly basis.

The base management fee, loan servicing fee and incentive fee, and associated unconditional and irrevocable voluntary credits, are computed quarterly, as described under Investment Advisory and Management Agreement in Note 4 of the notes to our accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013
Average total assets subject to base management fee[(A)]	**$ 319,400**	$ 291,200
Multiplied by prorated annual base management fee of 2.0%	**0.5%**	0.5%
Base management fee[(B)]	**$ 1,597**	$ 1,456
Portfolio company fee credit	**(375)**	(333)
Senior syndicated loan fee waiver	**(37)**	(30)
Net Base Management Fee	**$ 1,185**	$ 1,093
Loan servicing fee[(B)]	**832**	884
Credit to base management fee - loan servicing fee[(B)]	**(832)**	(884)
Net Loan Servicing Fee	**$**	$
Incentive fee[(B)]	**922**	974
Incentive fee credit		(515)
Net Incentive Fee	**$ 922**	$ 459
Portfolio company fee credit	**(375)**	(333)
Senior syndicated loan fee waiver	**(37)**	(30)
Incentive fee credit		(515)
Credits to Fees From Adviser - other[(B)]	**$ (412)**	$ (878)

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

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

The increase of $0.3 million in distribution expense on our mandatorily redeemable preferred stock during the three months ended December 31, 2014, as compared to the prior year period, was primarily due to the higher monthly distribution amount on our Series 2021 Term Preferred Stock, which was issued in May 2014, and which was partially offset by the voluntary redemption of our Series 2016 Term Preferred Stock, which was issued in November 2011 and redeemed in May 2014. Refer to Liquidity and Capital Resources Equity Term Preferred Stock for further discussion of our term preferred stock.

Realized Loss and Unrealized Appreciation

Net Realized Loss on Investments and Escrows

For the three months ended December 31, 2014, we recorded a net realized loss on investments and escrows of $12.9 million, which primarily consisted of a realized loss of $14.5 million resulting from the sale of Midwest Metal during the period for net proceeds of $6.1 million. This realized loss was partially offset by the realized gain of $1.6 million we recognized on the early payoff of NAAS.

For the three months ended December 31, 2013, we recorded a net realized loss on investments of $10.8 million related to the sale of LocalTel, LLC (LocalTel).

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Net Unrealized Appreciation of Investments

Net unrealized appreciation (depreciation) of investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are actually realized. During the three months ended December 31, 2014, we recorded net unrealized appreciation of investments in the aggregate amount of $8.8 million, which included reversals totaling $13.4 million in cumulative unrealized depreciation primarily related to the sale of Midwest Metal during the period. Excluding reversals, we had $4.6 million in net unrealized depreciation for the three months ended December 31, 2014. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the three months ended December 31, 2014, consisted of approximately $9.8 million of depreciation on our debt investments and approximately $5.2 million of appreciation on our equity investments.

The net realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2014, were as follows:

	Three Months Ended December 31, 2014			
Portfolio Company	**Realized (Loss) Gain**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
Funko, LLC	$	$ 3,648	$	$ 3,648
Defiance Integrated Technologies, Inc.		1,394		1,394
Midwest Metal Distribution, Inc.	(14,459)		15,578	1,119
Precision Acquisition Group Holdings, Inc.		620		620
Alloy Die Casting Co.		417		417
Meridian Rack & Pinion, Inc.		(290)		(290)
Edge Adhesives Holdings, Inc.		(301)		(301)
Vision Solutions, Inc.		(416)		(416)
Sunshine Media Holdings		(439)		(439)
J.America, Inc.		(546)		(546)
North American Aircraft Services, LLC	1,578		(2,216)	(638)
Targus Group International, Inc.		(684)		(684)
WadeCo. Specialties, Inc.		(726)		(726)
PLATO Learning, Inc.		(753)		(753)
Francis Drilling Fluids, Ltd.		(980)		(980)
Saunders & Associates		(1,480)		(1,480)
GFRC Holdings, LLC		(2,985)		(2,985)
Other, net (<$250)	23	(1,078)		(1,055)
Total:	**$ (12,858)**	**$ (4,599)**	**$ 13,362**	**$ (4,095)**

The largest driver of our net unrealized depreciation (excluding reversals) for the three months ended December 31, 2014, were declines in the financial and operational performance of GFRC Holdings, LLC of $3.0 million and Saunders & Associates of $1.5 million. Partially offsetting this net unrealized depreciation for the three months ended December 31, 2014, was the net unrealized appreciation on Funko, LLC of $3.6 million and Defiance Integrated Technologies, Inc. of $1.4 million due to incremental improvements in the financial and operational performance of these portfolio companies and, to lesser extent, increases in comparable multiples used in valuations.

During the three months ended December 31, 2013, we recorded net unrealized appreciation of investments in the aggregate amount of $16.9 million, which included reversals of $10.2 million in cumulative unrealized depreciation primarily related to the sale of LocalTel during the period. Excluding reversals, we had $6.7 million in net unrealized appreciation for the three months ended December 31, 2013. Over our entire portfolio, the net unrealized appreciation (excluding reversals) was comprised of approximately $3.2 million on our debt investments and approximately $3.5 million on our equity investments for the three months ended December 31, 2013.

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The net realized losses and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2013, were as follows:

	Three Months Ended December 31, 2013			
Portfolio Company	Realized Loss	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
RBC Acquisition Corp.	$	$ 3,256	$	$ 3,256
GFRC Holdings, LLC		1,728	45	1,773
Sunshine Media Holdings		1,462		1,462
Funko, LLC		648		648
Saunders & Associates		493		493
International Junior Golf Training Acquisition Company		(251)		(251)
Heartland Communications Group		(363)		(363)
LocalTel, LLC	(10,774)		10,218	(556)
Targus Group International, Inc.		(793)		(793)
Other, net (<$250)		556	(122)	434
Total:	**$ (10,774)**	**$ 6,736**	**$ 10,141**	**$ 6,103**

The largest driver of our net unrealized appreciation (excluding reversals) for the three months ended December 31, 2013, was due to several portfolio companies increased financial and operational performance and, to a lesser extent, the increase in certain comparable multiples used for equity valuations during the period, most notably that of RBC Acquisition Corp.

As of December 31, 2014, the fair value of our investment portfolio was less than its cost basis by approximately $59.2 million, and our entire investment portfolio was valued at 84.6% of cost, as compared to cumulative net unrealized depreciation of $68.0 million and a valuation of our entire portfolio at 80.5% of cost as of September 30, 2014. This decrease in cumulative unrealized depreciation quarter over quarter represents net unrealized appreciation of our investments of $8.8 million for the three months ended December 31, 2014. Of our current investment portfolio, ten portfolio companies originated before December 31, 2007, representing 30.1% of the entire cost basis of our portfolio, were valued at 58.2% of cost and include our two investments on non-accrual status. Our 39 portfolio companies which originated after December 31, 2007, representing 69.9% of the entire cost basis of our portfolio, were valued at 96.0% of cost and none of these portfolio companies are on non-accrual status.

We believe that our aggregate investment portfolio was valued at a depreciated value as of December 31, 2014, primarily due to the lingering effects of the recession that began in 2008 and its affect on the performance of certain of our portfolio companies and also because we were invested in certain industries that were disproportionately impacted by the recession. The cumulative net unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

Net Unrealized Depreciation (Appreciation) of Other

Net unrealized depreciation (appreciation) of other includes the net change in the fair value of our Credit Facility and our interest rate swap during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. During the three months ended December 31, 2014, we recorded net unrealized depreciation of borrowings of $0.7 million compared to net unrealized appreciation of borrowings of $7 for the three months ended December 31, 2013. Our Credit Facility was fair valued at $84.1 million and $38.0 million as of December 31 and September 30, 2014, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Our cash flows from operating activities are primarily generated from the interest payments on debt securities that we receive from our portfolio companies, as well as net proceeds received through repayments or sales of our investments. We utilize this cash primarily to fund new investments, make interest payments on our Credit Facility,

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make distributions to our stockholders, pay management fees to the Adviser, and for other operating expenses. Net cash used in operating activities during the three months ended December 31, 2014, was $42.3 million, as compared to $1.2 million for the three months ended December 31, 2013. The increase in cash used in operating activities was primarily due to an increase in disbursements to existing portfolio companies and a decrease in unscheduled principal repayments during the three months ended December 31, 2014.

As of December 31, 2014, we had loans to, syndicated participations in, or equity investments in 49 private companies with an aggregate cost basis of approximately $385.9 million. As of December 31, 2013, we had loans to, syndicated participations in and/or equity investments in 52 private companies with an aggregate cost basis of approximately $341.7 million.

The following table summarizes our total portfolio investment activity during the three months ended December 31, 2014 and 2013, at fair value:

	Three Months Ended December 31, 2014	2013
Beginning investment portfolio, at fair value	**$ 281,286**	$ 256,878
New investments	**44,099**	44,111
Disbursements to existing portfolio companies	**17,366**	770
Scheduled principal repayments	**(134)**	(930)
Unscheduled principal repayments	**(4,363)**	(23,737)
Net proceeds from sales of investments	**(7,713)**	
Net unrealized (depreciation) appreciation of investments	**(4,599)**	6,736
Reversal of prior period depreciation on realization	**13,362**	10,141
Net realized loss on investments	**(12,881)**	(10,732)
Increase in investment balance due to PIK[A]	**70**	53
Interest payments received on non-accrual loans	**502**	
Net change in premiums, discounts and amortization	**(371)**	(84)
Investment Portfolio, at Fair Value	**$ 326,624**	$ 283,206

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

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of December 31, 2014:

For the Fiscal Years Ending September 30:	**Amount**
For the remaining nine months ending September 30:	
2015	$ 43,666
2016	93,777
2017	12,431
2018	31,789
2019	64,037

Thereafter	111,989
Total contractual repayments	**$ 357,689**
Equity investments	29,303
Adjustments to cost basis on debt investments	(1,132)
Total Cost Basis of Investments Held at December 31, 2014:	**$ 385,860**

Financing Activities

Net cash provided by financing activities for the three months ended December 31, 2014 of $42.4 million consisted primarily of net borrowings on our line of credit of $46.8 million, partially offset by $4.4 million of distributions to common stockholders. Net cash used in financing activities for the three months ended December 31, 2013 of $3.6 million consisted primarily of distributions to common stockholders of $4.4 million.

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Distributions to Stockholders

Common Stock Distributions

To qualify to be taxed as a RIC and thus avoid corporate-level federal income tax on the income that we distribute to our stockholders, we are required to distribute to our stockholders on an annual basis at least 90.0% of our investment company taxable income. Additionally, the covenants in our Credit Facility generally restrict the amount of distributions to stockholders that we can pay out to be no greater than our net investment income in each fiscal year. In accordance with these requirements, we declared and paid monthly cash distributions of $0.07 per common share for each of the three months from October 2014 through December 2014, which totaled an aggregate of $4.4 million. In January 2015, our Board of Directors declared a monthly distribution of $0.07 per common share for each of January, February and March 2015. Our Board of Directors declared these distributions to our stockholders based on our estimates of our investment company taxable income for the fiscal year ending September 30, 2015.

For the fiscal year ended September 30, 2014, which includes the three months ended December 31, 2013, our aggregate distributions to common stockholders totaled approximately $17.7 million, which were declared based on estimates of our investment company taxable income for that fiscal year. For our fiscal year ended September 30, 2014, our common stockholder distributions declared and paid exceeded our current and accumulated earnings and profits (after taking into account our preferred stock distributions), resulted in a partial return of capital of approximately $15.2 million. The return of capital was primarily due to accounting principles generally accepted in the U.S. (GAAP) realized losses being recognized as ordinary losses for federal income tax purposes. The characterization of the common stockholder distributions declared and paid for the fiscal year ending September 30, 2015 will be determined at fiscal year-end based upon our taxable income for the full fiscal year and distributions paid during the full fiscal year. Such a characterization made on a quarterly basis may not be representative of the actual full fiscal year characterization. If we characterized our common stockholder distributions for the three months ended December 31, 2014, 100.0% would be a return of capital, primarily due to GAAP realized losses being recognized as ordinary losses for federal income tax purposes.

Preferred Stock Distributions

Our Board of Directors also declared, and we paid, monthly cash distributions of $0.140625 per share of our Series 2021 Term Preferred Stock for each of the three months from October 2014 through December 2014, which totaled an aggregate of $1.0 million. In January 2015, our Board of directors declared a monthly distribution of $0.140625 per share of Series 2021 Term Preferred stock for each of January, February and March 2015. In accordance with GAAP, we treat these monthly distributions to preferred stockholders as an expense. For federal income tax purposes, distributions paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits have been characterized as ordinary income to our preferred stockholders.

Equity

Registration Statement

We filed Post-effective Amendment No. 4 to our universal shelf registration statement (our Registration Statement) on Form N-2 (File No. 333-185191) with the SEC on December 1, 2014, and subsequently filed Post-effective Amendment No. 5 on January 29, 2015, which the SEC was declared effective as of January 30, 2015. Our Registration Statement registers an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock or preferred stock. We currently have the ability to issue up to $239.0 million in securities under our Registration Statement through one or more transactions. We issued approximately 2.4 million shares of our Series 2021 Term Preferred Stock under our Registration in May 2014. No other securities have been issued under our Registration Statement.

Common Stock

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. Additionally, when our common stock is trading below NAV per share, as it has from time to time over the last four years, the 1940 Act restricts our ability to obtain additional capital by issuing common stock. Generally, the 1940 Act provides that we may not issue and sell our common stock at a price below our then current NAV per common share, other than to our then existing common stockholders pursuant to a rights offering, without first obtaining approval from our stockholders and our independent directors. As of January 30, 2015, our closing market price was $7.41 per common share, a 25.6% discount to our December 31, 2014 NAV per common share of $9.31. To the extent that our common stock trades at a market price below our NAV per common share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder approval or a rights offering to existing common stockholders.

At our Annual Meeting of Stockholders held on February 12, 2015, our stockholders approved a proposal authorizing us to sell shares of our common stock at a price below our then current NAV per share subject to certain limitations (including, but not limited to, that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale) for a period of one year from the date of approval, provided that our Board of Directors makes certain determinations prior to any such sale. We have not issued any common stock since February 2008 and have not issued common stock below the then current NAV per share to date.

Term Preferred Stock

Pursuant to our Registration Statement, in May 2014, we completed a public offering of approximately 2.4 million shares of our Series 2021 Term Preferred Stock, par value $0.001 per share, at a public offering price of $25.00 per share and a 6.75% rate. Gross proceeds totaled $61.0 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were $58.5 million, a portion of which was used to voluntarily redeem all 1.5 million outstanding shares of our then existing Series 2016 Term Preferred Stock and the remainder was used to repay a portion of outstanding borrowings under our Credit Facility. In connection with the voluntary redemption of our Series 2016 Term Preferred Stock, we recognized a realized loss on extinguishment of debt of $1.3 million, which was reflected on our statement of operations during the three months ended June 30, 2014 and was primarily comprised of the unamortized deferred issuance costs at the time of redemption.

We incurred $2.5 million in total offering costs related to the issuance of our Series 2021 Term Preferred Stock, which are recorded as deferred financing fees on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and are being amortized over the redemption period ending June 30, 2021. The shares of our Series 2021 Term Preferred Stock and are traded under the ticker symbol of GLADO on the NASDAQ. Our Series 2021 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed distribution rate equal to 6.75% per year, payable monthly (which equates in total to approximately $4.1 million per year). We are required to redeem all of the outstanding Series 2021 Term Preferred Stock on June 30, 2021 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date of redemption (the Redemption Price). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2021 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of the outstanding Series 2021 Term Preferred Stock and (2) if we fail to maintain an asset coverage ratio of at least 200.0% and do not take steps to cure such asset coverage amount within a specified period of time. We may also voluntarily redeem all or a portion of the Series 2021 Term Preferred Stock at our option at the Redemption Price in order to have an asset coverage ratio of up to and including 240.0% and at any time on or after June 30, 2017. If we fail to redeem our Series 2021 Term Preferred Stock pursuant to the mandatory redemption required on June 30, 2021, or in any other circumstance in which we are required to mandatorily redeem our Series 2021 Term Preferred Stock, then the fixed distribution rate will increase by 4.0% for so long as such failure continues. As of December 31, 2014, we have not redeemed any of our outstanding Series 2021 Term Preferred Stock. Our

Series 2021 Term Preferred Stock has been recorded as a liability in accordance with GAAP and, as such, affects our asset coverage, exposing us to additional leverage risks.

Pursuant to our prior registration statement, in November 2011, we completed a public offering of approximately 1.5 million shares of our Series 2016 Term Preferred Stock at a public offering price of $25.00 per share and a 7.125% rate. Gross proceeds totaled $38.5 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were $36.4 million, a portion of which was used to repay a portion of outstanding borrowings under our Credit Facility. We incurred $2.1 million in total offering costs related to these transactions, which were recorded as deferred financing fees on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and were amortized over the redemption period ending December 31, 2016. In May 2014 when our Series 2016 Term Preferred Stock was voluntarily redeemed, the remaining unamortized costs at that time were fully written off as part of the realized loss on extinguishment of debt discussed above. Our Series 2016 Term Preferred Stock provided for a fixed distribution rate equal to 7.125% per year, payable monthly (which equated in total to approximately $2.7 million per year). The shares of our Series 2016 Term Preferred were traded under the ticker symbol of GLADP on the NASDAQ. In connection with the voluntary redemption, shares of our Series 2016 Term Preferred Stock were removed from listing on May 22, 2014. We had not issued any preferred stock prior to the issuance of our Series 2016 Term Preferred Stock.

Revolving Credit Facility

On April 26, 2013, we, through our wholly-owned subsidiary, Gladstone Business Loan, LLC (Business Loan), entered into Amendment No. 6 to the fourth amended and restated credit agreement (our Credit Facility) to extend the revolver period end date for one year to January 19, 2016. Our $137.0 million revolving Credit Facility was arranged by Key Equipment Finance, a division of KeyBank National Association, (Key Equipment) as administrative agent. KeyBank National Association, Branch Banking and Trust Company and ING Capital LLC also joined our Credit Facility as committed lenders. Subject to certain terms and conditions, our Credit Facility may be expanded from $137.0 million to a maximum of $237.0 million through the addition of other committed lenders to the facility. The interest rates on advances under our Credit Facility generally bear interest at a 30-day LIBOR plus 3.75% per annum, with a commitment fee of 0.5% per annum on undrawn amounts when our facility is drawn more than 50% and 1.0% per annum on undrawn amounts when our facility is drawn less than 50%. If our Credit Facility is not renewed or extended by January 19, 2016, all principal and interest will be due and payable on or before November 30, 2016. Prior to the April 26, 2013 amendment, on January 29, 2013, we, through Business Loan, amended our Credit Facility to remove the LIBOR minimum of 1.5% on advances. We incurred fees of $0.7 million in April 2013 and $0.6 million in January 2013 in connection with these amendments, which are being amortized through our Credit Facility s revolver period end date of January 19, 2016. All other terms of our Credit Facility remained generally unchanged at the time of these amendments.

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

Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with Key Equipment as custodian and with The Bank of New York Mellon Trust Company, N.A as custodian. Key Equipment, which also serves as the trustee of the account, generally remits the collected funds to us once a month.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders consents. Our Credit Facility also generally limits payments on distributions to our stockholders to the aggregate net investment income for each of the twelve month periods ending September 30, 2015 and 2016. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base in order to receive additional borrowing availability credit under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 20 obligors required in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of $190.0 million plus 50.0% of all equity and subordinated debt raised after January 19, 2012, which equates to $220.5 million as of December 31, 2014, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200.0%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code.

As of December 31, 2014, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $256.6 million, asset coverage of 235.6% and an active status as a BDC and RIC. In addition, we had 32 obligors in the borrowing base of our Credit Facility as of December 31, 2014. As of December 31, 2014 we were in compliance with all of our Credit Facility covenants.

On July 15, 2013, we, through Business Loan, entered into an interest rate cap agreement with KeyBank, effective July 9, 2013 and expiring January 19, 2016, for a notional amount of $35.0 million that effectively limits the interest rate on a portion of our borrowings under our revolving line of credit pursuant to the terms of our Credit Facility. The one month LIBOR cap is set at 5.0%. We incurred a premium fee of $62 in conjunction with this agreement, which is recorded in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities.* As of December 31, 2014 and September 30, 2014, the fair value of our interest rate cap agreement was $0.

Contractual Obligations and Off-Balance Sheet Arrangements

We have lines of credit with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. As of December 31 and September 30, 2014, our unused line of credit commitments totaled $12.0 million and $5.9 million, respectively.

When investing in certain private equity funds, we may have uncalled capital commitments depending on the agreed upon terms of our committed ownership interest. These capital commitments usually have a specific date in the future set as a closing date, at which time the commitment is either funded or terminates. As of December 31, 2014 and September 30, 2014, we had uncalled capital commitments related to our partnership interest in Leeds Novamark Capital I, L.P. of $2.8 million.

The following table summarizes our contractual obligations as of December 31, 2014, at cost:

	Payments Due by Fiscal Years				
Contractual Obligations(A)	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Credit Facility(B)	$	$ 83,500	$	$	$ 83,500
Series 2021 term preferred stock				61,000	61,000
Interest expense on debt obligations(C)	5,800	13,457	8,235	3,088	30,580
Total	**$ 5,800**	**$ 96,957**	**$ 8,235**	**$ 64,088**	**$ 175,080**

(A) Excludes our unused line of credit and uncalled capital commitments to our portfolio companies in an aggregate amount of $14.8 million as of December 31, 2014.

(B) Principal balance of borrowings under our Credit Facility, based on the current contractual maturity as of December 31, 2014 due to the revolving nature of the facility.

(C) Includes estimated interest payments on our Credit Facility and distribution obligations on our Series 2021 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and outstanding balances as of December 31, 2014. Distribution payments on our Series 2021 Term Preferred Stock assume quarterly distribution declarations and monthly distribution distributions to stockholders through the date of mandatory redemption.

Of our interest bearing debt investments as of December 31, 2014, 34.9% had a success fee component, which enhances the yield on our debt investments. Unlike PIK income, we generally recognize success fees as income only when the payment has been received. As a result, as of December 31 and September 30, 2014, we had aggregate unrecognized success fee receivables on our accruing debt investments of $10.8 million and $11.0 million (or approximately $0.51 per common share and $0.52 million), respectively, that would be owed to us based on our current portfolio if fully paid off. Consistent with GAAP, we have not recognized our success fee receivable on our balance sheet or income statement. Due to our success fees   contingent nature, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

CRITICAL ACCOUNTING POLICIES

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

Investment Valuation

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded in our accompanying *Condensed Consolidated Financial Statements*.

Accounting Recognition

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

In accordance with ASC 820, our investments fair value is determined to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between willing market participants on the measurement date. This fair value definition focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of a financial instrument as of the measurement date.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical financial instruments in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar financial instruments in active or inactive markets, and inputs that are observable for the financial instrument, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the financial instrument and can include the Valuation Team s assumptions based upon the best available information.

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of December 31 and September 30, 2014, all of our investments were valued using Level 3 inputs and during the three months ended December 31, 2014 and 2013, there were no investments transferred into or out of Level 1, 2 or 3.

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Board Responsibility

In accordance with the 1940 Act, our Board of Directors has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on the Policy. Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator with oversight and direction from the valuation officer (the Valuation Team). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the valuation officer, uses the Policy and each quarter our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

The Valuation Team engages third party valuation firms to provide independent assessments of fair value of certain of our investments. Currently, the sole third-party service provider Standard & Poor s Securities Evaluation, Inc. (SPSE) provides estimates of fair value on our proprietary debt investments.

The Valuation Team generally assigns SPSE s estimates of fair value to our debt investments where we do not have the ability to effectuate a sale of the applicable portfolio company. The Valuation Team corroborates SPSE s estimates of fair value using one or more of the valuation techniques discussed below. The Valuation Team s estimate of value on a specific debt investment may significantly differ from SPSE s. When this occurs, our Board of Directors reviews whether the Valuation Team has followed the Policy and whether the Valuation Team s recommended value is reasonable in light of the Policy and other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended valuation.

Valuation Techniques

In accordance with ASC 820, the Valuation Team uses the following techniques when valuing our investment portfolio:

Total Enterprise Value In determining the fair value using a total enterprise value (TEV), the Valuation Team first calculates the TEV of the portfolio company by incorporating some or all of the following factors: the portfolio company s ability to make payments and other specific portfolio company attributes; the earnings of the portfolio company (the trailing or projected twelve month revenue or earnings before interest, taxes, depreciation and amortization (EBITDA)); EBITDA or revenue multiples obtained from our indexing methodology whereby the original transaction EBITDA or revenue multiple at the time of our closing is indexed to a general subset of comparable disclosed transactions and EBITDA or revenue multiples from recent sales to third parties of similar securities in similar industries; a comparison to publicly traded securities in similar industries, and other pertinent factors. The Valuation Team generally references industry statistics and may use outside experts when gathering this information. Once the TEV is determined for a portfolio company, the Valuation Team then allocates the TEV to the portfolio company s securities in order of their relative priority in the capital structure. Generally, the Valuation Team uses TEV to value our equity investments and, in the circumstances where we have the ability to effectuate a sale of a portfolio company, our debt investments.

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

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

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

Investments in Funds For equity investments in other funds, the Valuation Team generally determines the fair value of our uninvested capital at par value and of our invested capital at the NAV provided by the fund. The Valuation Team may also determine fair value of our investments in other investment funds based on the capital accounts of the underlying entity.

In addition to the above valuation techniques, the Valuation Team may also consider the other factors when determining fair values of our investments, including but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on proprietary debt and equity investments made during the most recently completed quarter are generally valued at original cost basis.

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

Refer to Note 3 *Investments* in the accompanying notes to our accompanying *Condensed Consolidated Financial Statements* included elsewhere in this report for additional information regarding fair value measurements and our application of ASC 820.

Credit Monitoring and Risk Rating

The Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance and, in some instances, are used as inputs in our valuation techniques. Generally, we, through the Adviser, participate in periodic board meetings of our portfolio companies in which we hold board seats and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, the Adviser calculates and evaluates certain credit statistics.

The Adviser risk rates all of our investments in debt securities. The Adviser does not risk rate our equity securities. For syndicated loans that have been rated by a Nationally Recognized Statistical Rating Organization (NRSRO) (as defined in Rule 2a-7 under the 1940 Act), the Adviser generally uses the average of two corporate level NRSRO s risk ratings for such security. For all other debt securities, the Adviser uses a proprietary risk rating system. While the Adviser seeks to mirror the NRSRO systems, we cannot provide any assurance that the Adviser s risk rating system will provide the same risk rating as an NRSRO for these securities. The Adviser s risk rating system is used to estimate the probability of default on debt securities and the expected loss if there is a default. The Adviser s risk rating system uses a scale of 0 to >10, with >10 being the lowest probability of default. It is the Adviser s understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on an NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, the Adviser s scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB from an NRSRO; however, no assurance can be given that a >10 on the Adviser s scale is equal to a BBB or Baa2 on an NRSRO scale. The Adviser s risk rating system covers both qualitative and quantitative aspects of the

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business and the securities we hold. During the three months ended June 30, 2014, we modified our risk rating model to incorporate additional factors in our qualitative and quantitative analysis. While the overall process did not change, we believe the additional factors enhance the quality of the risk ratings of our investments. No adjustments were made to prior periods as a result of this modification.

The following table reflects risk ratings for all proprietary loans in our portfolio as of December 31, 2014 and September 30, 2014, representing approximately 78.2% and 80.8%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of December 31, 2014	As of September 30, 2014
Highest	**8.0**	9.0
Average	**5.7**	5.9
Weighted Average	**5.4**	5.2
Lowest	**3.0**	2.0

The following table reflects corporate level risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO as of December 31, 2014 and September 30, 2014, representing approximately 19.7% and 16.6%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of December 31, 2014	As of September 30, 2014
Highest	**6.0**	6.0
Average	**4.6**	4.6
Weighted Average	**4.7**	4.8
Lowest	**3.0**	3.5

In addition, there was one syndicated loan in our portfolio that was not rated by an NRSRO as of December 31, 2014 and September 30, 2014 and it represented 2.1% and 2.6%, respectively, of the principal balance of all debt investments in our portfolio. For the periods ended December 31, 2014 and September 30, 2014 the syndicated loan had a risk rating of 4.

Tax Status

Federal Income Taxes

We intend to continue to maintain our qualification as a RIC under Subchapter M of the Code for federal income tax purposes. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains that we distribute to our stockholders. To maintain our qualification as a RIC, we must meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must also meet certain annual stockholder distribution requirements. To satisfy the RIC annual distribution requirement, we must distribute to stockholders at least 90.0% of our investment company taxable income, as defined by the Code. Our policy generally is to make distributions to our stockholders in an amount up to 100.0% of our investment company taxable income.

In an effort to limit certain federal excise taxes imposed on RICs, we currently intend to distribute to our stockholders, during each calendar year, an amount at least equal to the sum of: (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gain net income for the one-year period ending on October 31 of the calendar year, and (3) any ordinary income and capital gain net income from preceding years that were not distributed during such years. Under the RIC Modernization Act (the RIC Act), we are permitted to carry forward capital losses incurred in taxable years beginning after September 30, 2011, for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under the previous regulation.

Revenue Recognition

Interest Income Recognition

Interest income, adjusted for amortization of premiums, acquisition costs, and amendment fees and the accretion of original issue discounts (OID), is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management s judgment, are likely to remain current, or, due to a restructuring, the interest income is deemed to be collectible. As of December 31, 2014, two portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $33.6 million, or 9.4% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately $8.3 million, or 2.8% of the fair value of all debt investments in our portfolio. As of September 30, 2014, three portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $51.4 million, or 16.1% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately $13.2 million, or 5.2% of the fair value of all debt investments in our portfolio.

We currently hold, and we expect to hold in the future, some loans in our portfolio that contain OID or PIK provisions. We recognize OID for loans originally issued at discounts and recognize the income over the life of the obligation based on an effective yield calculation. PIK interest, computed at the contractual rate specified in a loan agreement, is added to the principal balance of a loan and recorded as income over the life of the obligation. Therefore, the actual collection of PIK income may be deferred until the time of debt principal repayment. To maintain our ability to be taxed as a RIC, we may need to pay out both of our OID and PIK non-cash income amounts in the form of distributions, even though we have not yet collected the cash on either.

As of December 31 and September 30, 2014, we had 20 and 17 original OID loans, respectively, primarily from the syndicated investments in our portfolio. We recorded OID income of $63 and $61 for the three months ended December 31, 2014 and 2013, respectively. The unamortized balance of OID investments as of December 31 and September 30, 2014, totaled $1.0 million and $0.6 million, respectively. As of December 31 and September 30, 2014, we had two and three investments which had a PIK interest component. We recorded PIK income of $67 and $92 for the three months ended December 31, 2014 and 2013, respectively. We collected $0.2 million and $0 PIK interest in cash in each of the three months ended December 31, 2014 and 2013, respectively.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company, typically from an exit or sale. We received an aggregate of $0.9 million in success fees during the three months ended December 31, 2014, which resulted from $0.6 million related to the early payoff of NAAS at a realized gain and $0.3 million prepayment of success fees by FDF. We received $0.2 million in success fees during the three months ended December 31, 2013 related to our sale of substantially all of the assets in Lindmark and the ensuing pay down of our debt investments at par in September 2013.

Dividend income on equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. During the three months ended December 31, 2014, we recorded an aggregate of $0.1 million of dividend income, net of return of capital cost basis adjustments, which resulted from our preferred equity investment in FDF. We did not record any dividend income during the three months ended December 31, 2013.

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Success fees and dividend income are recorded in other income in our accompanying *Condensed Consolidated Statements of Operations.*

Recent Accounting Pronouncements

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

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2015 annual stockholders meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below the then current net asset value, or NAV, per common share during a one year period, which we refer to as the Stockholder Approval, beginning on February 12, 2015, and expiring on the first anniversary of such date. We intend to seek similar stockholder approval at our 2016 annual stockholders meeting. To sell shares of common stock pursuant to this authorization, no further authorization from our stockholders will be solicited but the number of common shares issued and sold pursuant to such authority cannot exceed 25% of our then outstanding common stock immediately prior to such sale and a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (i) find that the sale is in our best interests and in the best interests of our stockholders and (ii) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares of common stock, or immediately prior to the issuance of such common stock, that the price at which such shares of common stock are to be sold is not less than a price which closely approximates the market value of those shares of common stock, less any distributing commission or discount.

Any offering of common stock below its NAV per share will be designed to raise capital for investment in accordance with our investment objectives.

In making a determination that an offering of common stock below its NAV per share is in our and our stockholders best interests, our Board of Directors will consider a variety of factors including:

- the effect that an offering below NAV per common share would have on our common stockholders, including the potential dilution they would experience as a result of the offering;

- the amount per common share by which the offering price per share and the net proceeds per share are less than our most recently determined NAV per common share;

- the relationship of recent market prices of common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

- whether the estimated offering price would closely approximate the market value of shares of our common stock;

- the potential market impact of being able to raise capital during financial market difficulties;

- the nature of any new investors anticipated to acquire shares of our common stock in the offering;

- the anticipated rate of return on and quality, type and availability of investments; and the leverage available to us.

Our Board of Directors will also consider the fact that sales of shares of common stock at a discount will benefit the Adviser as the Adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other of our securities or from the offering of common stock at a premium to NAV per share.

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PLAN OF DISTRIBUTION

Upon written instructions from the Company, KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., as applicable, will each use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, the common stock under the terms and subject to the conditions set forth in each Sales Agent s Sales Agreement. We will instruct each Sales Agent as to the amount of common stock to be sold by such Sales Agent; provided, however, that, subject to the terms of the Sales Agreements, any sales of common stock pursuant to the Sales Agreements will only be effected by or through only one of KeyBanc Capital Markets Inc. or Cantor Fitzgerald & Co. on any single given day, but in no event by more than one Sales Agent. We may instruct the Sales Agents not to sell common stock if the sales cannot be effected at or above the price designated by the Company in any instruction. We or the Sales Agents may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers transactions on the NASDAQ or that otherwise qualify for delivery of a prospectus to the NASDAQ in accordance with Rule 153 under the Securities Act, at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with each Sales Agent.

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

Each Sales Agent will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through it as Sales Agent under the applicable Sales Agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Agents under the terms of the Sales Agreement, will be approximately $100,000, which includes our legal, accounting and printing costs and various other fees associated with the offering. Additionally, we have agreed to reimburse the Sales Agents for their reasonable out-of-pocket expenses, including the fees and disbursements of one counsel incurred by the Sales Agents in connection with this offering up to an aggregate amount of $150,000 if shares of our common stock in this offering having an aggregate offering price of $25,000,000 or more have not been offered and sold collectively under the Sales Agreements by the eighteen-month anniversary of the date of the Sales Agreements (or such earlier date at which we terminate such agreements).

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

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

The offering of our shares of common stock pursuant to the Sales Agreements will terminate upon the earlier of (i) the sale of all common stock subject to the Sales Agreements or (ii) the termination of the Sales Agreements in accordance with their terms. Each Sales Agreement may be terminated by us in our sole discretion under the circumstances specified in the Sales Agreement by giving five days notice to the applicable Sales Agent. In addition, each Sales Agent may terminate its Sales Agreement under the circumstances specified in such Sales Agreement by giving five days notice to the Company.

The Sales Agents and their respective affiliates may perform commercial banking, investment banking and advisory services for us or our affiliates from time to time for which they have received customary fees and expenses. The Sales Agents and their respective affiliates may, from time to time, engage in transactions with and perform services for us or our affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Sales Agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The Sales Agents and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The principal business address of KeyBanc Capital Markets Inc. is 127 Public Square, 4th Floor, Cleveland, Ohio 44114 and the principal business address of Cantor Fitzgerald & Co. is 499 Park Avenue, New York, New York 10022.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. Certain matters of Maryland law, including the validity of the common stock to be issued in connection with this offering, will be passed upon for us by Venable LLP, Baltimore, Maryland. The Sales Agents are being represented in connection with this offering by Troutman Saunders LLP. Bass, Berry & Sims PLC and Troutman Sanders LLP may rely as to certain matters of Maryland law upon the opinion of Venable LLP.

EXPERTS

The financial statements as of September 30, 2014 and September 30, 2013 and for each of the three years in the period ended September 30, 2014 and management s assessment of the effectiveness of internal control over financial reporting (which is included in the Report of Management on Internal Controls) as of September 30, 2014 included in the accompanying prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

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

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

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

INDEX TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	December 31, 2014	September 30, 2014
ASSETS		
Investments at fair value:		
Non-Control/Non-Affiliate investments (Cost of **$283,539** and $225,845, respectively)	**$ 249,107**	$ 198,926
Affiliate investments (Cost of **$60,275** and $61,281, respectively)	**55,747**	57,006
Control investments (Cost of **$42,046** and $62,159, respectively)	**21,770**	25,354
Total investments at fair value (Cost of **$385,860** and $349,285, respectively)	**326,624**	281,286
Cash and cash equivalents	**6,380**	6,314
Restricted cash and cash equivalents	**974**	675
Interest receivable	**3,583**	2,767
Due from custodian	**1,999**	6,022
Deferred financing fees	**3,039**	3,340
Other assets	**1,382**	1,025
TOTAL ASSETS	**$ 343,981**	$ 301,429
LIABILITIES		
Borrowings at fair value (Cost of **$83,500** and $36,700, respectively)	**$ 84,078**	$ 38,013
Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **4,000,000** shares authorized and **2,440,000** shares issued and outstanding	**61,000**	61,000
Accounts payable and accrued expenses	**590**	462
Interest payable	**207**	146
Fees due to Adviser(A)	**1,470**	875
Fee due to Administrator(A)	**281**	218
Other liabilities	**774**	1,055
TOTAL LIABILITIES	**$ 148,400**	$ 101,769
Commitments and contingencies(B)		
NET ASSETS		
Common stock, $0.001 par value per share, **46,000,000** shares authorized and **21,000,160** shares issued and outstanding	**$ 21**	$ 21

Capital in excess of par value		**292,859**		307,348
Note receivable from employee[(A)]		**(100)**		(100)
Cumulative net unrealized depreciation of investments		**(59,236)**		(67,999)
Cumulative net unrealized appreciation of other		**(639)**		(1,374)
Overdistributed net investment income		**(3,873)**		(1,928)
Accumulated net realized losses		**(33,451)**		(36,308)
TOTAL NET ASSETS	**$**	**195,581**	$	199,660
NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	**$**	**9.31**	$	9.51

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended December 31, 2014	2013
INVESTMENT INCOME		
Interest income		
Non-Control/Non-Affiliate investments	**$ 6,343**	$ 6,399
Affiliate investments	**1,121**	219
Control investments	**182**	1,569
Other	**2**	4
Total interest income	**7,648**	8,191
Other income		
Non-Control/Non-Affiliate investments	**1,078**	1
Affiliate investments		
Control investments		200
Total other income	**1,078**	201
Total investment income	**8,726**	8,392
EXPENSES		
Base management fee[(A)]	**1,597**	1,456
Loan servicing fee[(A)]	**832**	884
Incentive fee[(A)]	**922**	974
Administration fee[(A)]	**281**	203
Interest expense on borrowings	**678**	615
Dividend expense on mandatorily redeemable preferred stock	**1,029**	686
Amortization of deferred financing fees	**302**	315
Professional fees	**374**	290
Other general and administrative expenses	**264**	321
Expenses before credits from Adviser	**6,279**	5,744
Credit to base management fee - loan servicing fee[(A)]	**(832)**	(884)
Credits to fees from Adviser - other[(A)]	**(412)**	(878)
Total expenses, net of credits	**5,035**	3,982
NET INVESTMENT INCOME	**3,691**	4,410

NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized (loss) gain:				
Non-Control/Non-Affiliate investments		**1,578**		
Control investments		**(14,459)**		(10,732)
Escrows		**23**		(42)
Total net realized loss		**(12,858)**		(10,774)
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments		**(7,513)**		2,094
Affiliate investments		**(252)**		(155)
Control investments		**16,528**		14,938
Other		**735**		(7)
Total net unrealized appreciation		**9,498**		16,870
Net realized and unrealized (loss) gain		**(3,360)**		6,096
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**331**	$	10,506
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	**$**	**0.18**	$	0.21
Net increase in net assets resulting from operations	**$**	**0.02**	$	0.50
Distributions declared and paid	**$**	**0.21**	$	0.21
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: Basic and Diluted		**21,000,160**		21,000,160

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

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

	Three Months Ended December 31,	
	2014	**2013**
OPERATIONS		
Net investment income	**$ 3,691**	$ 4,410
Net realized loss on investments	**(12,858)**	(10,774)
Net unrealized appreciation of investments	**8,763**	16,877
Net unrealized depreciation (appreciation) of other	**735**	(7)
Net increase in net assets resulting from operations	**331**	10,506
DISTRIBUTIONS		
Distributions to common stockholders	**(4,410)**	(4,410)
NET (DECREASE) INCREASE IN NET ASSETS	**(4,079)**	6,096
NET ASSETS, BEGINNING OF PERIOD	**199,660**	205,992
NET ASSETS, END OF PERIOD	**$ 195,581**	$ 212,088

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Three Months Ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	**$ 331**	$ 10,506
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	**(61,465)**	(44,881)
Principal repayments on investments	**4,497**	24,667
Net proceeds from sale of investments	**7,713**	
Increase in investment balance due to paid-in-kind interest	**(70)**	(53)
Net change in premiums, discounts and amortization	**371**	84
Interest payments received on non-accrual loans	**(502)**	
Net realized loss on investments	**12,881**	10,732
Net unrealized appreciation of investments	**(8,763)**	(16,877)
Net unrealized (depreciation) appreciation other	**(735)**	7
(Increase) decrease in restricted cash and cash equivalents	**(299)**	307
Amortization of deferred financing fees	**302**	315
(Increase) decrease in interest receivable	**(816)**	3
Decrease in due from custodian	**4,023**	14,344
(Increase) decrease in other assets	**(357)**	177
Increase (decrease) in accounts payable and accrued expenses	**128**	(2)
Increase (decrease) in interest payable	**61**	(22)
Increase (decrease) in fees due to Adviser(A)	**595**	(851)
Increase in fee due to Administrator(A)	**63**	77
(Decrease) increase in other liabilities	**(281)**	267
Net cash used in operating activities	**(42,323)**	(1,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	**59,500**	42,400
Repayments on borrowings	**(12,700)**	(41,600)
Deferred financing fees	**(1)**	
Distributions paid to common stockholders	**(4,410)**	(4,410)
Net cash provided by (used in) financing activities	**42,389**	(3,610)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**66**	(4,810)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**6,314**		13,900
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**6,380**	$	9,090

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS[N]:					
Proprietary Investments:					
AG Transportation Holdings, LLC	Cargo transport	Senior Subordinated Term Debt (13.3%, Due 3/2018)[D]	$ 13,000	$ 12,920	$ 12,805
		Member Profit Participation (18.0% ownership)[F] [H]		1,000	
		Profit Participation Warrants (7.0% ownership)[F] [H]		244	
				14,164	12,805
Allison Publications, LLC	Printing and publishing	Line of Credit, $0 available (8.3%, Due 9/2016)[D]	600	600	596
		Senior Term Debt (8.3%, Due 9/2018)[D]	2,875	2,875	2,853
		Senior Term Debt (13.0%, Due 9/2018)[C] [D]	5,400	5,400	5,366
				8,875	8,815
Alloy Die Casting Co.	Diversified/ conglomerate Manufacturing	Senior Term Debt (13.5%, Due 10/2018)[D]	5,235	5,235	5,183
		Preferred Stock (1,742 units)[F] [H]		1,742	1,585
		Common Stock (270 units)[F] [H]		18	
				6,995	6,768
Behrens Manufacturing, LLC	Diversified/ conglomerate manufacturing	Senior Term Debt (13.0%, Due 12/2018)[D]	4,275	4,275	4,232
		Preferred Stock (1,252 shares)[F] [H] [K]		1,253	1,203
				5,528	5,435
B+T Group Acquisition Inc.	Telecommunications		300	300	300

		Line of Credit, $300 available (10.0%, Due 6/2015)(J)			
		Senior Term Debt (13.0%, Due 12/2019)(J)	6,000	6,000	6,000
		Convertible Preferred Stock (5,503 units)(H) (J) (K)		1,799	1,799
				8,099	8,099
Chinese Yellow Pages Company	Printing and publishing	Line of Credit, $0 available (7.3%, Due 2/2015)(D)	108	108	81
Circuitronics, Inc.	Diversified/ conglomerate manufacturing	Line of Credit, $1,500 available (6.5%, Due 12/2017)(J)	1,500	1,500	1,500
		Senior Term Debt (9.5%, Due 12/2019)(J)	11,000	11,000	11,000
		Common Stock (100 shares) (H) (J)		1,000	1,000
				13,500	13,500
Francis Drilling Fluids, Ltd.	Oil and gas	Senior Subordinated Term Debt (11.4%, Due 4/2020)(D)	15,000	15,000	14,025
		Senior Subordinated Term Debt (10.3%, Due 4/2020)(D)	7,000	7,000	6,545
		Preferred Equity Units (999 units)(F) (H)		648	747
		Common Equity Units (999 units)(F) H)		1	206
				22,649	21,523
Funko, LLC	Personal and non-durable consumer products	Senior Subordinated Term Debt (9.5%, Due 5/2019)(J)(G)	7,500	7,500	7,500
		Senior Subordinated Term Debt (9.5%, Due 5/2019)(J)(G)		2,000	2,000
		Preferred Equity Units (1,305 units)(F) (H)		1,305	9,511
				10,805	19,011
GFRC Holdings, LLC	Buildings and real estate	Line of Credit, $130 available (10.5%, Due 12/2014)(D)	270	270	134
		Senior Term Debt (10.5%, Due 6/2016)(D)	4,924	4,924	2,435
		Senior Subordinated Term Debt (13.0%, Due 6/2016)(D)	6,598	6,598	1,064
				11,792	3,633

Heartland Communications Group	Broadcasting and entertainment	Line of Credit, $0 available (5.0%, Due 9/2014)(D) (G) (I)	100	95	65
		Line of Credit, $0 available (10.0%, Due 9/2014)(D) (G) (I)	100	91	65
		Senior Term Debt (5.0%, Due 9/2014)(D) (G) (I)	4,342	4,141	824
		Common Stock Warrants (8.8% ownership)(F) (H)		66	
				4,393	954
J. America, Inc.	Personal and non-durable consumer products	Senior Subordinated Term Debt (10.4%, Due 12/2019)(D)(G)	7,500	7,500	7,125
		Senior Subordinated Term Debt (11.5%, Due 12/2019)(D)(G)	9,500	9,500	8,978
				17,000	16,103
Leeds Novamark Capital I, L.P.	Private equity fund healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, $2,778 uncalled capital commitment)(H) (M)		217	49

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(N) (Continued):					
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Senior Term Debt (11.0%, Due 11/2014)(D)	$ 6,699	$ 6,699	$ 3,724
Meridian Rack & Pinion, Inc.	Automobile	Senior Term Debt (13.5%, Due 12/2018)(D)	4,140	4,140	4,114
		Convertible Preferred Stock (1,449 shares)(F) (H)		1,449	1,279
				5,589	5,393
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (9.0%, Due 3/2015)(D)	1,000	1,000	890
		Senior Term Debt (9.0%, Due 3/2015)(D)	4,125	4,125	1,096
		Senior Term Debt (9.0%, Due 3/2015)(C) (D)	4,053	4,053	457
				9,178	2,443
Saunders & Associates	Electronics	Line of Credit, $0 available (11.3%, Due 5/2013)(D)	917	917	275
		Senior Term Debt (11.3%, Due 5/2013)(D)	8,947	8,947	2,684
				9,864	2,959
Southern Petroleum Laboratories, Inc.	Oil and gas	Senior Subordinated Term Debt (11.5%, Due 2/2020)(D)	8,000	8,000	7,940
		Common Stock (100 shares)(F) (H)		750	750
				8,750	8,690

Sunburst Media - Louisiana, LLC	Broadcasting and entertainment	Senior Term Debt (8.5%, Due 2/2016)(F) (G)	6,026	6,026	1,600
Vision Government Solutions, Inc.	Diversified/conglomerate service	Line of Credit, $1,000 available (7.5%, Due 12/2017) (J)	1,000	1,000	1,000
		Senior Term Debt (9.75%, Due 12/2019) (J)	9,000	9,000	9,000
				10,000	10,000
WadeCo Specialties, Inc.	Oil and gas	Line of Credit, $3,526 available (8.0%, Due 3/2016)(D)	1,474	1,474	1,416
		Senior Term Debt (8.0%, Due 3/2019)(D)	13,000	13,000	12,480
		Senior Subordinated Term Debt (12.0%, Due 3/2019)(D)	7,000	7,000	6,685
		Convertible Preferred Stock (1,000 shares)(F) (H)		313	516
				21,787	21,097
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Senior Term Debt (7.5%, Due 4/2016)(D)	50	50	50
		Senior Term Debt (12.5%, Due 4/2016)(D)	4,000	4,000	3,728
		Common Stock (58,333 shares) (F) (H)		408	58
				4,458	3,836
Subtotal Proprietary Investments				**$ 206,476**	**$ 176,518**
Syndicated Investments:					
Ameriqual Group, LLC	Beverage, food and tobacco	Senior Term Debt (9.0% and 1.5% PIK, Due 3/2016)(E)	$ 7,344	$ 7,300	$ 6,243
Ardent Medical Services, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (11.0%, Due 1/2019)(E)	7,143	7,135	7,107
Autoparts Holdings Limited	Automobile	Senior Term Debt (10.5%, Due 1/2018)(E)	700	697	684
Blue Coat Systems, Inc.	Electronics	Senior Subordinated Term Debt (9.5%, Due 6/2020)(E)	3,000	2,975	2,925
Envision Acquisition Company, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (9.8%, Due	2,500	2,455	2,463

		11/2021)(E)			
First American Payment Systems, L.P.	Finance	Senior Subordinated Term Debt (10.8%, Due 4/2019)(E)	4,195	4,168	4,158
GTCR Valor Companies, Inc.	Electronics	Senior Subordinated Term Debt (9.5%, Due 11/2021)(E)	3,000	2,982	2,880
New Trident Holdcorp, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (10.3%, Due 7/2020)(E)	4,000	3,987	3,960

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS[N] (Continued):					
PLATO Learning, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (11.3%, Due 5/2019)[E]	$ 5,000	$ 4,928	$ 4,250
PSC Industrial Holdings Corp	Oil and gas	Senior Subordinated Term Debt (10.5%, Due 12/2021)[E]	3,500	3,430	3,430
RP Crown Parent, LLC	Electronics	Senior Subordinated Term Debt (11.3%, Due 12/2019)[E]	2,000	1,968	1,660
Sensus USA, Inc.	Electronics	Senior Term Debt (8.5%, Due 5/2018)[E]	500	497	475
SourceHOV LLC	Finance	Senior Subordinated Term Debt (11.5%, Due 4/2020) [E]	5,000	4,803	4,762
Targus Group International, Inc.	Textiles and leather	Senior Term Debt (11.0% and 1.0% PIK, Due 5/2016)[E]	9,031	8,964	7,496
The Active Network	Electronics	Senior Subordinated Term Debt (9.5%, Due 11/2021)[E]	1,000	995	965
Vertellus Specialties, Inc.	Chemicals, plastics and rubber	Senior Term Debt (10.5%, Due 10/2019)[E]	3,990	3,853	3,751
Vision Solutions, Inc.	Electronics	Senior Term Debt (9.5%, Due 7/2017)[E]	11,000	10,957	10,559
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (9.3%, Due 11/2021)[E]	4,500	4,474	4,342

W3, Co.	Oil and gas	Senior Subordinated Term Debt (9.3%, Due 9/2020)(E)	499	495	479
Subtotal - Syndicated Investments				**$ 77,063**	**$ 72,589**
Total Non-Control/Non-Affiliate Investments (represented 76.3% of total investments at fair value)				**$ 283,539**	**$ 249,107**
AFFILIATE INVESTMENTS(O) :					
Ashland Acquisition, LLC	Printing and publishing	Line of Credit, $1,500 available (12.0%, Due 7/2016)(D) (G)	$	$	$
		Senior Term Debt (12.0%, Due 7/2018)(D) (G)	7,000	7,000	7,018
		Preferred Equity Units (4,400 units)(F) (H)		440	205
		Common Equity Units (4,400 units)(F) (H)			
				7,440	7,223
Edge Adhesives Holdings, Inc.	Diversified/conglomerate manufacturing	Line of Credit, $567 available (12.5%, Due 8/2015)(D)	433	433	431
		Senior Term Debt (12.5%, Due 2/2019)(D)	6,200	6,200	6,184
		Senior Subordinated Term Debt (13.8%, Due 2/2019)(D)	1,600	1,600	1,598
		Convertible Preferred Stock (2,316 shares)(F) (H)		2,316	2,613
				10,549	10,826
FedCap Partners, LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units)(H) (L)		1,634	1,996
Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Senior Subordinated Term Debt (12.0%, Due 3/2020)(D)	6,000	6,000	6,000
		Common Stock (100,000 shares)(F) (H)		1,000	1,419
				7,000	7,419
RBC Acquisition Corp.	Healthcare, education	Line of Credit, $0	4,000	4,000	4,000

	and childcare	available (9.0%, Due 12/2015)(F)			
		Mortgage Note (9.5%, Due 12/2015)(F) (G)	6,891	6,891	6,891
		Senior Term Debt (12.0%, Due 12/2015)(C) (F)	11,392	11,392	11,392
		Senior Subordinated Term Debt (12.5%, Due 12/2015)(F)(G)	6,000	6,000	6,000
		Preferred Stock (4,999,000 shares)(F) (H) (K)		4,999	
		Common Stock (2,000,000 shares)(F) (H)		370	
				33,652	28,283
Total Affiliate Investments (represented 17.0% of total investments at fair value)				**$ 60,275**	**$ 55,747**
CONTROL INVESTMENTS(P):					
Defiance Integrated Technologies, Inc.	Automobile	Senior Subordinated Term Debt (11.0%, Due 4/2016)(C) (F)	$ 6,465	$ 6,465	$ 6,465
		Common Stock (15,500 shares)(F) (H)		1	7,855
				6,466	14,320

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
CONTROL INVESTMENTS[(P)] (Continued):					
Lindmark Acquisition, LLC	Broadcasting and entertainment	Senior Subordinated Term Debt, $3,120 available (25.0%, Due Upon Demand)[(F) (G)]	$	$	$
		Success Fee on Senior Subordinated Term Debt[(F)]			84
		Common Stock (100 shares)[(F) (H)]		317	
				317	84
Sunshine Media Holdings	Printing and publishing	Line of Credit, $400 available (4.8%, Due 5/2016)[(D) (I)]	1,600	1,600	400
		Senior Term Debt (4.8%, Due 5/2016)[(D) (I)]	16,948	16,948	4,237
		Senior Term Debt (5.5%, Due 5/2016)[(C) (D) (I)]	10,700	10,700	2,729
		Preferred Stock (15,270 shares)[(F) (H) (K)]		5,275	
		Common Stock (1,867 shares)[(F) (H)]		740	
		Common Stock Warrants (72 shares)[(F) (H)]			
				35,263	7,366
Total Control Investments (represented 6.7% of total investments at fair value)				**$ 42,046**	**$ 21,770**
TOTAL INVESTMENTS				**$ 385,860**	**$ 326,624**

(A) Certain of the securities listed in this schedule are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $268.6 million at fair value, are pledged as collateral to our Credit Facility, as described further in Note 5 *Borrowings.* Additionally, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the Investment Company Act of 1940, as amended, (the 1940 Act) as of December 31, 2014.

(B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate (LIBOR)) in effect at December 31, 2014, and due dates represent the contractual maturity date. If applicable, paid-in-kind (PIK) interest rates are noted separately from the cash interest rates. Senior debt securities generally take the form of first priority liens on the assets of the underlying businesses.

(C) Last out tranche (LOT) of debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after all other debt holders.

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

(E) Fair value was based on the indicative bid price on or near December 31, 2014, offered by the respective syndication agent s trading desk.

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

(G) Debt security has a fixed interest rate.

(H) Investment is non-income producing.

(I) Investment is on non-accrual status.

(J) New or follow-on proprietary investment valued at cost, as it was determined that the price paid during the three months ended December 31, 2014 best represents fair value as of December 31, 2014.

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

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

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

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

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

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company[A]	**Industry**	**Investment[B]**	**Principal**	**Cost**	**Fair Value**
NON-CONTROL/NON-AFFILIATE INVESTMENTS[P]:					
Proprietary Investments:					
AG Transportation Holdings, LLC	Cargo transport	Senior Subordinated Term Debt (13.3%, Due 3/2018)[D]	$ 13,000	$ 12,899	$ 12,838
		Member Profit Participation (18.0% ownership)[F] [H]		1,000	
		Profit Participation Warrants (7.0% ownership)[F] [H]		244	
				14,143	12,838
Allison Publications, LLC	Printing and publishing	Line of Credit, $0 available (8.3%, Due 9/2016)[D]	600	600	598
		Senior Term Debt (8.3%, Due 9/2018)[D]	2,875	2,875	2,864
		Senior Term Debt (13.0%, Due 9/2018)[C] [D]	5,400	5,400	5,380
				8,875	8,842
Alloy Die Casting Co.	Diversified/conglomerate manufacturing	Senior Term Debt (13.5%, Due 10/2018)[D]	5,235	5,235	5,228
		Preferred Stock (1,742 units)[F] [H]		1,742	1,122
		Common Stock (270 units)[F] [H]		18	
				6,995	6,350
Behrens Manufacturing, LLC	Diversified/conglomerate manufacturing	Senior Term Debt (13.0%, Due 12/2018)[D]	4,275	4,275	4,280
		Preferred Stock (1,253 shares)[F] [H] [M]		1,253	1,150

				5,528	5,430
Chinese Yellow Pages Company	Printing and publishing	Line of Credit, $0 available (7.3%, Due 2/2015)(D)	108	108	95
Francis Drilling Fluids, Ltd.	Oil and gas	Senior Subordinated Term Debt (12.4%, Due 11/2017)(D)	15,000	15,000	14,550
		Senior Subordinated Term Debt (11.3%, Due 11/2017)(J)	7,000	7,000	7,000
		Preferred Equity Units (999 units)(F) (H)		983	1,081
		Common Equity Units (999 units)(F) H)		1	206
				22,984	22,837
Funko, LLC	Personal and non-durable consumer products	Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019)(D)	7,645	7,645	7,817
		Preferred Equity Units (1,305 units)(F) (H)		1,305	5,691
				8,950	13,508
GFRC Holdings, LLC	Buildings and real estate	Line of Credit, $130 available (10.5%, Due 12/2014)(D)	270	270	149
		Senior Term Debt (10.5%, Due 6/2016)(D)	4,924	4,924	2,708
		Senior Subordinated Term Debt (13.0%, Due 6/2016)(D)	6,598	6,598	3,761
				11,792	6,618
Heartland Communications Group	Broadcasting and entertainment	Line of Credit, $0 available (5.0%, Due 9/2014)(D) (G) (I)	100	97	65
		Line of Credit, $0 available (10.0%, Due 9/2014)(D) (G) (I)	100	93	65
		Senior Term Debt (5.0%, Due 9/2014)(D) (G) (I)	4,342	4,196	809
		Common Stock Warrants (8.8% ownership)(F) (H)		66	
				4,452	939
J.America, Inc.	Personal and non-durable consumer products	Senior Subordinated Term Debt (10.4%, Due	7,500	7,500	7,350

		12/2019)(D)(G)			
		Senior Subordinated Term Debt (11.5%, Due 12/2019)(D)(G)	9,500	9,500	9,298
				17,000	16,648
Leeds Novamark Capital I, L.P.	Private equity fund healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, $2,827 uncalled capital commitment)(H) (O)		173	36
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Senior Term Debt (12.0%, Due 1/2014)(D)	6,699	6,699	3,757

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS[P] (Continued):					
Meridian Rack & Pinion, Inc.	Automobile	Senior Term Debt (13.5%, Due 12/2018)[D]	$ 4,140	$ 4,140	$ 4,135
		Convertible Preferred Stock (1,449 shares)[F] [H]		1,449	1,549
				5,589	5,684
North American Aircraft Services, LLC	Aerospace and defense	Senior Subordinated Term Debt (12.5%, Due 8/2016)[F] [L]	2,115	2,115	2,115
		Success Fee on Senior Subordinated Term Debt[F] [L]			639
		Common Stock Warrants (35,000 shares)[F] [H] [L]		350	1,928
				2,465	4,682
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (9.0%, Due 3/2015)[D]	1,000	1,000	881
		Senior Term Debt (9.0%, Due 3/2015)[D]	4,125	4,125	485
		Senior Term Debt (9.0%, Due 3/2015)[C] [D]	4,053	4,053	457
				9,178	1,823
Saunders & Associates	Electronics	Line of Credit, $0 available (11.3%, Due 5/2013)[D]	917	917	413
		Senior Term Debt (11.3%, Due 5/2013)[D]	8,947	8,947	4,026
				9,864	4,439
Southern Petroleum Laboratories, Inc.	Oil and gas	Senior Subordinated Term Debt (11.5%, Due 2/2020)[J]	8,000	8,000	8,000

		Common Stock (100 shares)(H) (J)		750	750
				8,750	8,750
Sunburst Media - Louisiana, LLC	Broadcasting and entertainment	Senior Term Debt (8.5%, Due 2/2016)(F) (G)	6,026	6,026	1,600
WadeCo Specialties, Inc.	Oil and gas	Line of Credit, $526 available (8.0%, Due 3/2015)(D)	1,474	1,474	1,452
		Senior Term Debt (8.0%, Due 3/2019)(D)	4,500	4,500	4,433
		Senior Subordinated Term Debt (12.0%, Due 3/2019)(D)	4,500	4,500	4,421
		Convertible Preferred Stock (1,000 shares)(F) (H)		250	454
				10,724	10,760
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Senior Term Debt (7.5%, Due 4/2016)(D)	50	50	46
		Senior Term Debt (12.5%, Due 4/2016)(D)	4,000	4,000	3,699
		Common Stock (58,333 shares)(H)		408	58
				4,458	3,803
Subtotal Proprietary Investments				**$ 164,753**	**$ 139,439**
Syndicated Investments:					
Ameriqual Group, LLC	Beverage, food and tobacco	Senior Term Debt (9.0% and 1.5% PIK, Due 3/2016)(E)	$ 7,335	$ 7,283	$ 6,235
Ardent Medical Services, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (11.0%, Due 1/2019)(E)	7,143	7,135	7,224
Autoparts Holdings Limited	Automobile	Senior Term Debt (10.5%, Due 1/2018)(E)	833	830	800
Blue Coat Systems, Inc.	Electronics	Senior Subordinated Term Debt (9.5%, Due 6/2020)(E)	3,000	2,974	3,038
Envision Acquisition Company, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (9.8%, Due 11/2021)(E)	2,500	2,454	2,500
First American Payment Systems, L.P.	Finance	Senior Subordinated Term Debt (10.8%, Due 4/2019)(E)	4,195	4,167	4,205

GTCR Valor Companies, Inc.	Electronics	Senior Subordinated Term Debt (9.5%, Due 11/2021)[(E)]	3,000	2,982	2,970
New Trident Holdcorp, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (10.3%, Due 7/2020)[(E)]	4,000	3,987	4,000
PLATO Learning, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (11.3%, Due 5/2019)[(E)]	5,000	4,925	5,000

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company[(A)]	**Industry**	**Investment[(B)]**	**Principal**	**Cost**	**Fair Value**
NON-CONTROL/NON-AFFILIATE INVESTMENTS[(P)] (Continued):					
RP Crown Parent, LLC	Electronics	Senior Subordinated Term Debt (11.3%, Due 12/2019)[(E)]	$ 2,000	$ 1,967	$ 1,898
Sensus USA, Inc.	Electronics	Senior Term Debt (8.5%, Due 5/2018)[(E)]	500	497	495
Targus Group International, Inc.	Textiles and leather	Senior Term Debt (11.0% and 1.0% PIK, Due 5/2016)[(D)]	9,034	8,956	8,171
The Active Network	Electronics	Senior Subordinated Term Debt (9.5%, Due 11/2021)[(E)]	1,000	995	1,000
Vision Solutions, Inc.	Electronics	Senior Term Debt (9.5%, Due 7/2017)[(E)]	11,000	10,953	10,972
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (9.3%, Due 11/2021)[(E)]	500	493	495
W3, Co.	Oil and Gas	Senior Subordinated Term Debt (9.3%, Due 9/2020)[(E)]	499	494	484
Subtotal - Syndicated Investments				**$ 61,092**	**$ 59,487**
Total Non-Control/Non-Affiliate Investments (represented 70.7% of total investments at fair value)				**$ 225,845**	**$ 198,926**
AFFILATE INVESTMENTS[(Q)] :					
Ashland Acquisition, LLC	Printing and publishing	Line of Credit, $1,500 available (12.0%, Due	$	$	$

		7/2016)(D) (G)			
		Senior Term Debt (12.0%, Due 7/2018)(D) (G)	7,000	7,000	7,053
		Preferred Equity Units (4,400 units)(F) (H)		440	206
		Common Equity Units (4,400 units)(F) (H)			
				7,440	7,259
Edge Adhesives Holdings, Inc.	Diversified/conglomerate manufacturing	Line of Credit, $230 available (12.5%, Due 8/2015)(D)	770	770	768
		Senior Term Debt (12.5%, Due 2/2019)(D)	6,200	6,200	6,208
		Senior Subordinated Term Debt (13.8%, Due 2/2019)(D)	1,600	1,600	1,604
		Senior Subordinated Term Debt (13.8%, Due 11/2014)(J)	585	585	585
		Convertible Preferred Stock (2,316 shares)(F) (H)		2,316	2,885
				11,471	12,050
FedCap Partners, LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units)(H) (N)		1,718	2,238
Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Senior Subordinated Term Debt (12.0%, Due 3/2020)(D)	6,000	6,000	6,007
		Common Stock (100,000 shares)(F) (H)		1,000	1,169
				7,000	7,176
RBC Acquisition Corp.	Healthcare, education and childcare	Line of Credit, $0 available (9.0%, Due 6/2014)(F)	4,000	4,000	4,000
		Mortgage Note (9.5%, Due 12/2014)(F) (G)	6,891	6,891	6,891
		Senior Term Debt (12.0%, Due 12/2014)(C) (F)	11,392	11,392	11,392
		Senior Subordinated Term Debt (12.5%, Due 12/2014)(F)(G)	6,000	6,000	6,000
		Preferred Stock (4,999,000 shares)(F)		4,999	

		(H) (M)			
		Common Stock (2,000,000 shares)(F) (H)		370	
				33,652	28,283
Total Affiliate Investments (represented 20.3% of total investments at fair value)				**$ 61,281**	**$ 57,006**
CONTROL INVESTMENTS(R):					
Defiance Integrated Technologies, Inc.	Automobile	Senior Subordinated Term Debt (11.0%, Due 4/2016)(C) (F)	$ 6,545	$ 6,545	$ 6,545
		Common Stock (15,500 shares)(F) (H)		1	6,461
				6,546	13,006
Lindmark Acquisition, LLC	Broadcasting and entertainment	Senior Subordinated Term Debt, $3,120 available (25.0%, Due Upon Demand)(F) (G)			
		Success Fee on Senior Subordinated Term Debt(F)			89
		Common Stock (100 shares)(F) (H)		317	
				317	89

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company[(A)]	**Industry**	**Investment[(B)]**	**Principal**	**Cost**	**Fair Value**
CONTROL INVESTMENTS[(R)] (Continued):					
Midwest Metal Distribution, Inc.	Mining, steel, iron and non-precious metals	Senior Subordinated Term Debt (12.0%, Due 7/2015)[(F) (I)]	$ 18,281	$ 17,720	$ 4,455
		Preferred Stock (2,000 shares)[(F) (H) (M)]		2,175	
		Common Stock (501 shares)[(F) (H)]		138	
				20,033	4,455
Sunshine Media Holdings	Printing and publishing	Line of Credit, $400 available (4.8%, Due 5/2016)[(D) (I)]	1,600	1,600	424
		Senior Term Debt (4.8%, Due 5/2016)[(D) (I)]	16,948	16,948	4,491
		Senior Term Debt (5.5%, Due 5/2016)[(C) (D) (I)]	10,700	10,700	2,889
		Preferred Stock (15,270 shares)[(F) (H) (M)]		5,275	
		Common Stock (1,867 shares)[(F) (H)]		740	
		Common Stock Warrants (72 shares)[(F) (H)]			
				35,263	7,804
Total Control Investments (represented 9.0% of total investments at fair value)				**$ 62,159**	**$ 25,354**
TOTAL INVESTMENTS[(S)]				**$ 349,285**	**$ 281,286**

(A) Certain of the securities listed in this schedule are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $222.0 million at fair value, are pledged as collateral to our

Credit Facility, as described further in Note 5 *Borrowings.* Additionally, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the 1940 Act as of September 30, 2014.

(B) Percentages represent cash interest rates (which are generally indexed off of the 30-day LIBOR) in effect at September 30, 2014, and due dates represent the contractual maturity date. If applicable, PIK interest rates are noted separately from the cash interest rates. Senior debt securities generally take the form of first priority liens on the assets of the underlying businesses.

(C) LOT of debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after all other debt holders.

(D) Fair value was based on an internal yield analysis or on estimates of value submitted by SPSE.

(E) Fair value was based on the indicative bid price on or near September 30, 2014, offered by the respective syndication agent s trading desk.

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

(G) Debt security has a fixed interest rate.

(H) Investment is non-income producing.

(I) Investment is on non-accrual status.

(J) New or follow-on proprietary investment valued at cost, as it was determined that the price paid during the three months ended September 30, 2014 best represents fair value as of September 30, 2014.

(K) Subsequent to September 30, 2014, the debt interest rates on Francis Drilling Fluids, Ltd. were decreased to approximately 11.9% and 10.8%, respectively, based on a leverage grid.

(L) Subsequent to September 30, 2014, North American Aircraft Services, LLC debt and equity investment cost basis were paid off, resulting in a realized gain of $1.6 million and success fees of $0.6 million. As such, the fair value as of September 30, 2014 was based upon the payoff amount.

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

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

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

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

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

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

(S) Cumulative gross unrealized depreciation for federal income tax purposes is $84.3 million; cumulative gross unrealized appreciation for federal income tax purposes is $15.6 million. Cumulative net unrealized depreciation is $68.7 million, based on a tax cost of $349.9 million.

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

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

DECEMBER 31, 2014

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

NOTE 1. ORGANIZATION

Gladstone Capital Corporation was incorporated under the General Corporation Law of the State of Maryland on May 30, 2001, and completed an initial public offering on August 23, 2001. The terms the Company, we, our, and us all refer to Gladstone Capital Corporation and its consolidated subsidiaries. We are an externally-managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, we have elected to be treated for federal income tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States (U.S.). Our investment objectives are to (1) achieve and grow current income by investing in debt securities of established small and medium-sized businesses in the U.S. that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation of the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell them for capital gains.

Gladstone Business Loan, LLC (Business Loan), a wholly-owned subsidiary of ours, was established on February 3, 2003, for the sole purpose of owning a portion of our portfolio of investments in connection with our revolving line of credit.

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of ours, was established on November 21, 2006, for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial acquired this license in February 2007. The license enables us to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies. As of December 31 and September 30, 2014, we held no investments through Gladstone Financial.

The financial statements of the foregoing two subsidiaries are consolidated with ours. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by our investment advisor, Gladstone Management Corporation (the Adviser), a Delaware corporation and a Securities and Exchange Commission (the SEC) registered investment adviser and an affiliate of ours, pursuant to an investment advisory and management agreement (the Advisory Agreement). Administrative services are provided by our affiliate, Gladstone Administration, LLC (the Administrator), a Delaware limited liability company, pursuant to an administration agreement (the Administration Agreement).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of Regulation S-X. Accordingly, we have omitted certain disclosures accompanying annual financial statements prepared in accordance with GAAP. The accompanying *Condensed Consolidated Financial Statements* include our accounts and those of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Under Article 6 of Regulation S-X, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three months ended December 31, 2014, are not necessarily indicative of results that ultimately may be achieved for the fiscal year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, as filed with the SEC on November 12, 2014 and amended on December 29, 2014.

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

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Reclassifications

Certain amounts in the prior year s financial statements have been reclassified to conform to the presentation for the three months ended December 31, 2014, with no effect on our financial condition, results of operations or cash flows.

Revisions

Certain amounts in the prior year s financial statements have been revised to correct the net presentation of certain fees in our results of operations. The Adviser services, administers and collects on the loans held by Business Loan, in return for which the Adviser receives a 1.5% annual fee from Business Loan. All such loan servicing fees are voluntarily and irrevocably credited back to us by the Advisor. Previously, we presented the loan servicing fee on a net basis, which is zero, because it is 100.0% credited back to us. We have revised our fee presentation related to these loan servicing fees to reflect the gross fee and related gross unconditional, non-contractual and irrevocable credit amounts for the three month period ended December 31, 2013. Management evaluated this error in presentation and concluded it was not material to the previously issued financial statements for the three months ended December 31, 2013. The impact of the revision is shown in the table below:

	Three Months Ended December 31, 2013	
	As Previously Reported	**As Revised**
Expenses		
Aggregate expenses	$ 4,860	$ 4,860
Loan servicing fee		884
Expenses before credits from Adviser	**4,860**	**5,744**
Credit to base management fee loan servicing fee		(884)
Credits to fees from Adviser - other	(878)	(878)
Total expenses, net of credits	**$ 3,982**	**$ 3,982**

Investment Valuation Policy

Accounting Recognition

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

Board Responsibility

In accordance with the 1940 Act, our board of directors (our Board of Directors) has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our established 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 the valuation officer (the Valuation Team). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the valuation officer, uses the Policy and each quarter our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

The Valuation Team engages third party valuation firms to provide independent assessments of fair value of certain of our investments. Currently, the sole third-party service provider, Standard & Poor s Securities Evaluation, Inc. (SPSE), provides estimates of fair value on our proprietary debt investments.

The Valuation Team generally assigns SPSE s estimates of fair value to our debt investments where we do not have the ability to effectuate a sale of the applicable portfolio company. The Valuation Team corroborates SPSE s estimates of fair value using one or more of the valuation techniques discussed below. The Valuation Team s estimates of value on a specific debt investment may significantly differ from SPSE s. When this occurs, our Board of Directors reviews whether the Valuation Team has followed the Policy and whether the Valuation Team s recommended value is reasonable in light of the Policy and other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended valuation.

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Valuation Techniques

In accordance with ASC 820, the Valuation Team uses the following techniques when valuing our investment portfolio:

Total Enterprise Value In determining the fair value using a total enterprise value (TEV), the Valuation Team first calculates the TEV of the portfolio company by incorporating some or all of the following factors: the portfolio company s ability to make payments and other specific portfolio company attributes; the earnings of the portfolio company (the trailing or projected twelve month revenue or earnings before interest, taxes, depreciation and amortization (EBITDA)); EBITDA or revenue multiples obtained from our indexing methodology whereby the original transaction EBITDA or revenue multiple at the time of our closing is indexed to a general subset of comparable disclosed transactions and EBITDA or revenue multiples from recent sales to third parties of similar securities in similar industries; a comparison to publicly traded securities in similar industries; and other pertinent factors. The Valuation Team generally references industry statistics and may use outside experts when gathering this information. Once the TEV is determined for a portfolio company, the Valuation Team then allocates the TEV to the portfolio company s securities in order of their relative priority in the capital structure. Generally, the Valuation Team uses TEV to value our equity investments and, in the circumstances where we have the ability to effectuate a sale of a portfolio company, our debt investments.

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

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

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

Investments in Funds For equity investments in other funds, the Valuation Team generally determines the fair value of our uninvested capital at par value and of our invested capital at the net asset value (NAV) provided by the fund. The Valuation Team may also determine fair value of our investments in other investment funds based on the capital accounts of the underlying entity.

In addition to the above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including, but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on proprietary debt and equity investments made during the most recently completed quarter are generally valued at original cost basis.

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

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

Interest Income Recognition

Interest income, adjusted for amortization of premiums, acquisition costs, and amendment fees and the accretion of original issue discounts (OID), is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management s judgment, are likely to remain current, or, due to a restructuring, the interest income is deemed to be collectible. As of December 31, 2014, two portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $33.6 million, or 9.4% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately $8.3 million, or 2.8% of the fair value of all debt investments in our portfolio. As of September 30, 2014, three portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $51.4 million, or 16.1% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately $13.2 million, or 5.2% of the fair value of all debt investments in our portfolio.

We currently hold, and we expect to hold in the future, some loans in our portfolio that contain OID or paid-in-kind (PIK) provisions. We recognize OID for loans originally issued at discounts and recognize the income over the life of the obligation based on an effective yield calculation. PIK interest, computed at the contractual rate specified in a loan agreement, is added to the principal balance of a loan and recorded as income over the life of the obligation. Therefore, the actual collection of PIK income may be deferred until the time of debt principal repayment. To maintain our ability to be taxed as a RIC, we may need to pay out both of our OID and PIK non-cash income amounts in the form of distributions, even though we have not yet collected the cash on either.

As of December 31 and September 30, 2014, we had 20 and 17 original OID loans, respectively, primarily from the syndicated investments in our portfolio. We recorded OID income of $63 and $61 for the three months ended December 31, 2014 and 2013, respectively. The unamortized balance of OID investments as of December 31 and September 30, 2014, totaled $1.0 million and $0.6 million, respectively. As of December 31 and September 30, 2014, we had two and three investments, respectively, which had a PIK interest component. We recorded PIK income of $67 and $92 for the three months ended December 31, 2014 and 2013, respectively. We collected $0.2 million and $0 PIK interest in cash during each of the three months ended December 31, 2014 and 2013, respectively.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company, typically from an exit or sale. We received an aggregate of $0.9 million in success fees during the three months ended December 31, 2014, which resulted from $0.6 million related to the early payoff of North American Aircraft Services, LLC at a realized gain and $0.3 million prepayment of success fees by Francis Drilling Fluids, LLC (FDF). We received $0.2 million in success fees during the three months ended December 31, 2013, which related to our sale of substantially all of the assets in Lindmark Acquisition, LLC and the ensuing pay down of our debt investments at par in September 2013.

Dividend income on equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. During the three months ended December 31, 2014, we recorded $0.1 million of dividend income, net of return of capital cost basis adjustments, which resulted from our preferred equity investment in FDF. We did not record any dividend income during the three months ended December 31, 2013.

Success fees and dividend income are both recorded in other income in our accompanying *Condensed Consolidated Statements of Operations.*

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update 2014 15 (ASU 2014-15), *Presentation of Financial Statements Going Concern (Subtopic 205 40): Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern*. ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Since this guidance is primarily around certain disclosures to the financial statements, we anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. We are currently assessing the additional disclosure requirements, if any, of ASU 2014-15. ASU 2014-15 is effective for the annual period ending after December 31, 2016 and for annual periods and interim periods thereafter, with early adoption permitted.

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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. We are currently assessing the impact of ASU 2014-09 and anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2014-09 is effective for annual reporting periods that begin after December 15, 2016 and interim periods within those years. Early adoption is not permitted.

NOTE 3. INVESTMENTS

Fair Value

In accordance with ASC 820, our investments fair value is determined to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between willing market participants on the measurement date. This fair value definition focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of a financial instrument as of the measurement date.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical financial instruments in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar financial instruments in active or inactive markets, and inputs that are observable for the financial instrument, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the financial instrument and can include the Valuation Team s assumptions based upon the best available information.

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of December 31 and September 30, 2014, all of our investments were valued using Level 3 inputs and during the three months ended December 31, 2014 and 2013, there were no investments transferred into or out of Levels 1, 2 or 3.

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The following table presents our investments carried at fair value as of December 31 and September 30, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type, all of which are valued using Level 3 inputs:

	Total Recurring Fair Value Measurements Reported in *Condensed Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3)	
	December 31, 2014	**September 30, 2014**
Non-Control/Non-Affiliate Investments		
Senior debt	**$ 112,356**	$ 74,299
Senior subordinated debt	**118,047**	110,601
Preferred equity	**16,124**	10,593
Common equity/equivalents	**2,580**	3,433
Total Non-Control/Non-Affiliate Investments	**$ 249,107**	$ 198,926
Affiliate Investments		
Senior debt	**$ 35,916**	$ 36,311
Senior subordinated debt	**13,598**	14,197
Preferred equity	**2,613**	2,885
Common equity/equivalents	**3,620**	3,613
Total Affiliate Investments	**$ 55,747**	$ 57,006
Control Investments		
Senior debt	**$ 7,366**	$ 7,804
Senior subordinated debt	**6,549**	11,089
Preferred equity		
Common equity/equivalents	**7,855**	6,461
Total Control Investments	**$ 21,770**	$ 25,354
Total Investments at Fair Value	**$ 326,624**	$ 281,286

In accordance with the FASB s ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Reporting Standards (IFRS)*, (ASU 2011-04), the following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31 and September 30, 2014. The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt related calculations and on the cost basis for all equity-related calculations for the particular input.

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Quantitative Information about Level 3 Fair Value Measurements

	December 31, 2014	September 30, 2014	Valuation Technique/ Methodology	Unobservable Input	Range / Weighted Average as of December 31, 2014	Range / Weighted Average as of September 30, 2014
Senior debt[(A)]	**$ 76,232**	$ 54,410	Yield Analysis	Discount Rate	6.5% - 18.4% / 11.3%	8.4% - 18.8% / 13.4%
	50,198	45,502	TEV	EBITDA multiple	4.0x - 11.9x / 6.6x	4.0x - 7.6x / 6.1x
				EBITDA	$135 - $4,400 / $1,248	$247 - $3,700 / $1,839
				Revenue multiple	0.6x - 0.8x / 0.7x	0.6x - 0.8x / 0.7x
				Revenue	$2,452 - $5,419 / $4,220	$2,416 - $5,327 / $4,151
	29,208	18,502	Market Quotes	IBP	83.0% - 97.8% / 89.7%	85.0% - 99.8% / 94.1%
Senior subordinated debt[(B)]	**81,200**	79,470	Yield Analysis	Discount Rate	9.3% - 13.8% / 12.4%	11.3% - 13.8% / 12.5%
	43,381	32,813	Market Quotes	IBP	83.0% - 99.5% / 97.0%	94.9% - 101.3% / 99.9%
	13,613	23,604	TEV	EBITDA multiple	4.0x - 8.6x / 5.6x	4.3x - 7.6x / 6.3x
				EBITDA	$600 - 4,790 / $2,159	$1,100 - $6,219 / $3,403
Preferred and common equity / equivalents [(C)]	**30,747**	24,711	TEV	EBITDA multiple	3.8x - 8.6x / 6.2x	4.3x - 7.6x / 6.1x
				EBITDA	$1,038 - $27,865 / $4,294	$998 - $15,685 / $4,135
	2,045	2,274	Investments in Funds			
Total Investments, at Fair Value	**$ 326,624**	$ 281,286				

(A) December 31, 2014 includes three new proprietary debt investments for $28.8 million, which were valued at cost.

(B)

December 31, 2014 includes two follow-on proprietary debt investments for $9.5 million and September 30, 2014 includes one new proprietary debt investment for $8.0 million and two follow-on debt investments for a combined $7.6 million, which were valued at cost, and one proprietary investment, which was valued at payoff amounts totaling $2.8 million.

(C) December 31, 2014 includes two new proprietary equity investments for $2.8 million, which were valued at cost. September 30, 2014 includes one new proprietary equity investment for $0.8 million, which was valued at cost, and one proprietary equity investment, which was valued at payoff amount totaling $1.9 million.

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in market yields, discounts rates, leverage, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in isolation, may change the fair value of certain of our investments. Generally, an increase or decrease in market yields, discount rates or leverage or a decrease in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a corresponding decrease or increase, respectively, in the fair value of certain of our investments.

The following tables provide the changes in fair value, broken out by security type, during the three months ended December 31, 2014 and 2013 for all investments for which we determine fair value using unobservable (Level 3) factors.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

FISCAL YEAR TO DATE 2015: Three Months Ended December 31, 2014	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Fair Value as of September 30, 2014	**$ 118,414**	**$ 135,887**	**$ 13,478**	**$ 13,507**	**$ 281,286**
Total gains (losses):					
Net realized (loss) gain(B)		(12,146)	(2,175)	1,440	(12,881)
Net unrealized (depreciation) appreciation(C)	(3,430)	(6,417)	3,794	1,454	(4,599)
Reversal of prior period net depreciation (appreciation) on realization(C)		12,627	2,175	(1,440)	13,362
New investments, repayments and settlements:(D)					
Issuances/originations	41,611	17,019	1,799	1,106	61,535
Settlements/repayments	(957)	(2,641)	(334)	(434)	(4,366)
Sales		(6,135)		(1,578)	(7,713)
Fair Value as of December 31, 2014	**$ 155,638**	**$ 138,194**	**$ 18,737**	**$ 14,055**	**$ 326,624**

FISCAL YEAR TO DATE 2014: Three Months Ended December 31, 2013	Senior Debt	Senior Subordinated Debt(A)	Preferred Equity	Common Equity/ Equivalents	Total
Fair Value as of September 30, 2013	**$ 118,134**	**$ 127,236**	**$ 4,626**	**$ 6,882**	**$ 256,878**
Total (losses) gains:					
Net realized (loss)(B)	(10,732)				(10,732)
Net unrealized appreciation(C)	1,637	1,591	438	3,070	6,736
Reversal of prior period net depreciation (appreciation) on realization(C)	10,263	(122)			10,141
New investments, repayments and settlements:(D)					
Issuances/originations	14,214	26,029	4,673	18	44,934
Settlements/repayments	(5,004)	(19,668)		(79)	(24,751)
Fair Value as of December 31, 2013	**$ 128,512**	**$ 135,066**	**$ 9,737**	**$ 9,891**	**$ 283,206**

(A) Includes one junior subordinated debt investment with a fair value of $0.6 million as of December 31, 2013. During the quarter ended March 31, 2014, we exited our one junior subordinated debt investment at par.

(B) Included in net realized (loss) gain on our accompanying *Condensed Consolidated Statements of Operations* for the three months ended December 31, 2014 and 2013.

(C) Included in net unrealized (depreciation) appreciation of investments on our accompanying *Condensed Consolidated Statements of Operations* for the three months ended December 31, 2014 and 2013.

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

Investment Activities

Proprietary Investments

As of December 31 and September 30, 2014, we held 30 and 29 proprietary investments with an aggregate fair value of $254.0 million and $221.8 million, or 77.8% and 78.9% of the total aggregate portfolio at fair value, respectively. During the three months ended December 31, 2014, we invested in three new proprietary investments totaling $31.6 million; sold one proprietary investment for net proceeds of $6.1 million, resulting in a realized loss of $14.5 million; and had one proprietary investment pay off early at $2.5 million of cost basis and a realized gain of $1.6 million, for which we received success fees of $0.6 million. Additionally, during the three months ended December 31, 2014, we funded a combined $13.4 million to existing proprietary portfolio companies through revolver draws and follow on investments, while scheduled and unscheduled principal repayments were $1.7 million in the aggregate from existing proprietary portfolio companies (exclusive of the aforementioned $2.5 million in early payoffs). The following significant proprietary investment transactions occurred during the three months ended December 31, 2014:

B+T Holdings Inc. In December 2014, we invested $8.4 million in B+T Holdings Inc. (B+T), through a combination of senior term debt and equity. B+T, headquartered in Tulsa, Oklahoma, is a full-service provider of structural engineering, construction, and technical services to the wireless tower industry for tower upgrades and modifications. This was a co-investment with one of our affiliated funds, Gladstone Investment Corporation (Gladstone Investment). Gladstone Investment invested an additional $19.6 million under the same terms as us.

Midwest Metal Distribution, Inc. In December 2014, we sold our investment in Midwest Metal Distribution, Inc. (Midwest Metal) for net proceeds of $6.1 million, which resulted in a realized loss of $14.5 million recorded in the three months ended December 31, 2014. Midwest Metal had been on non-accrual status at the time of the sale.

Circuitronics, Inc. In December 2014, we invested $15.0 million in Circuitronics, Inc. (Circuitronics) through a combination of senior term debt and equity. Circuitronics, headquartered in Dallas, Texas, is a premier electronic manufacturing services company focused on the design and production of specialized printed circuit board assemblies and related services.

Vision Government Solutions, Inc. In December 2014, we invested $11.0 million in Vision Government Solutions, Inc. (Vision) through senior term debt. Vision, headquartered in Northboro, Massachusetts, is a leading provider of land parcel management software technology and appraisal services to local government organizations, enabling efficient assessment, billing, collections, mapping, and permitting.

Syndicated Investments

We held a total of 19 syndicated investments with an aggregate fair value of $72.6 million, or 22.2% of our total investment portfolio at fair value, as of December 31, 2014, as compared to 16 syndicated investments with an aggregate fair value of $59.5 million, or 21.1% of our total investment portfolio at fair value, as of September 30, 2014. During the three months ended December 31, 2014, we invested in three new syndicated investments for a combined $12.5 million. Additionally, we funded an additional $4.0 million in Vitera Healthcare Solutions, LLC, an existing syndicated investment, during the three months ended December 31, 2014.

Investment Concentrations

As of December 31, 2014, our investment portfolio consisted of investments in 49 companies located in 21 states across 19 different industries, with an aggregate fair value of $326.6 million. The five largest investments at fair value as of December 31, 2014, totaled $106.0 million, or 32.5% of our total investment portfolio, as compared to the five largest investments at fair value as of September 30, 2014, which totaled $94.3 million, or 33.5% of our total investment portfolio. As of December 31, 2014, our average investment by obligor was $7.9 million at cost, compared to $7.8 million at cost as of September 30, 2014. The following table outlines our investments by security type as of December 31 and September 30, 2014:

	December 31, 2014				**September 30, 2014**			
	Cost	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**	**Cost**	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Senior debt	**$ 208,678**	**54.1%**	**$ 155,638**	**47.7%**	$ 168,023	48.1%	$ 118,414	42.1%
Senior subordinated debt	**147,879**	**38.3**	**138,194**	**42.3**	151,782	43.5	135,887	48.3
Total Debt Investments	**356,557**	**92.4**	**293,832**	**90.0**	319,805	91.6	254,301	90.4

Preferred equity	**20,785**	**5.4**	**18,737**	**5.7**	21,496	6.1	13,478	4.8
Common equity/equivalents	**8,518**	**2.2**	**14,055**	**4.3**	7,984	2.3	13,507	4.8
Total Equity Investments	**29,303**	**7.6**	**32,792**	**10.0**	29,480	8.4	26,985	9.6
Total Investments	**$ 385,860**	**100.0%**	**$ 326,624**	**100.0%**	$ 349,285	100.0%	$ 281,286	100.0%

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Investments at fair value consisted of the following industry classifications as of December 31 and September 30, 2014:

Industry Classification	December 31, 2014 Fair Value	December 31, 2014 Percentage of Total Investments	September 30, 2014 Fair Value	September 30, 2014 Percentage of Total Investments
Oil and gas	**$ 55,219**	**16.9%**	$ 42,831	15.2%
Healthcare, education and childcare	**46,474**	**14.2**	47,538	16.9
Diversified/conglomerate manufacturing	**40,366**	**12.4**	27,634	9.8
Personal and non-durable consumer products	**35,113**	**10.8**	30,157	10.7
Electronics	**26,404**	**8.1**	24,811	8.8
Printing and publishing	**23,485**	**7.2**	23,999	8.5
Automobile	**20,397**	**6.2**	19,489	6.9
Cargo transportation	**12,805**	**3.9**	12,838	4.6
Diversified/conglomerate services	**10,000**	**3.1**		
Finance	**8,920**	**2.7**	4,205	1.5
Telecommunications	**8,099**	**2.5**		
Textiles and leather	**7,496**	**2.3**	8,171	2.9
Diversified natural resources, precious metals and minerals	**7,419**	**2.3**	7,176	2.6
Broadcast and entertainment	**6,362**	**1.9**	6,386	2.3
Beverage, food and tobacco	**6,243**	**1.9**	6,235	2.2
Other, < 2.0% (A)	**6,194**	**1.9**	6,279	2.2
Buildings and real estate	**3,632**	**1.1**	6,617	2.4
Aerospace and defense	**1,996**	**0.6**	6,920	2.5
Total Investments	**$ 326,624**	**100.0%**	$ 281,286	100.0%

(A) No industry within this category exceeds 2.0% of the total fair value as of the respective periods.

Investments at fair value were included in the following geographic regions of the U.S. as of December 31 and September 30, 2014:

Geographic Region	December 31, 2014 Fair Value	December 31, 2014 Percentage of Total Investments	September 30, 2014 Fair Value	September 30, 2014 Percentage of Total Investments
South	**$ 121,022**	**37.0%**	$ 92,355	32.8%
Midwest	**111,131**	**34.0**	107,387	38.2
West	**83,787**	**25.7**	80,744	28.7
Northeast	**10,684**	**3.3**	800	0.3

Total Investments	**$ 326,624**	**100.0%**	$ 281,286	100.0%

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

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Investment Principal Repayments

The following table summarizes the contractual principal repayments and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of December 31, 2014:

For the Fiscal Years Ending September 30:	**Amount**
For the remaining nine months ending September 30:	
2015	$ 43,666
2016	93,777
2017	12,431
2018	31,789
2019	64,037
Thereafter	111,989
Total contractual repayments	**$ 357,689**
Equity investments	29,303
Adjustments to cost basis on debt investments	(1,132)
Total Cost Basis of Investments Held at December 31, 2014:	**$ 385,860**

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs that we have incurred on behalf of portfolio companies and are included in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. As of December 31 and September 30, 2014, we had gross receivables from portfolio companies of $0.3 million and $0.4 million, respectively. The allowance for uncollectible receivables was $0.1 million as of December 31 and September 30, 2014, which is reflected in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. In addition, as of December 31 and September 30, 2014, we recorded an allowance for uncollectible interest receivables of $0.9 million and $0.4 million, respectively, which is reflected in interest receivable on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We generally maintain an allowance for uncollectible receivables from portfolio companies when the receivable balance becomes 90 days or more past due or if it is determined based upon management s judgment that the portfolio company is unable to pay its obligations.

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee, loan servicing fee and an incentive fee. The Adviser is controlled by our chairman and chief executive officer. On July 15, 2014, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of such party, approved the annual renewal of the Advisory Agreement through August 31, 2015.

The following table summarizes the base management fees, loan servicing fees, incentive fees and associated fee credits for the three months ended December 31, 2014 and 2013, reflected in our accompanying *Condensed*

Consolidated Statements of Operations:

	Three Months Ended December 31,	
	2014	**2013**
Average total assets subject to base management fee[(A)]	**$ 319,400**	$ 291,200
Multiplied by prorated annual base management fee of 2.0%	**0.5%**	0.5%
Base management fee[(B)]	**$ 1,597**	$ 1,456
Portfolio company fee credit[(C)]	**(375)**	(333)
Senior syndicated loan fee waiver[(D)]	**(37)**	(30)
Net Base Management Fee	**$ 1,185**	$ 1,093
Loan servicing fee[(B)]	**832**	884
Credits to base management fee - loan servicing fee[(B)]	**(832)**	(884)
Net Loan Servicing Fee	**$**	$
Incentive fee[(B)]	**922**	974
Incentive fee credit[(E)]		(515)
Net Incentive Fee	**$ 922**	$ 459
Portfolio company fee credit[(C)]	**(375)**	(333)
Senior syndicated loan fee waiver[(D)]	**(37)**	(30)
Incentive fee credit[(E)]		(515)
Credit to Fees From Adviser - other[(B)]	**$ (412)**	$ (878)

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

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

(C) As a BDC, we make available significant managerial assistance to our portfolio companies through the personnel of the Adviser. The Adviser may also provide other services to our portfolio companies under other agreements and may receive fees for services other than managerial assistance. We credit 100.0% 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, primarily for valuation of portfolio companies, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser.

(D) Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations, for the three months ended December 31, 2014 and 2013.

(E) Our Board of Directors accepted an unconditional, non-contractual and irrevocable voluntary credit from the Adviser to reduce the income-based incentive fee to the extent net investment income did not 100.0% cover distributions to common stockholders for the three months ended December 31, 2013. No such credit from the Adviser was granted for the three months ended December 31, 2014, due to a change in the assessment of distribution coverage of net investment income to a fiscal year end basis rather than a quarterly basis.

Base Management Fee

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2.0%, computed on the basis of the value of our average total assets at the end of the two most recently-completed quarters (inclusive of the current quarter), which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. The base management fee is then adjusted by certain credits from the Adviser as explained in the notes to the table above.

Additionally, the Adviser services, administers and collects on the loans held by Business Loan, in return for which our Adviser receives a 1.5% annual loan servicing fee payable monthly by Business Loan based on the monthly aggregate balance of loans held by Business Loan in accordance with our revolving line of credit. All loan servicing fees are voluntarily and irrevocably credited back to us by the Adviser. Overall, the base management fee due to the Adviser (including any loan servicing fees) cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

Incentive Fee

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

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

- 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and

- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20.0% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the entire portfolio s aggregate net unrealized capital depreciation, if any, as of the date of the calculation. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. The entire portfolio s aggregate net unrealized capital depreciation, if any, equals the sum of the difference, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable fiscal year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less the entire portfolio s aggregate net unrealized capital depreciation, if any. If this number is positive at the end of such fiscal year, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through December 31, 2014, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such period. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded since our inception through December 31, 2014.

Administration Agreement

The Administration Agreement provides for payments equal to our portion of the Administrator s expenses incurred while performing services to us, which are primarily rent and the salaries, benefits and expenses of the Administrator s employees, including, but not limited to, our chief financial officer and treasurer, chief compliance officer, and general counsel and secretary (who also serves as the Administrator s president). Prior to July 1, 2014, our portion of the expenses were generally derived by multiplying that portion of the Administrator s expenses allocable to all funds managed by the Adviser by the percentage of our total assets at the beginning of each quarter in comparison to the total assets at the beginning of each quarter of all funds managed by the Adviser.

Effective July 1, 2014, our portion of the Administrator s expenses are generally derived by multiplying the Administrator s total expenses by the approximate percentage of time during the current quarter the Administrator s employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator under contractual agreements. These administrative fees are accrued at the end of the quarter when the services are performed and recorded on our accompanying *Consolidated Statements of Operations* and generally paid the following quarter to the Administrator. On July 15, 2014, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2015.

Related Party Fees Due

Fees due to related parties as of December 31 and September 30, 2014 on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* were as follows:

	December 31, 2014	September 30, 2014
Net base management fee due to Adviser	**$ 548**	$ 604
Net incentive fee due to Adviser	**922**	271
Total fees due to Adviser, net of credits	**1,470**	875
Fee due to Administrator	**281**	218
Total Related Party Fees Due	**$ 1,751**	$ 1,093

Other operating expenses due to the Adviser as of December 31 and September 30, 2014, totaled $23 and $20, respectively. In addition, other net co-investment expenses payable to Gladstone Investment (for reimbursement purposes) totaled $0 and $41 as of December 31 and September 30, 2014, respectively. These expenses were paid in full in the quarter subsequent to being incurred and have been included in other liabilities on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* as of December 31 and September 30, 2014, respectively.

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Notes from Former Employees

During the three months ended December 31, 2014 and 2013, we had one outstanding note receivable from one former employee, who is now an employee of the Adviser. The note was for the exercise of options granted under the Amended and Restated 2001 Equity Incentive Plan, which has since been terminated. The note requires the quarterly payment of interest at the market rate in effect at the date of issuance, has a term of nine years and has been recorded as a reduction of net assets. The note was evidenced by a full recourse note that is due upon maturity or 60 days following termination of employment with the Adviser and the shares of common stock purchased with the proceeds of the note is posted as collateral. We did not receive any principal repayments on the note receivable from the former employee during the three months ended December 31, 2014 and 2013. We recognized interest income from this employee note of $2 and $4 for the three months ended December 31, 2014 and 2013, respectively.

The following table is a summary of the remaining note issued to a current employee of the Adviser for the exercise of stock options as of December 31 and September 30, 2014:

Issue Date	Original Amount of Employee Note	Outstanding Balance of Employee Note As of December 31 and September 30, 2014	Maturity Date	Interest Rate on Note
Jul-06	$ 275(A)	$ 100	Jul-15	8.26%

(A) On September 7, 2010, we entered into a redemption agreements (the Redemption Agreement) with Laura Gladstone, a Managing Director of the Adviser and the daughter of Mr. Gladstone, in connection with the maturity of secured promissory notes executed by Ms. Gladstone on July 13, 2006, in the principal amount of $0.3 million (the Note). Ms. Gladstone originally executed the Notes to facilitate her payment of the exercise price of certain stock options (the Options) to acquire shares of our common stock. Concurrently with the execution of the Note, we, together with Ms. Gladstone entered into a stock pledge agreement (the Pledge Agreement), pursuant to which Ms. Gladstone granted to us a first priority security interest in the Pledged Collateral (as defined in the respective Pledge Agreements), which included 18,334 shares of our common stock that Ms. Gladstone acquired pursuant to the exercise of the Options (collectively, the Pledged Shares). The Redemption Agreement provides that, pursuant to the terms and conditions thereof, we will automatically accept and retire the Pledged Shares in partial or full satisfaction, as applicable, of Ms. Gladstone s obligations to us under the Notes at such time, if ever, that the trading price of our common stock reaches $15 per share. In entering into the Redemption Agreement, we reserved all of our existing rights under the Note and the Pledge Agreement, including, but not limited to, the ability to foreclose on the Pledged Collateral at any time. During the year ended September 30, 2014, Ms. Gladstone paid down $0.1 million of the principal of her Note, leaving a principal balance of $0.1 million outstanding as of September 30 and December 31, 2014. In connection with Ms. Gladstone s pay downs of principal, we have not released any of our first priority security interests on her Pledged Shares.

In accordance with ASC 505, *Equity*, receivables from employees for the issuance of capital stock to employees prior to the receipt of cash payment should be reflected in the balance sheet as a reduction to stockholders equity. Therefore, our remaining note totaling $0.1 million as of December 31, 2014 was recorded as a note receivable from employee and is included in the net assets section of our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. As of December 31, 2014, we determined that this note was still recourse.

NOTE 5. BORROWINGS

Revolving Credit Facility

On April 26, 2013, we, through Business Loan, entered into Amendment No. 6 to the fourth amended and restated credit agreement (our Credit Facility) to extend the revolver period end date for one year to January 19, 2016. Our $137.0 million revolving Credit Facility was arranged by Key Equipment Finance, a division of KeyBank National Association, (Key Equipment) as administrative agent. Keybank National Association (KeyBank), Branch Banking and Trust Company and ING Capital LLC also joined our Credit Facility as committed lenders. Subject to certain terms and conditions, our Credit Facility may be expanded from $137.0 million to a maximum of $237.0 million through the addition of other committed lenders to the facility. The interest rates on advances under our Credit Facility generally bear interest at a 30-day London Interbank Offered Rate (LIBOR) plus 3.75% per annum, with a commitment fee of 0.5% per annum on undrawn amounts when our facility is drawn more than 50% and 1.0% per annum on undrawn amounts when our facility is drawn less than 50%. If our Credit Facility is not renewed or extended by January 19, 2016, all principal and interest will be due and payable on or before November 30, 2016. Prior to the April 26, 2013 amendment, on January 29, 2013, we, through Business Loan, amended our Credit Facility to remove the LIBOR minimum of 1.5% on advances. We incurred fees of $0.7 million in April 2013 and $0.6 million in January 2013 in connection with these amendments, which are being amortized through our Credit Facility s revolver period end date of January 19, 2016. All other terms of our Credit Facility remained generally unchanged at the time of these amendments.

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The following tables summarize noteworthy information related to our Credit Facility (at cost) as of December 31 and September 30, 2014 and during the three months ended December 31, 2014 and 2013:

	December 31, 2014	September 30, 2014
Commitment amount	**$ 137,000**	$ 137,000
Borrowings outstanding	**83,500**	36,700
Availability	**37,300**	57,500

	For the Three Months Ended December 31,	
	2014	2013
Weighted average borrowings outstanding	**$ 44,804**	$ 33,145
Effective interest rate[A]	**6.1%**	7.4%
Commitment (unused) fees incurred	**$ 222**	$ 259

(A) Excludes the impact of deferred financing fees.

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

Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with Key Equipment and with The Bank of New York Mellon Trust Company, N.A as custodian. Key Equipment, which also serves as the trustee of the account, generally remits the collected funds to us once a month.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders consent. Our Credit Facility also generally limits payments on distributions to our stockholders to our aggregate net investment income for each of the twelve month periods ending September 30, 2015 and 2016. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base in order to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 20 obligors required in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of $190.0 million plus 50.0% of all equity and subordinated debt raised after January 19, 2012, which equates to $220.5 million as of December 31, 2014, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200.0%, in accordance with Section 18 of the 1940 Act, and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code.

As of December 31, 2014, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $256.6 million, asset coverage of 235.6% and an active status as a BDC and RIC. In addition, we had 32 obligors in the borrowing base of our Credit Facility as of December 31, 2014. As of December 31, 2014, we were in compliance with all of our Credit Facility covenants.

Pursuant to the terms of our Credit Facility, on July 15, 2013, we, through Business Loan, entered into an interest rate cap agreement with KeyBank, effective July 9, 2013 and expiring January 19, 2016, for a notional amount of $35.0 million that effectively limits the interest rate on a portion of our borrowings under our Credit Facility. The one month LIBOR cap is set at 5.0%. We incurred a premium fee of $62 in conjunction with this agreement, which is recorded in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. As of December 31 and September 30, 2014, the fair value of our interest rate cap agreement was $0.

Fair Value

We elected to apply the fair value option of ASC 825, *Financial Instruments*, specifically for our Credit Facility, which was consistent with our application of ASC 820 to our investments. Generally, the fair value of our Credit Facility is determined using a yield analysis which includes a DCF calculation and also takes into account the Valuation Team s own assumptions, including, but not limited to, the estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. As of December 31 and September 30, 2014, the discount rate used to determine the fair value of our Credit Facility was 4.0%. Generally, an increase or decrease in the discount rate used in the DCF calculation, may result in a corresponding increase or decrease, respectively, in the fair value of our Credit Facility. As of December 31 and September 30, 2014, our Credit Facility was valued using Level 3 inputs and any changes in its fair value is recorded in net unrealized appreciation (depreciation) of other on our accompanying *Condensed Consolidated Statements of Operations*.

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The following tables present our Credit Facility carried at fair value as of December 31 and September 30, 2014, on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and the changes in fair value of our Credit Facility during the three months ended December 31, 2014 and 2013:

	Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3)	
	December 31, 2014	**September 30, 2014**
Credit Facility	**$ 84,078**	$ 38,013

Fair Value Measurements Using Significant Unobservable Data Inputs (Level 3)	Three Months Ended December 31,	
	2014	**2013**
Fair value as of September 30, 2014 and 2013, respectively	**$ 38,013**	$ 47,102
Borrowings	**59,500**	42,400
Repayments	**(12,700)**	(41,600)
Net unrealized appreciation (depreciation)[A]	**(735)**	6
Fair Value as of December 31, 2014 and 2013, respectively	**$ 84,078**	$ 47,908

(A) Included in net unrealized appreciation (depreciation) of other on our accompanying C*ondensed Consolidated Statements of Operations* for the three months ended December 31, 2014 and 2013.

The fair value of the collateral under our Credit Facility was approximately $268.6 million and $222.0 million in aggregate as of December 31 and September 30, 2014, respectively.

NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK

In May 2014, we completed a public offering of approximately 2.4 million shares of 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share (Series 2021 Term Preferred Stock), at a public offering price of $25.00 per share. Gross proceeds totaled $61.0 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were $58.5 million, a portion of which was used to voluntarily redeem all 1.5 million outstanding shares of our then existing 7.125% Series 2016 Term Preferred Stock, par value $0.001 per share (Series 2016 Term Preferred Stock) and the remainder was used to repay a portion of outstanding borrowings under our Credit Facility. In connection with the voluntary redemption of our Series 2016 Term Preferred Stock, we recognized a realized loss on extinguishment of debt of $1.3 million, which was reflected on our statement of operations for the three months ended June 30, 2014 and which was primarily comprised of the unamortized deferred issuance costs at the time of redemption.

We incurred $2.5 million in total offering costs related to the issuance of our Series 2021 Term Preferred Stock, which are recorded as deferred financing fees on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and are being amortized over the redemption period ending June 30, 2021. The shares of our Series 2021 Term Preferred Stock and are traded under the ticker symbol GLADO on the NASDAQ Global Select Market (NASDAQ). Our Series 2021 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend rate equal to 6.75% per year, payable monthly (which equates in total to approximately $4.1 million per year). We are required to redeem all of the outstanding Series 2021 Term Preferred Stock on June 30, 2021 for cash at a redemption price equal to $25.00 per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date of redemption (the Redemption Price). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2021 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of the outstanding Series 2021 Term Preferred Stock and (2) if we fail to maintain an asset coverage ratio of at least 200.0% and do not take steps to cure such asset coverage amount within a specified period of time. We may also voluntarily redeem all or a portion of the Series 2021 Term Preferred Stock at the Redemption Price in our sole discretion to have an asset coverage ratio of up to and including 240.0% and at any time on or after June 30, 2017. If we fail to redeem our Series 2021 Term Preferred Stock pursuant to the mandatory redemption required on June 30, 2021, or in any other circumstance in which we are required to mandatorily redeem our Series 2021 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of December 31, 2014, we have not redeemed any of our outstanding Series 2021 Term Preferred Stock.

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In November 2011, we completed a public offering of approximately 1.5 million shares of our Series 2016 Term Preferred Stock, at a public offering price of $25.00 per share. Gross proceeds totaled $38.5 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were $36.4 million, a portion of which was used to repay a portion of outstanding borrowings under our Credit Facility. We incurred $2.1 million in total offering costs related to these transactions, which were recorded as deferred financing fees on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and were amortized over the redemption period ending December 31, 2016. In May 2014, when we voluntarily redeemed our Series 2016 Term Preferred Stock, the remaining unamortized costs were fully written off as part of the realized loss on extinguishment of debt discussed above. Our Series 2016 Term Preferred Stock provided for a fixed dividend rate equal to 7.125% per year, payable monthly (which equated in total to approximately $2.7 million per year). The shares of our Series 2016 Term Preferred Stock were traded under the ticker symbol of GLADP on the NASDAQ. In connection with the voluntary redemption, shares of our Series 2016 Term Preferred Stock were removed from listing on May 22, 2014.

We paid the following monthly distributions on our Series 2016 Term Preferred Stock for the three months ended December 31, 2013:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Series 2016 Term Preferred Share
2014	October 8, 2013	October 22, 2013	October 31, 2013	$ 0.1484375
	October 8, 2013	November 14, 2013	November 29, 2013	0.1484375
	October 8, 2013	December 16, 2013	December 31, 2013	0.1484375
			Three Months Ended December 31, 2013:	**$ 0.4453125**

We paid the following monthly distributions on our Series 2021 Term Preferred Stock for the three months ended December 31, 2014:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Series 2021 Term Preferred Share
2015	October 7, 2014	October 22, 2014	October 31, 2014	$ 0.1406250
	October 7, 2014	November 17, 2014	November 26, 2014	0.1406250
	October 7, 2014	December 19, 2014	December 31, 2014	0.1406250
			Three Months Ended December 31, 2014:	**$ 0.4218750**

In accordance with ASC 480, *Distinguishing Liabilities from Equity*, mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet and we have recorded our term preferred stock at cost as of

December 31 and September 30, 2014. The related distribution payments to preferred stockholders are treated as dividend expense on our statement of operations as of the ex-dividend date. For disclosure purposes, the fair value, based on the last quoted closing price, for our Series 2021 Term Preferred Stock as of December 31 and September 30, 2014, was approximately $62.5 million and $63.0 million, respectively. We consider our mandatorily redeemable preferred stock to be a Level 1 liability within the ASC 820 hierarchy.

Aggregate preferred stockholder distributions declared and paid on our Series 2016 Term Preferred Stock for the three months ended December 31, 2013, were approximately $0.7 million. Aggregate preferred stockholder distributions declared and paid on our Series 2021 Term Preferred Stock for the three months ended December 31, 2014, were approximately $1.0 million. For federal income tax purposes, distributions paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

NOTE 7. REGISTRATION STATEMENT

We filed Post-Effective Amendment No. 4 to our universal shelf registration statement (our Registration Statement) on Form N-2 (File No. 333-185191) with the SEC on December 1, 2014, and subsequently filed Post-Effective Amendment No. 5 on January 29, 2015, which the SEC has declared effective as of January 30, 2015. Our Registration Statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock or preferred stock. We have the ability to issue up to $239.0 million in securities under our Registration Statement. We issued approximately 2.4 million shares of our Series 2021 Term Preferred Stock under our Registration Statement in May 2014. No other securities have been issued to date under our Registration Statement.

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

The following table sets forth the computation of basic and diluted net increase in net assets resulting from operations per weighted average common share for the three months ended December 31, 2014 and 2013:

	Three Months Ended December 31,	
	2014	**2013**
Numerator for basic and diluted net increase in net assets resulting from operations per common share	**$ 331**	$ 10,506
Denominator for basic and diluted weighted average common shares	**21,000,160**	21,000,160
Basic and diluted net increase in net assets resulting from operations per common share	**$ 0.02**	$ 0.50

NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS

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

The federal income tax characterization of all distributions is reported to our stockholders on the Internal Revenue Service Form 1099 at the end of each calendar year. For each of the nine months ended September 30, 2014, approximately 100.0% of our common distributions were deemed to be paid from a return of capital and for each of October, November and December 2014, approximately 100.0% of our common distributions were deemed to be paid from ordinary income for Form 1099 reporting purposes. For each of the nine months ended September 30, 2013, approximately 92.0% of our common distributions were deemed to be paid from ordinary income, with the remainder of approximately 8.0% deemed to be from a return of capital and for each of October, November and December 2013, approximately 100.0% of our common distributions were deemed to be paid from ordinary income for Form 1099 reporting purposes. In determining the characterization of distributions, the Internal Revenue Code Section 316(b)(4) allows RICs to apply current earnings and profits first to distributions made during the portion of the tax year prior to January 1, which in our case would be the three months ended December 31. The return of capital in both the 2014 and 2013 calendar years for Form 1099 reporting purposes resulted primarily from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.

We paid the following monthly distributions to common stockholders for the three months ended December 31, 2014 and 2013:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Common Share

2015	October 7, 2014	October 22, 2014	October 31, 2014	$	0.07
	October 7, 2014	November 17, 2014	November 26, 2014		0.07
	October 7, 2014	December 19, 2014	December 31, 2014		0.07
		Three Months Ended December 31, 2014:		**$**	**0.21**
2014	October 8, 2013	October 22, 2013	October 31, 2013	$	0.07
	October 8, 2013	November 14, 2013	November 29, 2013		0.07
	October 8, 2013	December 16, 2013	December 31, 2013		0.07
		Three Months Ended December 31, 2013:		**$**	**0.21**

Aggregate distributions declared and paid to our common stockholders for the three months ended December 31, 2014 and 2013, were each approximately $4.4 million, and were declared based on estimates of net investment income for the respective periods. For our federal income tax reporting purposes, we determine the tax characterization of our common stockholder distributions at fiscal year-end based upon our taxable income for the full fiscal year and distributions paid during the full fiscal year. Such a characterization made on a quarterly basis may not be representative of the actual full fiscal year characterization. If we characterized our common stockholder distributions for the three months ended December 31, 2014, 100.0% would be a return of capital, primarily due to GAAP realized losses being recognized as ordinary losses for federal income tax purposes. For the fiscal year ended September 30, 2014, common stockholder distributions declared and paid exceeded our accumulated earnings and profits (after taking into account term preferred stock dividends), resulting in a partial return of capital of approximately $15.2 million. The return of capital for the three months ended December 31, 2014 and the year ended September 30, 2014, primarily resulted from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.

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For the three months ended December 31, 2014 and the year ended September 30, 2014, we recorded the following adjustments for book-tax differences to reflect tax character.

	Three Months Ended December 31, 2014	Year Ended September 30, 2014
Overdistributed net investment income	**$ (1,945)**	$ (2,556)
Accumulated net realized losses	**16,434**	18,144
Capital in excess of par value	**(14,489)**	(15,588)

NOTE 10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our financial condition, results of operation or cash flows. Additionally, based on current knowledge, we do not believe such loss contingencies are probable and estimable and therefore, as of December 31, 2014, we have not established reserves for such loss contingencies.

Escrow Holdbacks

From time to time, we will enter into arrangements as it relates to exits of certain investments whereby specific amounts of the proceeds are held in escrow to be used to satisfy potential obligations as stipulated in the sales agreements. We record escrow amounts in restricted cash and cash equivalents on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and totaled $1.1 million and $0 as of December 31 and September 30, 2014, respectively. We establish a contingent liability against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liabilities recorded against the escrow amounts was $0.6 million and $0 as of December 31 and September 30, 2014, respectively.

Financial Commitments and Obligations

We have lines of credit with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements.

When investing in certain private equity funds, we may have uncalled capital commitments, depending on the agreed upon terms of our committed ownership interest. These capital commitments usually have a specific date in the future set as a closing date, at which time the commitment is either funded or terminates. As of December 31 and September 30, 2014, we had uncalled capital commitments related to our partnership interest in Leeds Novamark Capital I, L.P.

The following table summarizes the amounts of our unused line of credit and uncalled capital commitments as of December 31 and September 30, 2014, which are not reflected as liabilities in the accompanying *Condensed Consolidated Statements of Assets and Liabilities*:

	December 31, 2014	September 30, 2014
Unused line of credit commitments	**$ 12,042**	$ 5,905
Uncalled capital commitment	**2,778**	2,827
Total	**$ 14,820**	$ 8,732

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NOTE 11. FINANCIAL HIGHLIGHTS

	Three Months Ended December 31, 2014	2013
Per Common Share Data[(A)]:		
Net asset value at beginning of period[(A)]	**$ 9.51**	$ 9.81
Net investment income[(B)]	**0.18**	0.21
Net realized loss on investments[(B)]	**(0.61)**	(0.51)
Net unrealized appreciation of investments[(B)]	**0.41**	0.80
Net unrealized depreciation of other[(B)]	**0.03**	
Distributions to common stockholders from net investment income[(A)(C)]	**(0.21)**	(0.21)
Net asset value at end of period[(A)]	**$ 9.31**	$ 10.10
Market value at beginning of period	**$ 8.77**	$ 8.73
Market value at end of period	**8.27**	9.57
Total return [(D)]	**(3.45)%**	12.10%
Common shares outstanding at end of period	**21,000,160**	21,000,160
Statement of Assets and Liabilities Data:		
Net assets at end of period	**$ 195,581**	$ 212,088
Average net assets[(E)]	**198,295**	208,396
Senior Securities Data:		
Borrowings under Credit Facility, at cost	**83,500**	47,700
Mandatorily redeemable preferred stock	**61,000**	38,497
Asset coverage ratio[(F)]	**236%**	346%
Asset coverage per unit[(G)]	**$ 2,356**	$ 3,459
Ratios/Supplemental Data:		
Ratio of expenses to average net assets-annualized[(H)(J)]	**12.67%**	11.02%
Ratio of net expenses to average net assets-annualized[(I)]	**10.16**	7.64
Ratio of net investment income to average net assets-annualized	**7.44**	8.46

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

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

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

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

(E) Average net assets are computed using the average of the balance of net assets at the end of each month of the reporting period.

(F) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200.0% on our senior securities representing indebtedness and our senior securities that are stock. Our mandatorily redeemable preferred stock is a senior security that is stock.

(G) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

(H) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.

(I) Ratio of net expenses to average net assets is computed using total expenses net of credits from the Adviser.

(J) The ratio of expenses to average net assets for the three months ended December 31, 2013 was revised from the previously reported ratio, which was 9.33%, to correct an error as discussed in Note 2 *Summary of Significant Accounting Policies*.

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NOTE 12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

In accordance with the SEC s Regulation S-X and GAAP, we are not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which we have a controlling interest. We had certain unconsolidated subsidiaries, specifically Defiance Integrated Technologies, Inc., Midwest Metal, RBC Acquisition Corp. and Sunshine Media Holdings, as of December 31 and September 30, 2014 and for the three months ended December 31, 2014 and 2013, that met at least one of the significance conditions of the SEC s Regulation S-X. Accordingly, pursuant to Regulation S-X, summarized, comparative financial information, in aggregate, is presented below for the three months ended December 31, 2014 and 2013 for our significant unconsolidated subsidiaries.

	Three Months Ended December 31,	
Income Statement	**2014**	**2013**
Net sales	**$ 41,960**	$ 36,557
Gross profit	**7,825**	7,375
Net loss	**(305)**	(1,091)

NOTE 13. SUBSEQUENT EVENTS

Distributions to Stockholders

In January 2015, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

Record Date	**Payment Date**	**Distribution per Common Share**	**Distribution per Series 2021 Term Preferred Share**
January 23, 2015	February 3, 2015	$ 0.07	$ 0.140625
February 18, 2015	February 27, 2015	0.07	0.140625
March 20, 2015	March 31, 2015	0.07	0.140625
	Total for the Quarter:	**$ 0.21**	**$ 0.421875**

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

SUBJECT TO COMPLETION, DATED JANUARY 29, 2015

PROSPECTUS

$300,000,000

COMMON STOCK

PREFERRED STOCK

SUBSCRIPTION RIGHTS

WARRANTS

DEBT SECURITIES

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

We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company under the Investment Company Act of 1940, as amended. For federal income tax purposes, we have elected to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, to or through underwriters or dealers, at the market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See *Plan of Distribution.* We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market (NASDAQ) under the symbol GLAD. As of January 28, 2015, the last reported sales price for our common stock was $7.43. Our 6.75% Series 2021 Term Preferred Stock, or our Series 2021 Term Preferred Stock, is also traded on the NASDAQ under the symbol GLADO. As of January 28, 2015, the last reported sales price for our Series 2021 Term Preferred Stock was $25.51.

Please read this prospectus and the accompanying prospectus supplement, if any, before investing, and keep it for future reference. It concisely sets forth important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information is available free of charge by contacting us at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, or by calling us collect at (703) 287-5800 or on our website at *www.gladstonecapital.com*. 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. The Securities and Exchange Commission also maintains a website at *www.sec.gov* that contains such information. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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

An investment in our Securities involves certain risks, including, among other things, risks relating to investments in securities of small, private and developing businesses. We describe some of these risks in the section entitled Risk Factors, which begins on page 9. Common shares of closed-end investment companies frequently trade at a discount to their net asset value and this may increase the risk of loss to purchasers of our Securities. You should carefully consider these risks together with all of the other information contained in this prospectus and any prospectus supplement before making a decision to purchase our Securities.

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

The date of this prospectus is

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We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus or any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or the 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.

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

PROSPECTUS SUMMARY

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

General

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001 and completed our initial public offering on August 24, 2001. We are externally managed and operate as a closed-end, non-diversified management investment company and have elected to be treated as a 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). We currently continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment by meeting certain requirements, including minimum distribution requirements. We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (U.S.).

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of ours, was established on November 21, 2006, for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial (previously known as Gladstone SSBIC Corporation) acquired this license in February 2007. The license enables us, through this subsidiary, to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies. As of September 30, 2014 and 2013, we held no investments in portfolio companies through Gladstone Financial.

Our Investment Objectives and Strategy

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (U.S.). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $5 million to $25 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We lend to borrowers that need funds for growth capital, to finance acquisitions, or to recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We expect that our investment portfolio over time will consist of approximately 95.0% in debt investments and 5.0% in equity investments, at cost. As of September 30, 2014, our investment portfolio was made up of approximately 91.6% in debt investments and 8.4% in equity investments, at cost.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

In July 2012, the Securities and Exchange Commission (SEC) granted us an exemptive order that expands our ability to co-invest with certain of our affiliates under certain circumstances and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by our external investment adviser, or any combination of the foregoing, subject to the conditions in the SEC s order. We believe this ability to co-invest will continue to enhance our ability to further our investment objectives and strategies.

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

As of September 30, 2014, our portfolio consisted of loans to 45 companies located in 20 states in 17 different industries with an aggregate fair value of $281.3 million. Since our initial public offering in 2001 through September 30, 2014, we have invested in over 185 different companies, while making over 140 consecutive monthly or quarterly distributions to common stockholders totaling approximately $239.1 million or $15.25 per share. We expect that our investment portfolio will primarily include the following four categories of investments in private U.S. companies:

Senior Debt Securities: We seek to invest a portion of our assets in senior 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 senior debt to cover a substantial portion of the funding needs of its business. The senior debt security usually takes the form of first priority liens on all, or substantially all, of the assets of the business. Senior debt securities may include investments sourced from the syndicated loan market.

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

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Junior Subordinated Debt Securities: We seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior subordinated debts may be secured by certain assets of the borrower or unsecured loans. Additionally, we may receive other yield enhancements in addition to or in lieu of success fees, such as warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.

Preferred and Common Equity/Equivalents: In some cases we will purchase equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of the businesses in which we invest.

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

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered higher risk, as compared to investment-grade debt instruments. In addition, many of the debt securities we hold typically do not amortize prior to maturity.

Our Investment Adviser and Administrator

Gladstone Management Corporation (the Adviser) is our affiliated investment adviser and a privately-held company led by a management team that has extensive experience in our lines of business. Another of our and the Adviser s affiliates, a privately-held company, Gladstone Administration, LLC (the Administrator), employs, among others, our chief financial officer, treasurer, chief compliance officer, internal legal counsel and secretary and their respective staffs. Excluding our chief financial officer and treasurer, all of our executive officers serve as directors or executive officers, or both, of the following of our affiliates: Gladstone Commercial Corporation (Gladstone Commercial), a publicly traded real estate investment trust; Gladstone Investment Corporation (Gladstone Investment), a publicly traded BDC and RIC; Gladstone Land Corporation (Gladstone Land), a publicly traded real estate company that invests in farmland and farm related property; the Adviser; and the Administrator. Our treasurer is also the chief financial officer and treasurer of Gladstone Investment and our chief financial officer is also chief accounting officer of the Adviser. David Gladstone, our chairman and chief executive officer, also serves on the board of managers of our affiliate, Gladstone Securities, LLC (Gladstone Securities), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority (FINRA) and insured by the Securities Investor Protection Corporation.

The Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to: Gladstone Commercial; Gladstone Investment; and Gladstone Land. In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

We have been externally managed by the Adviser pursuant to an investment advisory and management agreement since October 1, 2004. The investment advisory and management agreement originally included administrative services; however, it was amended and restated on October 1, 2006 and at that time we entered into an administration agreement with the Administrator to provide such services. The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Adviser also has offices in several other states.

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THE OFFERING

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

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

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

Common Stock Trading Symbol (NASDAQ)	GLAD
6.75% Series 2021 Term Preferred Stock Trading Symbol (NASDAQ)	GLADO
Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our Securities first to pay down existing short-term debt, then to make investments in small and mid-sized companies in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. See *Use of Proceeds.*
Dividends and Distributions	We have paid monthly distributions to the holders of our common stock since October 2003 (and prior to that quarterly distributions since January 2002) and generally intend to continue to do so. In May 2014 we issued, and in June 2014 we made our first distribution on our Series 2021 Term Preferred Stock and have made monthly distributions thereafter. The amount of monthly distributions on our capital stock is generally determined by our Board of Directors on a quarterly basis and is based on management s estimate of the fiscal year s taxable income. See *Price Range of Common Stock and Distributions.* Because our distributions to common stockholders are based on estimates of taxable income that may differ from actual results, future distributions payable to our common stockholders may also include, and past distributions have included, a return of capital. Such return of capital distributions may increase an investor s tax liability for capital gains upon the sale of our shares by reducing the investor s tax basis for such shares. See *Risk Factors Distributions to our stockholders have included and may in the future include a return of capital.* Certain additional amounts may be deemed as distributed to common stockholders for income tax purposes and may also constitute a return of capital. Other types of securities we might offer will likely pay distributions in accordance with their terms.
Taxation	We intend to continue to elect to be treated for federal income tax purposes as a RIC. So long as we continue to qualify, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90.0% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. See

Material U.S. Federal Income Tax Considerations.

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Trading at a Discount	Common shares of closed-end investment companies frequently trade at a discount to their NAV. The possibility that our common shares may trade at a discount to our NAV is separate and distinct from the risk that our NAV per common share may decline. We cannot predict whether our common shares will trade above, at or below NAV, although during the past three years, our common stock has often traded, and at times significantly, below NAV.
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 Maryland law and other measures we have adopted. See *Certain Provisions of Maryland Law and of Our Articles of Incorporation and Bylaws.*
Dividend Reinvestment Plan	We have a dividend reinvestment plan for our common stockholders. This is an opt in dividend reinvestment plan, meaning that common stockholders may elect to have their cash distributions automatically reinvested in additional shares. Common Stockholders who do not so elect will receive their distributions in cash. Common Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See *Dividend Reinvestment Plan.* There is no dividend reinvestment plan for our Series 2021 Term Preferred Stock.
Management Arrangements	Gladstone Management Corporation serves as the investment adviser, and Gladstone Administration, LLC serves as the Administrator. For a description of the Adviser, the Administrator, the Gladstone Companies and the contractual arrangements with these companies, see *Management Certain Transactions Investment Advisory and Management Agreement, Management Certain Transactions Administration Agreement* and *Management Certain Transactions Loan Servicing Agreement.*

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Capital, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital. The following annualized percentages were calculated based on actual expenses incurred in the quarter ended September 30, 2014 and average net assets for the quarter ended September 30, 2014.

Stockholder Transaction Expenses:	
Sales load or other commission (as a percentage of offering price)(1)	%
Offering expenses (as a percentage of offering price)(1)	%
Dividend reinvestment plan expenses(2)	None
Total stockholder transaction expenses (1)	%
Annual expenses (as a percentage of net assets attributable to common stock)(3):	
Management fees(4)	3.03%
Loan servicing fees(5)	1.84%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	0.57%
Interest payments on borrowed funds(7)	1.79%
Dividend expense on mandatorily redeemable preferred stock (8)	2.35%
Other expenses(9)	1.57%
Total annual expenses(9)	11.15%

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

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

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

(4) Our annual base management fee is 2.0% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. In accordance with the requirements of the SEC, the table above shows Gladstone Capital s management fee as a percentage of average net assets attributable to common shareholders. For purposes of the table, the gross base management fee has been converted to 3.03% of the average net assets as of September 30, 2014 by dividing the total dollar amount of the management fee by Gladstone Capital s average net assets. Under the advisory agreement, the Adviser has provided and continues to provide managerial assistance to our portfolio companies. It may also provide services other than managerial assistance to our portfolio companies and receive fees therefor. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. At the end of each quarter, 100.0% of these fees are voluntarily credited against the base management fee that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser. For the quarter ended September 30, 2014, $0.1 million, or 3.0% of total net annual expenses, of these fees were voluntarily credited against the base management fee.

(5) In addition, the Adviser services, administers and collects on the loans held by Gladstone Business Loan, LLC (Business Loan), in return for which the Adviser receives a 2.0% annual loan servicing fee payable monthly by Business Loan based on the monthly aggregate balance of loans held by Business Loan in accordance with our credit facility. For the three months ended September 30, 2014, the total loan servicing fees were $0.9 million. The entire loan servicing fee paid to the Adviser by Business Loan is voluntarily credited against the base management fee otherwise payable to the Adviser since Business Loan is a consolidated subsidiary of the Company, and overall, the base management fee (including any loan servicing fee) cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement. For the three months ended September 30, 2014, the Adviser voluntarily agreed to waive the annual base management fee of 2.0% to 0.5% for those senior syndicated loan participations to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations. For the three months ended September 30, 2014, $29,530, or 0.7% of total net annual expenses, of these fees were voluntarily credited against the base management fee. After all voluntary credits described above that are applied against the base management fee, the total annual expenses after fee waivers would be 8.98% for the quarter ended September 30, 2014. See *Management Certain Transactions Investment Advisory and Management Agreement* and footnote 6 below.

(6) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20.0% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100.0% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125.0% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide the Adviser with 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125.0% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 2.0% base management fee (see footnote 3 above). The capital gains-based incentive fee equals 20.0% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year. We have not recorded any capital gains-based incentive fee from our inception through September 30, 2014.

From time to time, the Adviser has voluntarily agreed to waive a portion of the incentive fees, to the extent net investment income did not cover 100.0% of the distributions to common stockholders during the period. For the quarter ended September 30, 2014, the incentive fee waiver was $0.7 million. There can be no guarantee that the Adviser will continue to waive any portion of the fees under the Advisory Agreement in the future.

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

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

Assuming pre-incentive fee net investment income of 2.00%, the income-based incentive fee would be as follows:
= 100% × (2.00% - 1.75%)

= 0.25%

Assuming pre-incentive fee net investment income of 2.30%, the income-based incentive fee would be as follows:
= (100% × (catch-up : 2.1875% - 1.75%)) + (20% × (2.30% - 2.1875%))

= (100% × 0.4375%) + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains-based incentive fee would be as follows:
= 20% × (6% - 1%)

= 20% × 5%

= 1%

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

(7) Includes deferred financing costs. On April 26, 2013, we extended the maturity date of our credit facility to January 19, 2016, under which our borrowing capacity is $137.0 million. In addition, on January 29, 2013, we removed the LIBOR minimum of 1.50% on advances under our credit facility. We have drawn down on this credit facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200.0% after each issuance of our senior securities. Assuming that we borrowed $137.0 million at an interest rate of 4.00% plus an additional fee related to borrowings of 0.63%, for an aggregate rate of 4.63%, interest payments and amortization of deferred financing costs on borrowed funds would have been 3.33% of our average net assets for the quarter ended September 30, 2014.

(8) In May 2014, we completed a public offering of 6.75% Series 2021 Term Preferred Stock, par value $0.001 per share, at a public offering price of $25.00 per share. In the offering, we issued approximately 2.4 million shares of 6.75% Series 2021 Term Preferred Stock. Dividend expense includes the amounts paid to preferred stockholders during the three months ended September 30, 2014. Also included in this line item is the amortization of the offering costs related to our term preferred stock offering. See *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Equity Series 2021 Term Preferred Stock* for additional information.

(9) Includes our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement. See

Management Certain Transactions Administration Agreement.

Examples

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Securities. In calculating the following expense amounts, we have assumed 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 sales load or offering expenses to be borne by Gladstone Capital or its stockholders. In the prospectus supplement relating to an offering of securities pursuant to this prospectus, the examples below will be restated to reflect the impact of the estimated offering expenses borne by Gladstone Capital and its stockholders and, in the event that securities to which this prospectus relates are sold to or through underwriters, the impact of the applicable sales load. **The examples below and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, incentive fees, if any, and other expenses) may be greater or less than those shown. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%.**

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment:				
assuming a 5% annual return consisting entirely of ordinary income(1)(2)	$ 132	$ 364	$ 559	$ 925
assuming a 5% annual return consisting entirely of capital gains(2)(3)	$ 140	$ 384	$ 586	$ 951

(1) While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Additionally, we have assumed that the entire amount of such 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments.

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

(3) For purposes of this example, we have assumed that the entire amount of such 5% annual return would constitute capital gains.

ADDITIONAL INFORMATION

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

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Such reports, proxy statements and other information, as well as the registration statement and the amendments, exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC s website is *http://www.sec.gov*. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on the NASDAQ and our corporate website is located at *www.gladstonecapital.com*. The information contained on, or accessible through, our website is not a part of this prospectus.

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We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

We also furnish to our stockholders annual reports, which include annual financial information that has been examined and reported on, with an opinion expressed, by our independent registered public accounting firm. See *Experts.*

RISK FACTORS

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

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

Risks Related to the Economy and Recent Legislation

The failure of U.S. lawmakers to reach an agreement on the national debt ceiling of a budget could have a material adverse effect on our business, financial condition and results of operations.

In February 2014, the U.S. Congress passed legislation to increase the debt ceiling through March 2015. Congress will need to pass additional legislation prior to March 2015 to further increase the debt ceiling in order for the government to continue to make payments to its creditors. In the event U.S. lawmakers fail to reach a viable agreement on the national debt ceiling or a budget, the U.S. could default on its obligations, which could negatively impact the trading market for U.S. government securities. This may, in turn, negatively affect our ability to obtain financing for our investments. As a result, it may materially adversely affect our business, financial condition and results of operations. While the U.S. has begun to see improving financial indicators since the 2008 recession, recent events have created more uncertainty in the U.S. economy and capital markets. Therefore, we remain cautious about a long-term economic recovery.

Over the last several years, the U.S. capital markets have experienced significant price volatility, which have caused market prices of many stocks and debt securities to fluctuate substantially. The recession in general, and the disruptions in the capital markets in particular, have impacted our liquidity options and increased our cost of debt and equity capital. As a result, we do not know if adverse conditions will again intensify, and we are unable to gauge the full extent to which disruptions will continue to affect us. The longer these uncertain conditions persist, the greater the probability that these factors could continue to increase our costs of, and significantly limit our access to, debt and equity capital and, thus, have an adverse effect on our operations and financial results. Many of our portfolio companies and the companies we may invest in prospectively are also susceptible to these unstable economic conditions, which may affect the ability of one or more of our portfolio companies to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering. These unstable economic conditions could also disproportionately impact some of the industries in which we invest, causing us to be more vulnerable to losses in our portfolio, which could cause the number of non-performing assets to increase and the fair value of our portfolio to decrease. The unstable economic conditions may also decrease the value of collateral securing some of our loans as well as the value of our equity investments, which would decrease our ability to borrow under our revolving line of credit or raise equity capital, thereby further reducing our ability to make new investments.

Even with the short term increase to the debt ceiling, there is still a great deal of volatility in the marketplace. The unstable economic conditions have affected the availability of credit generally. Though we raised preferred equity capital in May 2014, we cannot guarantee that we will be able to raise additional equity capital in the near future. We do not know when market conditions will stabilize, if adverse conditions will intensify or the full extent to which the disruptions will continue to affect us. Also, it is possible that persistent instability of the financial markets could have other unforeseen material effects on our business.

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A further downgrade of the U.S. credit rating and the ongoing economic crisis in Europe could negatively impact our liquidity, financial condition and earnings.

Recent U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns. In August 2011, Standard & Poor s downgraded its long-term sovereign credit rating on the U.S. to AA+ for the first time due to the U.S. Congress inability to reach an effective agreement on the national debt ceiling and a budget in a timely manner. The current U.S. debt ceiling and budget deficit concerns have increased the possibility of the credit-rating agencies further downgrading the U.S. credit rating. On October 15, 2013, Fitch Ratings Service placed the U.S. credit rating on negative watch, warning that a failure by the U.S. Government to honor interest or principal payments on U.S. treasury securities would impact its decision on whether to downgrade the U.S. credit rating. Fitch also stated that the manner and duration of an agreement to raise the debt ceiling and resolve the then existing budget impasse, as well as the perceived risk of such events occurring in the future, would weigh on its ratings. On March 21, 2014, Fitch affirmed its AAA long-term and F1+ short-term sovereign credit rating on the U.S. government with a stable outlook. This resolved the negative rating watch that was placed on the ratings on October 15, 2013.

The impact of any further downgrades to the U.S. government s sovereign credit rating, or its perceived creditworthiness, and deteriorating sovereign debt conditions in Europe, is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. These developments and the government s credit concerns in general could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, the decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

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

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

Healthcare reform legislation may affect our results of operations and financial condition.

On March 23, 2010, the President of the United States signed into law the Patient Protection and Affordable Care Act of 2010 and on March 30, 2010, the President signed into law the Health Care and Education Reconciliation Act, which in part modified the Patient Protection and Affordable Care Act (collectively, the Acts). The Acts serve as the primary vehicle for comprehensive health care reform in the U.S. The Acts are intended to reduce the number of individuals in the U.S. without health insurance and effect significant other changes to the ways in which health care is organized, delivered and reimbursed. The complexities and ramifications of the new legislation are significant, and have begun being implemented through a phased approach concluding in 2018. At this time, the effects of health care reform and its impact on our portfolio companies business, results of operations and financial condition and the resulting impact on our operations remain unknown. Accordingly, the Acts could adversely affect the cost of providing healthcare coverage generally and could adversely affect both the financial and operational performance of the portfolio companies in which we invest and our financial and operational performance.

Risks Related to Our External Management

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

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

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

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

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

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

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

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

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

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

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

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

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as debt instruments with PIK interest or OID. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser. Our OID investments totaled $74.0 million as of September 30, 2014, at cost, which are primarily all syndicated loan investments. For the year ended September 30, 2014, we incurred $0.2 million of OID income and the unamortized balance of OID investments as of September 30, 2014 totaled $0.6 million. As of September 30, 2014, we had three investments which had a PIK interest component and we recorded PIK interest income of $0.3 million during the year ended September 30, 2014. We collected $0.1 million in PIK interest in cash for the year ended September 30, 2014.

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

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

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

Our executive officers and directors, and the officers and directors of the Adviser, serve or may serve as officers, directors, or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman of the board and chief executive officer of the Adviser, Gladstone Investment, Gladstone Commercial and Gladstone Land. In addition, Mr. Brubaker, our vice chairman and chief operating officer, is the vice chairman and chief operating officer of the Adviser, Gladstone Investment, Gladstone Commercial and Gladstone Land. Mr. Marcotte is an executive managing director of the Adviser. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Gladstone affiliate 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.

More specifically, in certain circumstances we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of September 30, 2014, our Board of Directors has approved the following types of co-investment transactions:

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

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

Additionally, pursuant to an exemptive order granted by the SEC in July 2012, under certain circumstances, we may co-invest with Gladstone Investment and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund), or any combination of the foregoing, subject to the conditions included therein.

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

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

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

The Advisory Agreement provides for a base management fee based on our gross assets. Since our 2007 fiscal year, our Board of Directors has accepted on a quarterly basis voluntary, unconditional and irrevocable waivers to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, and any waived fees may not be recouped by the Adviser in the future. However, the Adviser is not required to issue these or other waivers of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these fees will increase. If the Adviser does not issue these waivers in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

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

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

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

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

Risks Related to Our External Financing

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

We will have a continuing need for capital to finance our investments. As of September 30, 2014, we had $36.7 million in borrowings outstanding under our fourth amended and restated credit agreement (our Credit Facility), which provides for maximum borrowings of $137.0 million, with a revolving period end date of January 19, 2016. Our Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. Our Credit Facility contains covenants that require our wholly-owned subsidiary Gladstone Business Loan (Business Loan) to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies without lenders consent. The facility also limits payments of distributions to our stockholders to the aggregate net investment income for each of the twelve month periods ending September 30, 2014, 2015 and 2016. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, interest rate type, payment frequency and status, average life and lien property. Our Credit Facility further requires us to comply with other financial and operational covenants, which obligate us to, among other things, maintain certain financial ratios, including asset and interest coverage, and a minimum number of 20 obligors in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of $190.0 million plus 50.0% of all equity and subordinated debt raised after January 19, 2012, which equates to $220.5 million as of September 30, 2014, (ii) asset coverage with respect to Senior Securities representing indebtedness of at least 200.0%, in accordance with Section 18, as modified by 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 September 30, 2014 and as of the date of this filing, we were in compliance with all of our Credit Facility covenants; however, our continued compliance depends on many factors, some of which are beyond our control.

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

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

The revolving period end date of our Credit Facility is January 19, 2016 (the Revolving Period End Date) and if our Credit Facility is not renewed or extended by the Revolving Period End Date, all principal and interest will be due and payable on or before November 30, 2016. Subject to certain terms and conditions, our Credit Facility may be expanded to a total of $237.0 million through the addition of other lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our Credit Facility. There can be no guarantee that we will be able to renew, extend or replace our Credit Facility upon its Revolving Period End Date on terms that are favorable to us, if at all. Our ability to expand our Credit Facility, and to obtain replacement financing at or before the Revolving Period End Date, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand our Credit Facility, or to renew, extend or refinance our Credit Facility by the Revolving Period End Date, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

If we are unable to secure replacement financing, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, and such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. Such circumstances would also increase the likelihood that we would be required to redeem some or all of our outstanding mandatorily redeemable preferred stock, which could potentially require us to sell more assets. In addition to selling assets, or as an alternative, we may issue equity in order to repay amounts outstanding under our Credit Facility. Based on the recent trading prices of our stock, such an equity offering may have a substantial dilutive impact on our existing stockholders interest in our earnings, assets and voting interest in us. If we are able to renew, extend or refinance our Credit Facility prior to its maturity, renewal, extension or refinancing, it could result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds to fund investments or maintain distributions to stockholders.

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

The last equity offering we completed was for our Series 2021 Term Preferred Stock in May 2014, and there can be no assurance that we will be able to raise capital through issuing equity in the near future. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

Senior Securities. We may issue Senior Securities representing indebtedness (including borrowings under our Credit Facility) and Senior Securities that are stock, such as our Series 2021 Term Preferred Stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue such Senior Securities in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200.0% immediately after each issuance of such Senior Security. As a result of incurring indebtedness (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue Senior Securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our Senior Securities is not at least 200.0%. If the aggregate value of our assets declines, we might be unable to satisfy that 200.0% requirement. To satisfy the 200.0% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to stockholders. Furthermore, if we have to issue common stock at below net asset value (NAV) per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of Senior Securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of Senior Securities that is stock.

Common and Convertible Preferred Stock. Because we are constrained in our ability to issue debt or Senior Securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our existing common stockholder may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then current NAV per common share, such sales would result in an immediate dilution to the NAV per common share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV. This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has 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 Series 2021 Term Preferred Stock. However, pending legislation in the U.S House of Representatives, if passed, would modify this section of the 1940 Act and allow the issuance of multiple classes of Senior Securities that are stock, which may lessen our dependence on the issuance of common stock as a financing source.

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)	(10.0)%	(5.0)%	0.0%	5.0%	10.0%
Corresponding return to common stockholder(A)	(16.31)%	(8.76)%	(1.21)%	6.34%	13.89%

(A) The hypothetical return to common stockholders is calculated by multiplying our total assets as of September 30, 2014 by the assumed rates of return and subtracting all interest accrued on our debt for the year ended September 30, 2014, adjusted for the dividends on our Series 2021 Term Preferred Stock; and then dividing the resulting difference by our total assets attributable to common stock. Based on $301.4 million in total assets, $36.7 million drawn on our Credit Facility (at cost), $61.0 million in aggregate liquidation preference of our Series 2021 Term Preferred Stock, and $199.7 million in net assets, each as of September 30, 2014.

Based on the outstanding balance on our Credit Facility of $36.7 million at cost, as of September 30, 2014, the effective annual interest rate of 6.6% as of that date, and aggregate liquidation preference of our Series 2021 Term Preferred Stock of $61.0 million, our investment portfolio at fair value would have had to produce an annual return of at least 2.3% to cover annual interest payments on the outstanding debt and dividends on our Series 2021 Term Preferred Stock.

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

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

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 September 30, 2014, based on the total principal balance of debt outstanding, our portfolio consisted of approximately 85.2% of loans at variable rates with floors, approximately 14.8% at fixed rates.

We currently hold one interest rate cap agreement. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to an interest rate cap agreement is linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement.

Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

There has been increased competitive pressure in the BDC and investment company marketplace for senior and senior subordinated debt, resulting in lower yields for increasingly riskier investments. A large number of entities compete with us and make the types of investments that we seek to make in small and medium-sized companies. We compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent that they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of

funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which would allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The competitive pressures we face could have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. We do not seek to compete based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors pricing, terms, and structure. However, if we match our competitors pricing, terms, and structure, we may experience decreased net interest income and increased risk of credit loss.

Our investments in small and medium-sized portfolio companies are extremely risky and could cause you to lose all or a part of your investment.

Investments in small and medium-sized portfolio companies are subject to a number of significant risks including the following:

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

Small and medium-sized 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 may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry, or negative economic conditions. Deterioration in a borrower s financial condition and prospects usually will be accompanied by deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guaranties we may have obtained from the borrower s management. As of September 30, 2014, three portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $51.4 million, or 16.1% 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 sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender s security interest.

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

There is generally little or no publicly available information about these businesses. Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, the Adviser and its employees, Gladstone Securities and 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.

Small and medium-sized 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

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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 would be jeopardized.

Small and medium-sized businesses are more likely to be dependent on one or two persons. Typically, the success of a small or medium-sized 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.

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

Debt securities of small and medium-sized private companies typically are not rated by a credit rating agency. Typically a small or medium-sized private business cannot or will not expend the resources to have their debt securities rated by a credit rating agency. We expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be at rates below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered high risk as compared to investment-grade debt instruments.

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

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments, based on the Policy. Our Board of Directors reviews valuation recommendations that are provided by the Valuation Team. In valuing our investment portfolio, several techniques are used, including, a total enterprise value approach, a yield analysis, market quotes, and independent third party assessments. Currently, Standard & Poor s Securities Evaluation, Inc. provides estimates of fair value on our non-syndicated debt investments. In addition to these techniques, other factors are considered when determining fair value of our investments, including but limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on non-syndicated debt and equity investments made during the current three month reporting period ended September 30, 2014 are generally valued at original cost basis. For additional information on our valuation policies, procedures and processes, see *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investment Valuation.*

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

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

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

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

Due to the uncertainty inherent in valuing these securities, the 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.

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

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

In addition, we will generally not be in a position to control any portfolio company by investing in its debt securities. This is particularly true when we invest in syndicated loans, which are loans made by a larger group of investors whose investment objectives of the other lenders may not be completely aligned with ours. As of September 30, 2014, syndicated loans made up approximately 17.5% of our portfolio at cost, or $61.1 million. We therefore are subject to the risk that other lenders in these investments may make decisions that could decrease the value of our portfolio holdings.

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 and financial condition.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We invest primarily in debt securities issued by our portfolio companies. In some cases portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders thereof are entitled to receive payment of interest and principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company.

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

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. For the year ended September 30, 2014, we received principal payments of a combined $67.9 million, of which an aggregate of $53.5 million resulted from 13 portfolio companies who paid off early at par. We will first use any proceeds from prepayments to repay any borrowings outstanding on our Credit

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Facility. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Higher taxation of our portfolio companies may impact our quarterly and annual operating results.

The recession s adverse effect on federal, state, and municipality revenues may induce these government entities to raise various taxes to make up for lost revenues. Additional taxation may have an adverse affect on our portfolio companies earnings and reduce their ability to repay our loans to them, thus affecting our quarterly and annual operating results.

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

As of September 30, 2014, we had investments in 45 portfolio companies, of which there were five investments that comprised approximately $94.3 million or 33.5% of our total investment portfolio, at fair value. A consequence of a concentration in a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such investments or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25.0% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25.0% of the value of our total assets. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us. As of September 30, 2014, our largest industry concentrations of our total investments at fair value were in healthcare, education and childcare companies, representing 16.9%; oil and gas companies, representing 15.2%; and personal and non-durable consumer product companies, representing 10.7%. Therefore, we are susceptible to the economic circumstances in these industries, and a downturn in one or more of these industries could have a material adverse effect on our results of operations and financial condition.

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

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

The disposition of our investments may result in contingent liabilities.

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

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though we have structured some of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investments and subordinate all, or a portion, of our claims to that of other creditors. Holders of debt instruments ranking senior to our investments typically would be entitled to receive payment in full before we receive any distributions. After repaying such senior creditors, such portfolio company may not have any remaining assets to use to repay its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower s business or in instances in which we exercised control over the borrower. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken in rendering significant managerial assistance.

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Portfolio company litigation could result in additional costs and the diversion of management time and resources.

In the course of investing in and often providing significant managerial assistance to certain of our portfolio companies, certain persons employed by the Adviser may serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, even if without merit, we or such employees may be named as defendants in such litigation, which could result in additional costs, including defense costs, and the diversion of management time and resources.

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

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

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

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

Risks Related to Our Regulation and Structure

We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification.

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

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

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

As a BDC, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets.

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.

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

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

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

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

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

- any person who beneficially owns, directly or indirectly, 10.0% or more of the voting power of our outstanding voting stock (an interested stockholder);
- an affiliate of ours who at any time within the two-year period prior to the date in question was an interested stockholder; or
- an affiliate of an interested stockholder.

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

Our articles of incorporation permit our Board of Directors to issue up to 50.0 million shares of capital stock. Our Board of Directors may classify or reclassify any unissued common stock or preferred stock into other classes or series of stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our Board of Directors could authorize the issuance of preferred stock with terms and conditions that could have a priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock, which it did in connection with our issuance of approximately 2.4 million shares of Series 2021 Term Preferred Stock. Preferred stock, including our Series 2021 Term Preferred Stock, could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

Risks Related to an Investment in Our Securities

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

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

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

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

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

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

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

Our Board of Directors authorizes monthly distributions quarterly based on then current quarterly estimates of taxable income for each fiscal year, which may differ, and in the past have differed, from actual results. Because our distributions are based on estimates of taxable income that may differ from actual results, future distributions payable to our stockholders may also include a return of capital. Moreover, to the extent that we distribute amounts that exceed our accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a stockholder s original investment in shares of our stock and should not be confused with a distribution from earnings and profits. Although return of capital distributions may not be taxable, such distributions may increase an investor s tax liability for capital gains upon the

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sale of our shares by reducing the investor s tax basis for such shares. Such returns of capital reduce our asset base and also adversely impact our ability to raise debt capital as a result of the leverage restrictions under the 1940 Act, which could have material adverse impact on our ability to make new investments.

The market price of our shares may fluctuate significantly.

The trading price of our common stock and our preferred stock may fluctuate substantially. Due to the extreme volatility and disruptions that have affected the capital and credit markets over the past few years, our stock has experienced greater than usual stock price volatility.

The market price and marketability of our shares may from time to time be significantly affected by numerous factors, including many over which we have no control and that may not be directly related to us. These factors include, but are not limited to, the following:

- general economic trends and other external factors;
- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of shares of RICs, BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- Changes in stock index definitions or policies, which may impact an investor s desire to hold shares of BDCs;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs;
- loss of BDC or RIC status;
- changes in our earnings or variations in our operating results;
- changes in prevailing interest rates;
- changes in the value of our portfolio of investments;
- any shortfall in our revenue or net income or any increase in losses from levels expected by securities analysts;
- departure of key personnel;
- operating performance of companies comparable to us;

- short-selling pressure with respect to our shares or BDCs generally;

- the announcement of proposed, or completed, offerings of our securities, including a rights offering; and

- loss of a major funding source.

Fluctuations in the trading prices of our shares may adversely affect the liquidity of the trading market for our shares and, if we seek to raise capital through future equity financings, our ability to raise such equity capital.

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

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

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

Shares of closed-end investment companies frequently trade at a discount from NAV per common share. Since our inception, our common stock has at times traded above NAV, and at times below NAV per share. Subsequent to September 30, 2014, our common stock has traded at discounts of up to 18.6% of our NAV per share, which was $9.51 as of September 30, 2014. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our NAV. Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our common stockholders and our independent directors. Additionally, 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 shares in such circumstances. Thus, for as long as our common stock may trade below NAV, we will be subject to significant constraints on our ability to raise capital through the issuance of common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

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

At our most recent annual meeting of stockholders on February 13, 2014, our stockholders approved a proposal designed to allow us to sell shares of our common stock below the then current NAV per share of our common stock 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 25.0% of our then outstanding common stock immediately prior to each such sale). Absent such stockholder approval, we would not be able to access the capital markets in an offering at below the then current NAV per share due to restrictions applicable to BDCs under the 1940 Act. At the upcoming annual stockholders meeting scheduled for February 12, 2015, 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 traded at times below NAV. 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 stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. The greater the difference between the sale price and the NAV per share at the time of the offering, the more significant the dilutive impact would be. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect, if any, cannot be currently predicted. However, if, for example, we sold an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who did not participate in that offering for its proportionate interest would suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV.

If we fail to pay dividends on our Series 2021 Term Preferred Stock for two years, the holders of our Series 2021 Term Preferred Stock will be entitled to elect a majority of our directors.

The terms of our Series 2021 Term Preferred Stock provide for annual dividends in the amount of $1.6875 per outstanding share of Series 2021 Term Preferred Stock. In accordance with the terms of our Series 2021 Term Preferred Stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of Series 2021 Term Preferred Stock will be entitled to elect a majority of our Board of Directors.

Other Risks

We could face losses and potential liability if intrusion, viruses or similar disruptions to our technology jeopardize our confidential information, whether through breach of our network security or otherwise.

Maintaining our network security is of critical importance because our systems store highly confidential financial models and portfolio company information. Although we have implemented, and will continue to implement, security measures, our technology platform is and will continue to be vulnerable to intrusion, computer viruses or similar disruptive problems caused by transmission from unauthorized users. The misappropriation of proprietary information could expose us to a risk of loss or litigation.

Terrorist attacks, acts of war, or national disasters may affect any market for our common stock, impact the businesses in which we invest, and harm our business, operating results, and financial conditions.

Terrorist acts, acts of war, or national disasters have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or national disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results, and financial condition. Losses from terrorist attacks and national disasters are generally uninsurable.

Proposed legislation may allow us to incur additional leverage.

As a BDC, we are generally not permitted to incur indebtedness (which includes senior securities representing indebtedness and senior securities that are stock) unless immediately after such borrowing we have an asset coverage (as defined in Section 18(h) of the 1940 Act) of at least 200.0% (i.e. the amount of borrowings may not exceed 50.0% of the value of our assets). Various pieces of legislation that have been introduced by the federal government, if passed, could modify this section of the 1940 Act and increase the amount of such indebtedness that BDCs may incur and making the asset coverage requirement inapplicable for senior securities that are stock, such as preferred stock. Our preferred stock is currently considered a senior security that is stock and so for this 200.0% asset coverage threshold is included as total indebtedness. However, if this proposed legislation is passed, the 1940 Act may not limit our ability to issue preferred stock in the future. As a result, we may be able to issue an increased amount of senior securities and incur additional indebtedness in the future. There can be no assurance in what form this proposed legislation will be passed, or at all.

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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 performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, expect, should, would, if, seek, possible, potential, likely or the neg comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) the recurrence of adverse events in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker and Robert L. Marcotte; (4) changes in our investment objectives and strategy; (5) availability, terms (including the possibility of interest rate volatility) and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; (8) our ability to maintain our qualification as a RIC and as a Business Development Company; and (9) 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 statements, which speak only as of the date made. 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. 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.

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we expect to use the net proceeds from the sale of the Securities first to pay down existing short-term debt, then to make investments in small and mid-sized businesses in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. For the year ended September 30, 2014, indebtedness under our Credit Facility had a weighted average interest rate of approximately 6.3% and the revolving period ends on January 19, 2016. We anticipate that substantially all of the net proceeds of any offering of Securities will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of any offering of Securities primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

Our common stock is quoted on the NASDAQ under the symbol GLAD. Our common stock has historically traded at prices both above and below its NAV. There can be no assurance that any premium to NAV will be attained or maintained. As of November 20, 2014 there were 41 stockholders of record, meaning individuals or entities that we carry in our records as the registered holder (although not necessarily the beneficial owner) of our common stock.

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The following table sets forth the range of high and low intraday sale prices of our common stock as reported on the NASDAQ and the distributions declared by us for the last two completed fiscal years and the current fiscal year through January 28, 2015.

COMMON SHARE PRICE DATA

	NAV(1)	High	Low	Distribution Declared	(Discount) or Premium of High Sales Price to NAV(2)	(Discount) or Premium of Low Sales Price to NAV(2)
Fiscal Year ending September 30, 2013(3)						
First Quarter	$ 9.17	$ 9.02	$ 7.25	$ 0.21	(1.6)%	(20.9)%
Second Quarter	8.91	9.46	8.24	0.21	6.2	(7.5)
Third Quarter	8.60	9.45	7.76	0.21	9.9	(9.8)
Fourth Quarter	9.81	8.92	8.05	0.21	(9.1)	(17.9)
Fiscal Year ending September 30, 2014(4)						
First Quarter	10.10	9.92	8.60	0.21	(1.8)	(14.9)
Second Quarter	9.79	10.37	9.27	0.21	5.9	(5.3)
Third Quarter	8.62	10.21	9.41	0.21	18.4	9.2
Fourth Quarter	9.51	10.27	8.06	0.21	8.0	(15.2)
Fiscal Year ending September 30, 2015(5)						
First Quarter	*	9.41	8.02	0.21	*	*
Second Quarter (through January 28, 2015)	*	8.75	7.25	0.21	*	*

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

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

(3) For the fiscal year ended September 30, 2013, common stockholder distributions declared and paid exceeded our accumulated earnings and profits (after taking into account term preferred stock dividends), which resulted in a partial return of capital of approximately $1.3 million, or approximately $0.06 per share. The return of capital for the year ended September 30, 2013, primarily resulted from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.

(4) For the fiscal year ended September 30, 2014, common stockholder distributions declared and paid exceeded our accumulated earnings and profits (after taking into account term preferred stock dividends), which resulted in a partial return of capital of approximately $15.2 million, or approximately $0.72 per share. The return of capital for the year ended September 30, 2014, primarily resulted from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.

(5) The characterization of the common stockholder distributions declared and paid for the fiscal year ending September 30, 2015 will be determined at fiscal year-end based upon taxable income for the full year and distributions paid during the full year.

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

The following are our outstanding classes of securities as of December 31, 2014.

Title of Class	Amount Authorized	Amount Held by us or for Our Account	Amount Outstanding
Common Stock	46,000,000		21,000,160

6.75% Series 2021 Term Preferred Stock	4,000,000	2,440,000

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RATIOS OF EARNINGS TO FIXED CHARGES

For the years ended September 30, 2014, 2013, 2012, 2011 and 2010, the ratios of three income metrics to fixed charges of the Company, computed as set forth below, were as follows:

	Year Ended September 30,				
	2014	**2013**	**2012**	**2011**	**2010**
Net investment income plus fixed charges to fixed charges	3.5x	3.6x	3.3x	5.5x	4.0x
Net investment income plus realized losses plus fixed charges to fixed charges	1.9x	2.8x	1.8x	5.2x	3.5x
Net increase (decrease) in net assets resulting from operations plus fixed charges to fixed charges(A)	2.6x	5.5x	0.0x	(4.2x)	3.8x

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

(A) Due to unrealized depreciation of certain investments during each of the years ended September 30, 2012 and 2011, the ratio of earnings to fixed charges were less than 1:1. We would have needed to generate additional earnings of approximately $8.0 and $21.5 million in each respective year to achieve a coverage ratio of 1:1.

CONSOLIDATED SELECTED FINANCIAL DATA

The following consolidated selected financial data for the fiscal years ended September 30, 2014, 2013, 2012, 2011 and 2010 are derived from our audited consolidated financial statements. The other data included in the second table below is unaudited. The data should be read in conjunction with our accompanying 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 and per unit data)

	Year Ended September 30,				
	2014	**2013**	**2012**	**2011**	**2010**
Statement of Operations Data:					
Total Investment Income	**$ 36,585**	$ 36,154	$ 40,322	$ 35,211	$ 35,539
Total Expenses, Net of Credits from Adviser	**18,217**	17,768	21,278	16,799	17,780
Net Investment Income	**18,368**	18,386	19,044	18,412	17,759
Net Realized and Unrealized (Loss) Gain on Investments, Borrowings and Other	**(7,135)**	13,833	(27,052)	(39,511)	(1,365)
Net Increase (Decrease) in Net Assets Resulting from Operations	**$ 11,233**	$ 32,219	$ (8,008)	$ (21,099)	$ 16,394
Per Share Data:					
Net Investment Income per Common Share Basic and Diluted(A)	**$ 0.87**	$ 0.88	$ 0.91	$ 0.88	$ 0.84
Net Increase (Decrease) in Net Assets Resulting from Operations per Common Share - Basic and Diluted(A)	**0.53**	1.53	(0.38)	(1.00)	0.78
Cash Distributions Declared Per Common Share	**0.84**	0.84	0.84	0.84	0.84

Statement of Assets and Liabilities Data:					
Total Assets	**$ 301,429**	$ 295,091	$ 293,402	$ 317,624	$ 270,518
Net Assets	**199,660**	205,992	188,564	213,721	249,246
Net Asset Value Per Common Share	**9.51**	9.81	8.98	10.16	11.85
Common Shares Outstanding	**21,000,160**	21,000,160	21,000,160	21,039,242	21,039,242
Weighted Common Shares Outstanding Basic and Diluted	**21,000,160**	21,000,160	21,011,123	21,039,242	21,060,351
Senior Securities Data:					
Borrowings under Credit Facility, at cost[(B)]	**$ 36,700**	$ 46,900	$ 58,800	$ 99,400	$ 16,800
Mandatorily redeemable preferred stock[(B)]	**61,000**	38,497	38,497		
Asset coverage ratio [(C)]	**305%**	341%	296%	315%	1,419%
Asset coverage per unit [(D)]	**$ 3,054**	$ 3,410	$ 2,963	$ 3,150	$ 14,187

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

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

(C) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200.0% on our Senior Securities. Our mandatorily redeemable preferred stock is a Senior Security that is stock.

(D) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

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	Year Ended September 30,				
	2014	**2013**	**2012**	**2011**	**2010**
Other Unaudited Data:					
Number of Portfolio Companies at Year End	**45**	47	50	59	39
Average Size of Portfolio Company Investment at Cost	**$ 7,762**	$ 7,069	$ 7,300	$ 6,488	$ 7,654
Principal Amount of New Investments	**81,731**	80,418	45,050	110,903	23,245
Proceeds from Loan Repayments and Investments Sold	**72,560**	117,048	73,857	50,002	85,634
Weighted Average Yield on Investments[E]	**11.47%**	11.63%	11.25%	11.21%	11.03%
Total Return[F]	**9.62**	9.90	41.39	(33.77)	37.46

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

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

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SELECTED QUARTERLY DATA (UNAUDITED)

	Year Ended September 30, 2014			
	Quarter Ended December 31, 2013	Quarter Ended March 31, 2014	Quarter Ended June 30, 2014	Quarter Ended September 30, 2014
Total investment income	$ 8,392	$ 9,331	$ 10,180	$ 8,682
Net investment income	4,410			