

GLADSTONE CAPITAL CORP

Form 497

October 27, 2015

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**Filed pursuant to Rule 497  
Registration No. 333-185191**

## **PROSPECTUS SUPPLEMENT**

**(to Prospectus dated January 30, 2015)**

**2,000,000 Shares**

### **Common Stock**

We are offering 2,000,000 shares of our common stock. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our common stock is traded on the NASDAQ Global Select Market ( NASDAQ ) under the symbol GLAD. 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.

These shares are being offered at a discount from our most recently determined net asset value ( NAV ) per share pursuant to authority granted for twelve months by our common stockholders at our annual meeting of stockholders held on February 12, 2015, and as subsequently approved by our Board of Directors. Our stockholders did not specify a maximum discount below NAV 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. The last reported closing price of our common stock on October 26, 2015 was \$8.88 per share. The estimated NAV per share of our common stock at October 23, 2015 was \$9.08, which represents the midpoint in our estimated NAV per share range of \$9.03 and \$9.13. Sales of common stock at prices below NAV per share dilute the interest of existing stockholders, having the effect of reducing our NAV per share and may reduce our market price per share. See Risk Factors beginning on page S-11 of this prospectus supplement and on page 9 of the accompanying prospectus and Sales of Common Stock Below Net Asset Value beginning on page S-17 of this prospectus supplement and page 62 of 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 our common stock involves a high degree of risk. You could lose some or all of your investment. You should carefully consider each of the factors described under **Risk Factors** beginning on page S-11 of this prospectus supplement and beginning on page 9 of the accompanying prospectus before you invest in the common stock.

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

	<b>Per Share</b>	<b>Total (2)</b>
Public offering price	\$ 8.55	\$ 17,100,000
Underwriting discounts and commissions (sales load)	\$ 0.4275	\$ 855,000
Proceeds to Gladstone Capital Corporation, before expenses (1)	\$ 8.1225	\$ 16,245,000

(1) Total expenses of the offering payable by us, excluding underwriting discounts and commissions, are estimated to be \$240,000.

(2) We have granted the underwriters a 30-day option to purchase an additional 300,000 shares of common stock solely to cover over allotments, if any. If such option is exercised in full, the total underwriting discounts and commissions will be \$983,250, and the total proceeds, before expenses, to us would be \$18,681,750. See **Underwriting** on page S-55 of this prospectus supplement.

The underwriters are expected to deliver the shares on or about October 30, 2015.

***Joint Book-Running Managers***

**Janney Montgomery Scott**

**Ladenburg Thalmann**  
*Co-Managers*

**Wunderlich**

**Maxim Group LLC**

**J.J.B. Hilliard, W.L. Lyons, LLC      National Securities Corporation**  
**Prospectus Supplement dated October 27, 2015**

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement, together with the accompanying prospectus, sets forth the information that you should know before investing.

We also file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may inspect such reports, proxy statements and other information, as well as this prospectus supplement, and the accompanying prospectus and the exhibits and schedules to the registration statement of which the accompanying prospectus is a part, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the public reference facilities 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 [www.sec.gov](http://www.sec.gov). You may also obtain copies of such material from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

You may request a free copy of this prospectus supplement, the accompanying prospectus, our annual reports to stockholders, when available, and other information about us, and make stockholder inquiries by calling (866) 366-5745 or by writing to us at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, or from our website ([www.GladstoneCapital.com](http://www.GladstoneCapital.com)). The information contained in, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus. 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.

This prospectus supplement, which describes the specific terms of this offering, also adds to and updates information contained in the accompanying prospectus. The accompanying prospectus gives more general information, some of which may not apply to this offering. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date, the statement in the document having the later date modifies or supersedes the earlier statement.

**The common stock does not represent a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus in making an investment decision. We have not authorized any other person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell shares of our common stock in any jurisdiction where such an offer or sale is not permitted. The information appearing in this prospectus supplement and in the accompanying prospectus is accurate only as of the dates on their respective covers, regardless of the time of delivery or any sale of the common stock.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This is only a summary. 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 in 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 the Adviser and its affiliated companies. Unless otherwise stated, the information in this prospectus supplement and the accompanying prospectus does not take into account the possible exercise by the underwriters of their overallotment option.*

**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 (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, or the Code.

As of June 30, 2015, our portfolio consisted of investments in 46 companies in 20 states in 19 different industries with a fair value of \$347.2 million, consisting of senior secured term debt, subordinated secured term debt, preferred equity and common equity.

As of October 23, 2015, we had 21,131,622 shares of common stock, par value \$0.001 per share, or common stock, outstanding and 2,440,000 shares of our 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) outstanding. Since our initial public offering in 2001, through September 30, 2015, we have made 152 consecutive monthly distributions on our common stock. Our monthly distribution declared per share of common stock was \$0.07 for each of October, November and December 2015. Our monthly distribution declared per share for our Series 2021 Term Preferred Stock was \$0.140625 for each of October, November and December 2015.

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 [www.GladstoneCapital.com](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, ( 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

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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 aim to maintain a portfolio allocation of approximately 90.0% debt investments and 10.0% 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 ( 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 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.

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

*Senior Secured Debt Securities:* We seek to invest a portion of our assets in senior secured debt securities, also known as senior loans, senior term loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses 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 Secured Debt Securities:* We seek to invest a portion of our assets in senior subordinated secured debt securities, also known as senior subordinated loans and senior subordinated notes. These senior subordinated secured 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 secured 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:* We seek to invest a portion of our assets in equity securities which consist of preferred and common equity or limited liability company or partnership interests, or warrants or options to acquire such securities, and are generally in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of a business in which we invest.

Additionally, pursuant to the 1940 Act, we must maintain at least 70.0% of our total assets in qualifying assets, as described in Section 55(a) of the 1940 Act. 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 qualifying assets under Section 55(a) of the 1940 Act. With the exception of our policy to conduct our business as a BDC, none of our investment policies are deemed fundamental and all may be changed without stockholder approval.

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**Table of Contents****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 and treasurer, chief compliance officer, general counsel and secretary and their respective staffs. Excluding our chief financial officer and treasurer, who is temporarily serving as Acting Principal Financial Officer of our affiliate, Gladstone Investment Corporation (Gladstone Investment) until December 2015, 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 (NASDAQ: GOOD); Gladstone Investment, a publicly traded BDC and RIC (NASDAQ: GAIN); Gladstone Land Corporation (Gladstone Land), a publicly traded real estate investment trust that invests in farmland and farm related property (NASDAQ: LAND); the Adviser; and the Administrator. Our chief financial officer and treasurer is also the 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, or 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 (as amended and restated to date, the Advisory 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 (the Administration Agreement) with the Administrator to provide such services. The Advisory Agreement was further amended on October 13, 2015 to reduce the base management fee effective July 1, 2015. 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*****Preliminary Estimates of Results for the Year Ended September 30, 2015***

Set forth below are certain preliminary estimates of our financial condition and results of operations for the year ended September 30, 2015. These estimates are subject to the completion of our financial closing procedures, including an independent audit, and are not a comprehensive statement of our financial results for the year ended September 30, 2015 or any time thereafter. We advise you that our actual results may differ materially from these estimates as a result of the completion of our independent audit and financial closing procedures and other developments arising between now and the time that we expect to finalize financial results for the year ended September 30, 2015 in November of this year.

Net investment income per weighted average share of common stock outstanding is estimated to have totaled \$0.84 for the year ended September 30, 2015.

Net asset value per share of common stock outstanding as of September 30, 2015 and October 23, 2015 is estimated to be between \$9.03 to \$9.13.

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We expect to announce final results of operations for the three months and year ended September 30, 2015 on November 17, 2015 prior to the opening of the financial markets.

The preliminary financial data included herein have been prepared by, and is the responsibility of, management. PricewaterhouseCoopers LLP, our independent registered public accounting firm, has not audited, reviewed, compiled or performed any procedures with respect to the accompanying preliminary financial data. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

***Distributions***

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

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Common Share</b>	<b>Distribution per Series 2021 Term Preferred Share</b>
October 26, 2015	November 4, 2015	\$ 0.07	\$ 0.140625
November 16, 2015	November 30, 2015	0.07	0.140625
December 18, 2015	December 31, 2015	0.07	0.140625
<b>Total for the Quarter</b>		<b>\$ 0.21</b>	<b>\$ 0.421875</b>

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

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Common Share</b>	<b>Distribution per Series 2021 Term Preferred Share</b>
July 24, 2015	August 4, 2015	\$ 0.07	\$ 0.140625
August 20, 2015	August 31, 2015	0.07	0.140625
September 21, 2015	September 30, 2015	0.07	0.140625
<b>Total for the Quarter</b>		<b>\$ 0.21</b>	<b>\$ 0.421875</b>

***Investment Activity***

On July 3, 2015 we invested \$7.2 million in Mikawaya, Inc. ( Mikawaya ), a producer of Japanese pastries and specialty frozen desserts, headquartered in Vernon, California through a combination of secured debt and equity.

On July 8, 2015, we sold our debt investment in Ardent Medical Services, Inc. for net proceeds of \$7.2 million.

On July 24, 2015 we invested \$13.0 million in TWS Acquisition Corporation, a post-secondary skilled trade school, headquartered in Phoenix, Arizona through secured debt.

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On August 21, 2015 we invested \$9.75 million in Triple H Food Processors, Inc., a food processor and co-packer, headquartered in Riverside, California through a combination of secured debt and equity.

On August 28, 2015, we exited our investment in Saunders & Associates for net proceeds of \$1.0 million and a realized loss of \$8.9 million.

On September 8, 2015 we invested \$8.5 million in Flight Fit N Fun LLC, a trampoline park operator, headquartered in Springfield, Virginia through a combination of secured debt and equity.

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On September 30, 2015, we restructured our investment in GFRC Holding, LLC, resulting in a realized loss of \$10.8 million.

On October 7, 2015 our debt investment in Ameriqua Group, LLC paid off at par for net proceeds of \$7.4 million.

On October 22, 2015 we exited our investment in First American Payment Systems, L.P. for net proceeds of \$4.0 million, which resulted in a realized loss of \$0.2 million that will be recorded in the quarter ending December 31, 2015.

***Amendment to Investment Advisory and Management Agreement***

On October 13, 2015, we amended the Advisory Agreement to reduce the annual base management fee from 2.00% to 1.75% of our average gross assets, which 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 two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. The amendment was unanimously approved by our Board of Directors, including, specifically, approved unanimously by the Company's independent directors and is effective as of July 1, 2015.

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<b>Issuer</b>	Gladstone Capital Corporation
<b>Common stock offered by us</b>	2,000,000 shares (or 2,300,000 shares if the underwriters exercise their overallotment option in full).
<b>Common stock outstanding prior to this offering</b>	21,131,622 shares
<b>Common stock to be outstanding after this offering</b>	23,131,622 shares (or 23,431,622 shares if the underwriters exercise their overallotment option in full).
<b>Use of proceeds</b>	To repay outstanding indebtedness under the \$170.0 million revolving credit facility (the <b>Credit Facility</b> ) that our wholly-owned subsidiary, Gladstone Business Loan, LLC ( <b>Business Loan</b> ) entered into with KeyBank National Association ( <b>KeyBank</b> ) as the administrative agent, and for other general corporate purposes. Amounts repaid under the Credit Facility remain available for future borrowings and we may use the proceeds of future borrowings under the Credit Facility to make investments in accordance with our investment strategy and for other general corporate purposes. As of June 30, 2015, we had \$104.6 million of borrowings outstanding under our Credit Facility. As of the date of this prospectus supplement we had \$117.1 million outstanding under our Credit Facility. Indebtedness under the Credit Facility currently accrues interest at the rate of 30-day LIBOR plus 3.25% per annum (or 3.44% as of June 30, 2015) through the revolving period end date of January 19, 2019 and is due and payable on or before May 1, 2020. See <b>Use of Proceeds</b> beginning on page S-15 of this prospectus supplement for more information.
<b>NASDAQ Global Select Market ticker symbol</b>	GLAD
<b>Distributions on common stock</b>	Our distributions, if any, are authorized at the discretion of our Board of Directors and are based upon the circumstances at the time of authorization. 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 Risks Related to an Investment in Our Securities Distributions to our stockholders have included and may in the future include a return of capital in the accompanying prospectus.

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In October 2015, we declared a monthly distribution of \$0.07 per common share payable on November 4, 2015 to holders of record as of October 26, 2015. Because the record date for the distribution is before the expected date of settlement, investors who purchase shares of our common stock in this offering will not be entitled to receive such distribution.

**Trading at a discount**

Shares of closed-end investment companies frequently trade at a discount to their NAV per share. The possibility that our shares may trade at such discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether our shares will trade above, at or below NAV per share, although during the past three years, our common stock has generally traded, and at times significantly, at prices below NAV per share. Furthermore, the common stock offered pursuant to this prospectus supplement will be sold at a price below the most recently determined NAV per share range of \$9.03 to \$9.13.

**Risk factors**

Investing in our common stock involves risks. You should carefully consider the information in the sections entitled *Risk Factors* beginning on page S-11 of this prospectus supplement and page 9 of the accompanying prospectus before deciding to invest in our common stock.

**Tax Matters**

Prospective investors are urged to consult their own tax advisors regarding tax considerations in light of their personal investment circumstances.

We have elected to be treated, and intend to continue to so qualify each year, as a RIC under Subchapter M of the Code, and we generally do not expect to be subject to U.S. federal income tax 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% 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 *Additional Material U.S. Federal Income Tax Considerations* beginning on page S-59 of this prospectus supplement and *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.

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The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by us or Gladstone Capital, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital. The following annualized percentages were calculated based on actual expenses incurred in the quarter ended June 30, 2015, and average net assets for the quarter ended June 30, 2015. The table and examples below include all fees and expenses of our consolidated subsidiaries.

**Stockholder Transaction Expenses:**

Sales load (as a percentage of offering price) (1)	5.0%
Offering expenses (as a percentage of offering price) (2)	1.40%
Dividend reinvestment plan expenses (3)	None
<b>Total stockholder transaction expenses</b>	<b>6.40%</b>
<b>Annual expenses (as a percentage of net assets attributable to common stock) (4):</b>	
Base Management fee (5)	3.70%
Loan servicing fee (6)	2.02%
Incentive fees payable under the Advisory Agreement (20.0% of realized capital gains and 20.0% of pre-incentive fee net investment income) (7)	2.03%
Interest payments on borrowed funds (8)	2.33%
Dividend expense on mandatorily redeemable preferred stock (9)	2.28%
Other expenses (10)	1.54%
<b>Total annual expenses as a percentage of average net assets</b>	<b>13.90%</b>

- (1) This amount represents the expected underwriting discount with respect to shares of our common stock sold by us in this offering.
- (2) The expenses of this offering payable by us (other than the underwriting discount) are estimated to be approximately \$240,000. The amount of offering expenses, as a percentage of the offering price of shares to be sold in this offering, is based on a public offering price of \$8.55 per share. If the underwriters exercise their over-allotment option in full, the offering expenses borne by our stockholders (as a percentage of the offering price) will be approximately 1.2%.
- (3) The expenses of the dividend reinvestment plan, if any, are included in other expenses.
- (4) The numbers presented in this table are gross of credits to any fees. There can be no guarantee that the Adviser will waive or credit any portion of such fees in the future.
- (5) For the quarter ended June 30, 2015, 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 June 30, 2015. 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

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each quarter, 100.0% of these fees may be 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 June 30, 2015, \$0.1 million, or 1.5% of total net annual expenses, of these fees were voluntarily and irrevocably credited against the base management fee.

- (6) In addition, the Adviser services, administers and collects on the loans held by Business Loan, a wholly-owned subsidiary of ours, 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 June 30, 2015. For the three months ended June 30, 2015, the total gross loan servicing fees were \$1.0 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 8.96% for the quarter ended June 30, 2015. See Business Investment Advisory and Management Agreements 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 June 30, 2015.

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.

- (8) In the quarter ended June 30, 2015, we increased the commitment amount under our Credit Facility as well as decreased the marginal interest rate and unused commitment fee. We incurred combined fees of \$1.7 million in connection with this amendment and expansion and the amortization of these fees and previously incurred deferred financing fees are included in this line item.
- (9) In May 2014, we completed a public offering of 6.75% Series 2021 Term Preferred Stock at a public offering price of \$25.00 per share. In the offering, we issued approximately 2.4 million shares of Series 2021 Term Preferred Stock. Dividend expense includes the amounts paid to preferred stockholders during the three months ended June 30, 2015. Also included in this line item is the amortization of the offering costs related to our term

preferred stock offering.

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- (10) Other expenses is based on estimated amounts for the current fiscal year and 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 Business Investment Advisory and Management Agreements in the accompanying prospectus.

**Example**

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment: assuming a 5.00% annual return consisting entirely of ordinary income (1)(2)	\$ 213	\$ 540	\$ 769	\$ 1,086
assuming a 5.00% annual return consisting entirely of capital gains (2)(3)	\$ 221	\$ 555	\$ 786	\$ 1,094

- (1) While the example assumes, as required by the SEC, a 5.00% annual return, our performance will vary and may result in a return greater or less than 5.00%. For purposes of this example, we have assumed that the entire amount of such 5.00% 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 5.00% annual return is significantly below the hurdle rate of 7.00% (annualized) that we must achieve under the Advisory Agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5.00% annual return on our investments.
- (2) While the example assumes reinvestment of all 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 market price per share of our common stock at the close of trading on the valuation date for the distribution. See Dividend Reinvestment Plan in the accompanying prospectus for additional information regarding our distribution reinvestment plan.
- (3) For purposes of this example, we have assumed that the entire amount of such 5.00% annual return would constitute capital gains.



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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 or may not otherwise be considered appropriate. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. The failure of our management to use these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

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

Delays in investing the net proceeds of this offering or redeploying amounts repaid under the Credit Facility 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 NAV may change significantly since our last valuation at June 30, 2015.**

Generally, our Board of Directors reviews and approves the fair value of our portfolio of investments on a quarterly basis. The last such quarterly review occurred as of June 30, 2015. Further, our financial statements have not been audited by our independent registered public accounting firm for any periods since September 30, 2014. The fair value of various individual investments in our portfolio and/or the aggregate fair value of our investments may have changed significantly since that time. We are currently in the process of determining the fair value of our portfolio as of September 30, 2015, and based on the preliminary assessment of our Board of Directors, the fair value has declined since June 30, 2015. If our Board of Directors makes a final determination that the fair value of our investment portfolio at September 30, 2015 was less than such fair value at June 30, 2015, then we will record an unrealized loss on our investment portfolio and report a lower NAV per share than is reflected in the Consolidated Selected Financial Data and the financial statements included elsewhere in this prospectus supplement. If our Board of Directors determines that the fair value of our investment portfolio at September 30, 2015 was greater than such fair value at June 30, 2015, we will record an unrealized gain on our investment portfolio and report a greater NAV per share than so reflected elsewhere in this prospectus supplement. Upon publication of this information in connection with our announcement of operating results for our quarter and fiscal year ended September 30, 2015, the market price of our common stock may fluctuate materially, and may be substantially less than the price per share you pay for our

common stock in this offering.

**Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV.**

Shares of closed-end investment companies, including BDCs, frequently trade at a discount from NAV. This characteristic of closed-end investment companies and BDCs is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether our common stock will trade at, above or below NAV, however our common stock has consistently traded below NAV in the last three years. In addition, if our

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common stock trades below NAV, we will generally not be able to issue additional common stock at the market price without the approval of our stockholders and Board of Directors, including a majority of our independent directors. At our Annual Stockholders Meeting on February 12, 2015, our stockholders voted to allow us to issue common stock at a price below NAV per share for a one-year period. Our stockholders did not specify a maximum discount below NAV at which we are able to issue our common stock but we are unable to issue and sell more than 25% of our then outstanding common stock immediately prior to any offering below NAV. For instance, we have in the past and may in the future issue shares of our common stock below NAV.

### **Stockholders who do not participate in this offering will experience immediate dilution in an amount that may be material.**

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during a one-year period ending in February 2016 (subject to a limitation on issuing and selling in a single offering more than 25% of the shares of our common stock outstanding immediately prior to such offering). If we issue or sell shares of our common stock at a discount to NAV, and we intend to do so in this offering, it will pose a risk of dilution to our existing stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares 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. 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 BDCs 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 the Adviser's or any of its affiliates' key personnel;

operating performance of companies comparable to us;

general economic trends and other external factors such as inflation, oil and gas prices and GDP growth;

price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;

changes in stock index definitions or policies, which may impact an investor's desire to hold shares of BDCs;

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changes and perceived projected changes in prevailing interest rates;

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

the announcement of proposed, or contemplated, offerings of our securities, including a rights offering; 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.

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

In May 2014, we completed a public offering of the Series 2021 Term Preferred Stock, at a public offering price of \$25.00 per share. In such offering, we issued 2.4 million shares of Series 2021 Term Preferred Stock. The shares of Series 2021 Term Preferred Stock have dividend, distribution and liquidation rights that are senior to the rights of the holders of our common stock. Further, in the future, we may attempt to increase our capital resources by making additional offerings of preferred equity securities or issuing debt securities. Upon liquidation, holders of our preferred stock, holders of our debt securities, if any, and lenders with respect to other borrowings, including the Credit Facility, would receive a distribution of our available assets in full prior to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our common stockholders bear the risk of our future offerings reducing the per share trading price of our common stock and diluting their interest in us.

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

Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth. As a result of the annual distribution requirement to qualify as a RIC, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue senior securities, including borrowing money from banks or other financial institutions only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. Further, we may not be permitted to declare a dividend or make any distribution to our outstanding stockholders or repurchase shares until such time as we satisfy this test. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder

dilution. We have incurred leverage to generate capital to make additional investments. If the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which could prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

All statements contained in this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to, 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, seek, possible, 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, financial condition 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, Robert L. Marcotte or Terry Lee Brubaker;

changes in our investment objectives and strategy;

actual and potential conflicts of interest with our Adviser and other affiliates of the Company

availability, terms and deployment of capital;

changes in our industry, interest rates or 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 sections 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. 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, except as otherwise required by applicable law. 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 of 1933, as amended (the Securities Act ).

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**USE OF PROCEEDS**

We estimate that the net proceeds from the sale of the 2,000,000 shares of our common stock that we are offering, after deducting underwriting discounts and commissions and expenses of this offering payable by us, will be approximately \$16.0 million (or \$18.4 million, if the underwriters exercise their overallotment option in full) based on the public offering price of \$8.55 per share.

We intend to use the net proceeds from this offering to help repay borrowings under the Credit Facility and for other general corporate purposes. Amounts repaid under the Credit Facility remain available for future borrowings and we may use the proceeds of future borrowings under the Credit Facility to make investments in accordance with our investment strategy and for other general corporate purposes. As of June 30, 2015, we had \$104.6 million of borrowings outstanding under our Credit Facility. As of the date of this prospectus supplement, we have \$117.1 million outstanding under the Credit Facility. Indebtedness under our Credit Facility currently accrues interest at the rate of 30-day LIBOR plus 3.25% (or 3.44% as of June 30, 2015) and the revolving period ends in January 2019 and is due and payable in May 2020. We anticipate that substantially all of the net proceeds of the offering 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 the offering 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.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of June 30, 2015:

on an actual basis; and

on an as adjusted basis to give effect to the sale of 2,000,000 shares of common stock in this offering at a per share price of \$8.55 per share after deducting underwriters' discounts and commissions and estimated offering expenses payable by us (and assuming the underwriters' overallotment option is not exercised). See Use of Proceeds.

	<b>As of June 30, 2015</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(Unaudited)</b>	
	<b>(Dollars in thousands)</b>	
<b>Borrowings</b>		
Borrowings at fair value (cost: \$104,600, actual; \$88,595, as adjusted) (1)(2)	\$ 104,600	\$ 88,595
<b>Total Borrowings</b>	<b>\$ 104,600</b>	<b>\$ 88,595</b>
<b>Preferred Stock</b>		
6.75% Series 2021 Cumulative Term Preferred Stock, \$0.001 par value per share; \$25 liquidation preference per share; 2,460,118 shares authorized and 2,440,000 issued and outstanding, actual and as adjusted (3)	\$ 61,000	\$ 61,000
<b>Total Preferred Stock</b>	<b>\$ 61,000</b>	<b>\$ 61,000</b>
<b>Net Assets Applicable to Common Stockholders</b>		
Common stock, \$0.001 par value per share, 46,000,000 shares authorized, actual and as adjusted; 21,131,622 shares issued and outstanding, actual and 23,131,622 shares issued and outstanding, as adjusted (3)	\$ 21	\$ 23
Capital in excess of par value	294,144	310,147
Cumulative net unrealized depreciation on investments	(53,837)	(53,837)
Cumulative net unrealized appreciation on other	(61)	(61)
Net investment income in excess of distributions	(3,873)	(3,873)
Accumulated net realized losses	(35,751)	(35,751)
<b>Total Net Assets Available to Common Stockholders</b>	<b>\$ 200,643</b>	<b>\$ 216,648</b>
<b>Total Capitalization</b>	<b>\$ 366,243</b>	<b>\$ 366,243</b>

- (1) Our borrowings have not been fair-value adjusted for the as adjusted presentation as of June 30, 2015.
- (2) Does not include approximately \$12.6 million additional net borrowings we made subsequent to June 30, 2015.
- (3) None of these outstanding shares are held by us or for our account.

The following are our outstanding classes of securities as of October 23, 2015:

<b>TITLE OF CLASS</b>	<b>AMOUNT AUTHORIZED</b>	<b>AMOUNT HELD BY US OR FOR OUR ACCOUNT</b>	<b>AMOUNT OUTSTANDING (EXCLUSIVE OF AMOUNTS HELD BY US OR FOR OUR ACCOUNT)</b>
Common Stock	46,000,000		21,131,622
6.75% Series 2021 Term Preferred Stock	2,460,118		2,440,000

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**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

At our 2015 annual stockholders meeting on February 12, 2015, our stockholders approved our ability to issue and sell shares of our common stock at a price below the then current NAV per common share during a period beginning on February 12, 2015 and expiring on the first anniversary of such date (the Stockholder Approval). The offering of common stock being made pursuant to this prospectus supplement is at a price below our most recently estimated NAV per share range on October 23, 2015 of \$9.03 to \$9.13 per share. To sell shares of common stock at a price below NAV per share, pursuant to the Stockholder Approval, the 1940 Act mandates that a majority of our directors who have no financial interest in the sale and a majority of our independent directors have determined (i) that such sale and issuance is in our best interests and in the best interests of our stockholders and (ii) immediately prior to issuance, and in good faith and in consultation with the underwriters of the offering, 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.

In addition to the mandates of the 1940 Act pertaining to issuances and sales of common stock at a price below NAV per share, our Stockholder Approval requires that in any offering of common stock at a price below NAV per share the total number of shares issued and sold pursuant to such Stockholder Approval may not exceed 25% of our currently outstanding common stock immediately prior to each such sale. This offering meets this additional requirement.

This offering of common stock below its NAV per share is designed to raise capital to help repay outstanding borrowings under the Credit Facility and for other general corporate purposes.

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 has considered a variety of factors including:

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

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

the relationship of recent market prices of par 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 the current 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 has also considered the fact that sales of shares of common stock at a discount will benefit the Adviser as the Adviser will ultimately earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at a premium to NAV per share.

Sales by us of our common stock at a discount from NAV per share pose potential risks for our existing stockholders whether or not they participate in this offering, as well as for new investors who participate in this offering. Any sale of common stock at a price below NAV per share results in an immediate dilution to existing common stockholders who do not participate in such sale on at least a pro-rata basis. See Risk Factors

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Stockholders who do not participate in this offering will experience immediate dilution in an amount that may be material in this prospectus supplement and Risk Factors Risks Related to an Investment in Our Securities in the accompanying prospectus.

The following three headings and accompanying tables explain and provide hypothetical examples on the impact of this offering of our common stock at a price less than NAV per share on three different types of investors:

existing stockholders who do not purchase any shares in the offering;

existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become stockholders by purchasing shares in the offering.

**Impact on Existing Stockholders Who Do Not Participate in the Offering**

Our existing common stockholders who do not participate in this offering or who do not buy additional shares in the secondary market at the same or lower price we obtain in this offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate dilution in the NAV of the common shares they hold and their NAV per common share. These common stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to this offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per common share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

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The following table illustrates the level of NAV dilution that could be experienced by an existing common stockholder that does not participate in this offering. It is not possible to predict the level of market price decline that may occur. The table below is based upon financial information as of June 30, 2015 except NAV per share, which is based on the midpoint of the range of NAV per share as of October 23, 2015. The following example assumes a sale of 2,000,000 shares of common stock at a public offering price of \$8.55 per share, with a 5.00% underwriting discount and commission and \$240,000 of estimated offering expenses (\$0.12 per share, net). The numbers in this table have been rounded to the nearest hundredth of one percent.

	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE
<b>Offering Price</b>			
Price per common share to public		\$ 8.55	
Net proceeds per common share to us		\$ 8.00	
<b>Decrease to NAV</b>			
Total common shares outstanding	21,131,622	23,131,622	9.46%
NAV per common share	\$ 9.08	\$ 8.99	(1.03)%
<b>Dilution to Stockholder</b>			
Common shares held by common stockholder	21,132	21,132	
Percentage held by common stockholder	0.10%	0.09%	(8.65)%
<b>Total Asset Values</b>			
Total NAV held by common stockholder	\$ 191,875	\$ 189,906	(1.03)%
Total investment by common stockholder (Assumed to be \$9.08 per common share on common shares held prior to sale)	\$ 191,875	\$ 191,875	
Total dilution to common stockholder (Total NAV less total investment)		\$ (1,969)	
<b>Per Share Amounts</b>			
NAV per share held by common stockholder	\$ 9.08	\$ 8.99	(1.03)%
Investment per share held by common stockholder (Assumed to be \$9.08 per common share on common shares held prior to sale)	\$ 9.08	\$ 9.08	
Dilution per common share held by stockholder (NAV per common share less investment per share)		\$ (0.09)	
Percentage dilution to common stockholder (Dilution per common share divided by investment per common share)			(1.03)%

**Impact on Existing Stockholders Who Do Participate in the Offering**

Our existing common stockholders who participate in this offering or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating common stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our common shares immediately prior to the offering. The level of NAV dilution will decrease as the number of common shares such stockholders purchase increases. Existing common stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing common stockholders who purchase less than their proportionate share of this offering, experience accretion in NAV per common share over their investment per share and will also experience a

disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to this offering. The level of accretion will increase as the excess number of shares such common stockholder purchases increases. Even a common stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such common stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

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The following table illustrates the level of dilution and accretion for a common stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 1,000 shares, which is 0.05% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 3,000 shares, which is 0.15% of the offering rather than its 0.10% proportionate share). The table below is shown based upon financial information as of June 30, 2015 except NAV per share, which is based on the midpoint of the range of NAV per share as of October 23, 2015. The following example assumes a sale of 2,000,000 shares of common stock at a public offering price of \$8.55 per share, with a 5.00% underwriting discount and commission and \$240,000 of estimated offering expenses (\$0.12 per share, net). The numbers in this table have been rounded to the nearest hundredth of one percent.

	50% PARTICIPATION			150% PARTICIPATION		
	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE	FOLLOWING SALE	% CHANGE	
<b>Offering Price</b>						
Price per common share to public		\$ 8.55		\$ 8.55		
Net Proceeds per common share to issuer		\$ 8.00		\$ 8.00		
<b>Decrease to NAV</b>						
Total common shares outstanding	21,131,622	23,131,622	9.46%	23,131,622	9.46%	
NAV per common share	\$ 9.08	\$ 8.99	(1.03)%	\$ 8.99	(1.03)%	
<b>Dilution/Accretion to Common Stockholder</b>						
Common shares held by stockholder	21,132	22,132	4.73%	24,132	14.20%	
Percentage held by common stockholder	0.10%	0.10%	(4.32)%	0.10%	4.32%	
<b>Total Asset Values</b>						
Total NAV held by common stockholder	\$ 191,875	\$ 198,893	3.66%	\$ 216,867	13.03%	
Total investment by common stockholder (Assumed to be \$9.08 per common share on common shares held prior to sale)	\$ 191,875	\$ 200,425	4.46%	\$ 217,525	13.37%	
Total dilution to common stockholder (Total NAV less total investment)		\$ (1,532)		\$ (658)		
<b>Per Common Share Amounts</b>						
NAV per common share held by stockholder	\$ 9.08	\$ 8.99	(1.03)%	\$ 8.99	(1.03)%	
Investment per common share held by stockholder (Assumed to be \$9.08 per common share on common shares held prior to sale)	\$ 9.08	\$ 9.06	(0.26)%	\$ 9.01	(0.73)%	

Dilution per common share held by stockholder (NAV per common share less investment per common share)	\$ (0.07)	\$ (0.03)
Percentage dilution to stockholder (Dilution per common share divided by investment per common share)	(0.76)%	(0.30)%

**Impact on New Investors**

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per common share is greater than the resulting NAV per share (due to selling compensation and expenses paid by us) will experience an immediate decrease in the NAV of their shares and their NAV per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in this offering and whose investment per common share is also less than the resulting NAV per common share due to selling compensation and expenses paid by the issuer being significantly less than the discount per common share will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares of common stock. These investors will experience a

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disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new common stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following table illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same percentage (0.10%) of the common shares in the offering as the common stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of June 30, 2015 except NAV per share, which is based on the midpoint of the range of NAV per share as of October 23, 2015. The following example assumes a sale of 2,000,000 shares of common stock at a public offering price of \$8.55 per share, with a 5.00% underwriting discount and commission and \$240,000 of estimated offering expenses (\$0.12 per share, net). The numbers in this table have been rounded to the nearest hundredth of one percent.

	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE
<b>Offering Price</b>			
Price per common share to public		\$ 8.55	
Net proceeds per common share to issuer		\$ 8.00	
<b>Decrease to NAV</b>			
Total common shares outstanding	21,131,622	23,131,622	9.46%
NAV per common share	\$ 9.08	\$ 8.99	(1.03)%
<b>Accretion to New Investor</b>			
Common shares held by new investor	0	2,000	
Percentage held by new investor	0.0%	0.01%	
<b>Total Asset Values</b>			
Total NAV held by new investor	0	\$ 17,974	
Total investment by new investor (At price to public)	0	\$ 17,100	
Total accretion to new investor (Total NAV less total investment)		\$ 874	
<b>Per Common Share Amounts</b>			
NAV per common share held by new investor		\$ 8.99	
Investment per share held by new investor (At price to public)		\$ 8.55	
Accretion per common share held by new investor (NAV per common share less investment per common share)		\$ 0.44	
Percentage accretion to new investor (accretion per common share divided by investment per			5.11%

common share)

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**Table of Contents****PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

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

**SHARE PRICE DATA**

Our common stock is traded on the NASDAQ under the symbol GLAD. The following table reflects, by quarter, the high and low intraday sales prices per share of our common stock on the NASDAQ, the high and low intraday sales prices as a percentage of NAV per share and quarterly distributions declared per share for each quarter since October 1, 2012.

	SALES PRICE			DISTRIBUTION DECLARED	(DISCOUNT) OR PREMIUM OF HIGH SALES PRICE TO NAV (2)		(DISCOUNT) OR PREMIUM OF LOW SALES PRICE TO NAV (2)
	NAV (1)	HIGH	LOW		TO NAV (2)	TO NAV (2)	
<b>Fiscal Year ending September 30, 2013 (3)</b>							
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)	
<b>Fiscal Year ending September 30, 2014 (4)</b>							
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)	
<b>Fiscal Year ending September 30, 2015 (5)</b>							

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First Quarter	9.31	9.41	8.02	0.21	1.1	(13.9)
Second Quarter	9.55	9.10	7.25	0.21	(4.7)	(24.1)
Third Quarter	9.49	8.99	7.84	0.21	(5.3)	(17.4)
Fourth Quarter	*	9.25	7.58	0.21	*	*
<b>Fiscal Year ending September 30, 2016 (6)</b>						
First Quarter (through October 26, 2015)	*	9.09	8.13	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 accounting principles generally accepted in the U.S. ( 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 ended September 30, 2015 is still being determined based upon taxable income for the full fiscal year and distributions paid during the full fiscal year. These estimates are subject to the completion of our financial closing procedures, including an independent audit, and are therefore not final.
- (6) The characterization of the common stockholder distributions declared and paid for the fiscal year ending September 30, 2016 will be determined at fiscal year-end based upon taxable income for the full fiscal year and distributions paid during the full fiscal year.

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

As of October 23, 2015, there were 37 record owners of our common stock. The last reported sales price of our common stock on NASDAQ on October 26, 2015 was \$8.88 per share, representing a 2.20% discount to our estimated NAV per share of \$9.08 on October 23, 2015 based on the midpoint in the expected range of between \$9.03 and \$9.13 per share.

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**SUPPLEMENTAL MANAGEMENT INFORMATION**

***Board of Directors***

John H. Outland was appointed to the Audit Committee in October 2014.

David A. R. Dullum, an interested director whose term expired at our annual meeting held in February 2015, did not stand for re-election and, as our result, the size of the Board of Directors decreased to eight members.

Caren D. Merrick was elected to the board of directors of WashingtonFirst Bankshares, Inc. (NASDAQ: WFBI), a bank holding company, in May 2015.

***Executive Officers Who Are Not Directors***

Michael LiCalsi, 45, has served as our General Counsel since October 2009 and our Secretary since October 2012. Mr. LiCalsi also serves as General Counsel and Secretary for Gladstone Investment, Gladstone Commercial and Gladstone Land. He has been the President of Gladstone Administration, LLC since July 2013 and Managing Principal of Gladstone Securities, LLC since 2010.

Melissa Morrison, 42, currently serves as our Chief Financial Officer and Treasurer. Ms. Morrison served as our Chief Accounting Officer from October 2011 to April 2013, Chief Financial Officer since April 2013 and Assistant Treasurer from July 2014 to January 2015 when she was appointed as our Treasurer. Ms. Morrison previously served as Controller for Tandberg (now known as Cisco Systems) from September 2007 through September 2011.

***Committees of the Board of Directors***

*Valuation Committee.* The Board of Directors created the Valuation Committee in July 2015. The Valuation Committee, which is composed of Ms. Merrick, Mr. Outland, Anthony W. Parker and Walter H. Wilkinson, Jr., is responsible for overseeing the implementation and administration of our Valuation Policy. As part of its responsibilities, the Valuation Committee determines the fair value of our investment portfolio or other assets in compliance with the 1940 Act and reports such determinations to the Board of Directors.



Table of Contents**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 nine months ended June 30, 2015 and 2014 are derived from our unaudited consolidated financial statements included in this prospectus supplement. The other unaudited data included at the bottom of the table is also unaudited. The data should be read in conjunction with our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement.

	<b>Nine Months Ended June 30,</b>		<b>Year Ended September 30,</b>				
	<b>2015</b>	<b>2014</b>	<b>(Dollar amounts in thousands, except per share data)</b>				
			<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Statement of Operations Data:</b>							
Total Investment Income	\$ 27,884	\$ 27,903	\$ 36,585	\$ 36,154	\$ 40,322	\$ 35,211	\$ 35,539
Total Expenses, Net of Credits from Adviser	(15,664)	(13,945)	18,217	17,768	21,278	16,799	17,780
Net Investment Income	12,220	13,958	18,368	18,386	19,044	18,412	17,759
Net Realized and Unrealized Gain (Loss) on Investments, Borrowings and Other	960	(25,729)	(7,135)	13,833	(27,052)	(39,511)	(1,365)
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ 13,180	\$ (11,771)	\$ 11,233	\$ 32,219	\$ (8,008)	\$ (21,099)	\$ 16,394
<b>Per Share Data:</b>							
Net Investment Income per Common Share Basic and Diluted (A)	\$ 0.58	\$ 0.66	\$ 0.87	\$ 0.88	\$ 0.91	\$ 0.88	\$ 0.84
Net Increase (Decrease) in Net Assets Resulting	0.63	(0.62)	0.53	1.53	(0.38)	(1.00)	0.78

from Operations per Common Share Basic and Diluted (A)								
Cash Distributions Declared Per Common Share	<b>0.63</b>	0.63	<b>0.84</b>	0.84	0.84	0.84	0.84	0.84
<b>Statement of Assets and Liabilities Data:</b>								
Total Assets	\$ <b>369,261</b>	\$ 282,687	\$ <b>301,429</b>	\$ 295,091	\$ 293,402	\$ 317,624	\$ 270,518	
Net Assets	<b>200,643</b>	180,991	<b>199,660</b>	205,992	188,564	213,721	249,246	
Net Asset Value Per Common Share	<b>9.49</b>	8.62	<b>9.51</b>	9.81	8.98	10.16	11.85	
Common Shares Outstanding	<b>21,131,622</b>	21,000,160	<b>21,000,160</b>	21,000,160	21,000,160	21,039,242	21,039,242	
Weighted Common Shares Outstanding Basic and Diluted	<b>21,123,202</b>	21,000,160	<b>21,000,160</b>	21,000,160	21,011,123	21,039,242	21,060,351	
<b>Senior Securities Data:</b>								
Borrowings under Credit Facility, at cost (B)	\$ <b>104,600</b>	\$ 35,100	\$ <b>36,700</b>	\$ 46,900	\$ 58,800	\$ 99,400	\$ 16,800	
Mandatorily redeemable preferred stock (B)	<b>61,000</b>	61,000	<b>61,000</b>	38,497	38,497			
<b>Other Unaudited Data:</b>								
Number of Portfolio Companies at Year End	<b>46</b>	49	<b>45</b>	47	50	59	39	
Average Size of Portfolio Company Investment at Cost	\$ <b>8,719</b>	\$ 7,151	\$ <b>7,762</b>	\$ 7,069	\$ 7,300	\$ 6,488	\$ 7,654	
Principal Amount of New Investments	<b>65,348</b>	72,981	<b>81,731</b>	80,418	45,050	110,903	23,245	
Proceeds from Loan Repayments and Investments Sold	<b>28,601</b>	52,033	<b>72,560</b>	117,048	73,857	50,002	85,634	
Weighted Average Yield on	<b>10.8%</b>	11.6%	<b>11.5%</b>	11.6%	11.3%	11.2%	11.0%	

Investments (C)							
Total Return (D)	<b>(5.40)</b>	20.57	<b>9.62</b>	9.90	41.39	(33.77)	37.46

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

(D) Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account dividends reinvested in accordance with the terms of 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* to our consolidated financial statements included elsewhere in this prospectus supplement.

**Table of Contents****SELECTED QUARTERLY FINANCIAL DATA**

The following tables set forth certain quarterly financial information for each of the eight quarters in the two fiscal years ended September 30, 2014 and September 30, 2013 and the first three quarters of the fiscal year ending September 30, 2015. The information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the entire fiscal year or for any future quarter.

	Year ending September 30, 2015		
	Quarter Ended December 31, 2014	Quarter Ended March 31, 2015	Quarter Ended June 30, 2015
	(in thousands, except per share data)		
Total investment income	\$ 8,726	\$ 9,223	\$ 9,935
Net investment income	3,691	3,693	4,836
Net increase in net assets resulting from operations	331	9,542	3,307
Net increase in net assets resulting from operations per weighted average common share basic & diluted	\$ 0.02	\$ 0.45	\$ 0.16

	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
	(in thousands, except per share data)			
Total investment income	\$ 8,392	\$ 9,331	\$ 10,180	\$ 8,682
Net investment income	4,410	4,485	5,063	4,410
Net increase (decrease) in net assets resulting from operations	10,506	(2,102)	(20,175)	23,004
Net increase (decrease) in net assets resulting from operations per weighted average common share (basic and diluted)	\$ 0.50	\$ (0.10)	\$ (0.96)	\$ 1.09

	Year Ended September 30, 2013			
	Quarter Ended December 31, 2012	Quarter Ended March 31, 2013	Quarter Ended June 30, 2013	Quarter Ended September 30, 2013
	(in thousands, except per share data)			
Total investment income	\$ 9,828	\$ 8,424	\$ 8,551	\$ 9,351
Net investment income	4,859	4,410	4,410	4,707
Net increase (decrease) in net assets resulting from operations	8,366	(2,763)	(2,059)	28,675
Net increase (decrease) in net assets resulting from operations per weighted average common	\$ 0.40	\$ (0.13)	\$ (0.10)	\$ 1.36

share (basic and diluted)

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

**(Dollar amounts in thousands, except per share data or unless otherwise indicated)**

*You should read the following analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes contained elsewhere in this prospectus supplement and in 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, results of operations or percentage relationships 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 intend for our investment portfolio to consist of approximately 90.0% debt investments and 10.0% equity investments, at cost. As of June 30, 2015, our investment portfolio was made up of approximately 91.7% debt investments and 8.3% equity investments, at cost.

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 business, 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, 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 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.

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

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

**Business*****Portfolio Activity***

During the nine months ended June 30, 2015, we invested an aggregate of \$65.3 million in seven new proprietary and syndicate investments, resulting in a net expansion in our overall portfolio of one portfolio company, due to one portfolio company paying off early that resulted in a realized gain of \$1.6 million, the sale of three syndicated investments for combined proceeds of \$6.1 million, and the sale of two of our portfolio companies, one of which was on non-accrual at the time of sale, for net combined proceeds of \$10.8 million. We will continue to focus on exiting challenged and non-strategic investments in our portfolio in an orderly manner over the next several quarters.

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 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 nine months ended June 30, 2015, as discussed under *Investment Highlights*.

***Capital Raising***

Despite the challenges in the economy for the past several years, we have met our capital needs through enhancements to our revolving line of credit (our Credit Facility ) and by accessing the capital markets in the form of public offerings of preferred stock. 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 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. Additionally, in May 2015, we amended and restated our Credit Facility, which included, among other amended terms, decreasing the interest rates on advances, extending the revolving period end date for three years, and expanding the scope of eligible collateral. In June 2015, we increased the total number of committed lenders in our Credit Facility by three and increased the capacity of the Credit Facility from \$140.0 million to \$170.0 million. Refer to *Recent Developments Expansion of Revolving Credit Facility and Amendment and Extension of Revolving Credit Facility* and *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 May 2014 with our term preferred stock offering and in February through April 2015 with our at-the-market program (refer to *Recent Developments At-the-Market Program* for further discussion of this program), 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 over the last year, 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.



On July 28, 2015, the closing market price of our common stock was \$7.74, a 18.4% discount to our June 30, 2015, NAV per share of \$9.49. 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

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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.

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 June 30, 2015, 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, the debt and equity capital available to us may not be sufficient in the near term. However, we believe that the amendments to our Credit Facility to decrease the interest rate on advances and extend its revolving period end date until 2019, our expansion of our Credit Facility and our ability to co-invest with Gladstone Investment and certain other affiliated investment funds, has increased our ability to make investments in middle market businesses that we believe will help us achieve attractive long-term returns for our stockholders.

During the quarter ended June 30, 2015, while we did not close any new originations, we have focused on building our pipeline with deals that we believe are generally recession resistant, have steady cash flows, and have strong management teams which can ultimately provide appropriate returns, given the investment risks. As we have demonstrated this quarter and in the past few quarters, we continue to work through some of the older, more challenged investments in our portfolio to enhance overall returns to our stockholders.

## **Investment Highlights**

During the nine months ended June 30, 2015, we invested an aggregate of \$65.3 million in seven new portfolio companies and an aggregate of \$28.4 million in existing portfolio companies. In addition, during the nine months ended June 30, 2015, we sold our investments in two portfolio companies for combined net proceeds of \$10.8 million and we received scheduled and unscheduled principal repayments of approximately \$10.1 million in

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aggregate from existing portfolio companies. Since our initial public offering in August 2001, we have made 391 different loans to, or investments in, 192 companies for a total of approximately \$1.4 billion, before giving effect to principal repayments on investments and divestitures.

### *Investment Activity*

During the nine months ended June 30, 2015, we executed the following transactions with certain of our portfolio companies:

#### Issuances and Originations

During the nine months ended June 30, 2015, we invested an aggregate of \$52.8 million in four new proprietary portfolio companies and an aggregate of \$12.5 million in three new syndicated portfolio companies. Below are significant issuances and originations during the nine months ended June 30, 2015:

In December 2014, we invested \$8.1 million, along with an unfunded line of credit of \$0.3 million, in B+T Holdings Inc. ( B+T ), through a combination of secured first lien 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 Gladstone Investment, which invested an additional \$19.6 million under the same terms as us.

In December 2014, we invested \$13.5 million, along with an unfunded line of credit of \$1.5 million, in LWO Acquisitions Company LLC, ( LWO Acquisitions ) through a combination of secured first lien debt and equity. LWO Acquisitions, 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 \$10.0 million, along with unfunded line of credit of \$1.0 million, in Vision Government Solutions, Inc. ( Vision ) through secured first lien 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.

In February 2015, we invested \$21.2 million, along with an unfunded line of credit of \$4.0 million, in United Flexible, Inc. (formerly known as Precision Metal Hose, Inc.) ( United Flexible ) through a combination of secured first lien debt and equity. United Flexible, headquartered in Romeoville, IL, is a global leader in the design, development, manufacture and support of performance critical flexible engineered solutions for the transfer of fluids and gasses in extreme environments.

#### Repayments and Sales

During the nine months ended June 30, 2015, we received principal repayments totaling \$10.1 million in the aggregate, consisting of \$9.3 million of aggregated unscheduled principal and revolver repayments, as well as \$0.8 million in aggregated contractual principal amortization. Below are the significant repayments and exits during the

nine months ended June 30, 2015.

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 recorded in the three months ended December 31, 2014. The resulting internal rate of return 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 nine months ended June 30, 2015. Midwest Metal had been on non-accrual status at the time of the sale.

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In June 2015, we exited our investment in Sunburst Media Louisiana, LLC ( Sunburst ) for net proceeds of \$4.7 million, which resulted in a realized loss of \$1.3 million.

Refer to Note 13 *Subsequent Events* in the accompanying *Condensed Consolidated Financial Statements* included elsewhere in this prospectus supplement for portfolio activity occurring subsequent to June 30, 2015. Below are the significant originations and exits which occurred subsequent to June 30, 2015:

In July 2015, we invested \$7.2 million in Mikawaya, Inc. ( Mikawaya ) through a combination of secured second lien debt and equity. Mikawaya, headquartered in Vernon, California, is a producer of Japanese pastries and specialty frozen desserts.

In July 2015, we invested \$13.0 million in StrataTech Education Group ( StrataTech ) through a secured first lien debt. StrataTech, headquartered in Phoenix, AZ, operates post-secondary skilled trade institutions through its subsidiaries.

In July 2015, we received \$7.2 million from the sale of our syndicated investment in Ardent Medical Services, Inc.

## **Recent Developments**

### ***Expansion of Revolving Credit Facility***

On June 19, 2015, we through Gladstone Business Loan, LLC ( Business Loan ), a wholly owned subsidiary of ours, we entered into certain joinder and assignment agreements with three new lenders to increase borrowing capacity on our Credit Facility by \$30.0 million to \$170.0 million. Refer to *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of our revolving line of credit.

### ***Amendment and Extension of Revolving Credit Facility***

On May 1, 2015, we, through Business Loan, entered into a Fifth Amended and Restated Credit Agreement (our Credit Facility ). The amendment included increasing the commitment amount from \$137.0 million to \$140.0 million, extending the revolving period end date by three years to January 19, 2019, decreasing the marginal interest rate added to 30-day London Interbank Offered Rate ( LIBOR ) from 3.75% to 3.25% per annum through the revolving period, setting the unused commitment fee at 0.50% on all undrawn amounts and expanding the scope of eligible collateral, among other amended terms and conditions. Our Credit Facility was arranged by KeyBank National Association ( KeyBank ), as administrative agent, lead arranger and a lender. If our Credit Facility is not renewed or extended by January 19, 2019, all principal and interest will be due and payable on or before May 1, 2020. Subject to certain terms and conditions, our Credit Facility may be expanded up to a total of \$250.0 million through commitments of new or existing lenders. Refer to *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of our Credit Facility.

### ***At-the-Market Program***

On February 27, 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or our Sales Agreements ) with KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., each a Sales Agent, under which we may issue and sell, from time to time, through the Sales Agents, up to an aggregate offering

price of \$50.0 million shares of our common stock. During the nine months ended June 30, 2015, we sold an aggregate of 131,462 shares of our common stock for gross proceeds of \$1.2 million. No other shares of common stock have been sold under these Sales Agreements subsequent to June 30, 2015.

*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 chief financial officer and then-current assistant treasurer, as the Company's treasurer.

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**Table of Contents*****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 declared effective 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. As of June 30, 2015, we had the ability to issue up to \$237.8 million in securities under our Registration Statement through one or more transactions.

**RESULTS OF OPERATIONS****Comparison of the Three Months Ended June 30, 2015, to the Three Months Ended June 30, 2014**

	<b>Three Months Ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>\$ Change</b>	<b>% Change</b>
<b>INVESTMENT INCOME</b>				
Interest income	<b>\$ 9,107</b>	\$ 8,184	\$ 923	11.3%
Other income	<b>828</b>	1,996	(1,168)	(58.5)
Total investment income	<b>9,935</b>	10,180	(245)	(2.4)
<b>EXPENSES</b>				
Base management fee	<b>1,859</b>	1,461	398	27.2
Loan servicing fee	<b>1,015</b>	917	98	10.7
Incentive fee	<b>1,021</b>	1,266	(245)	(19.4)
Administration fee	<b>235</b>	219	16	7.3
Interest expense on borrowings	<b>1,033</b>	710	323	45.5
Dividend expense on mandatorily redeemable preferred stock	<b>1,029</b>	937	92	9.8
Amortization of deferred financing fees	<b>253</b>	314	(61)	(19.4)
Other expenses	<b>537</b>	277	260	93.9
Expenses before credits from Adviser	<b>6,982</b>	6,101	881	14.4
Credits to base management fee loan servicing fee	<b>(1,015)</b>	(917)	(98)	(10.7)
Credits to fees from Adviser other	<b>(868)</b>	(67)	(801)	NM
Total expenses, net of credits	<b>5,099</b>	5,117	(18)	(0.4)
<b>NET INVESTMENT INCOME</b>	<b>4,836</b>	5,063	(227)	(4.5)
<b>NET REALIZED AND UNREALIZED GAIN (LOSS)</b>				
Net realized (loss) gain on investments and escrows	<b>(1,075)</b>	54	(1,129)	NM
Realized loss on extinguishment of debt		(1,297)	1,297	100.0
Net unrealized depreciation of investments	<b>(1,147)</b>	(22,849)	21,702	95.0
Net unrealized depreciation (appreciation) of other	<b>693</b>	(1,146)	1,839	NM
Net loss from investments and other	<b>(1,529)</b>	(25,238)	23,709	93.9



<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 3,307</b>	<b>\$ (20,175)</b>	<b>\$ 23,482</b>	<b>NM%</b>
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*NM = Not Meaningful*

***Investment Income***

Interest income increased by 11.3% for the three months ended June 30, 2015, as compared to the prior year period. This increase was due primarily to the seven new investments that we funded during the nine months

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ended June 30, 2015. The interest income from these new investments was partially offset by allowances on certain interest receivables totaling \$0.2 million, which reduced interest income during the three months ended June 30, 2015, and resulted in a lower weighted average yield on our portfolio. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended June 30, 2015, was \$330.6 million, compared to \$285.3 million for the prior year period, an increase of 16.2%. The annualized weighted average yield on our interest-bearing investment portfolio is based on the current stated interest rate on interest-bearing investments which decreased to 11.1% for the three months ended June 30, 2015 compared to 11.5% for the three months ended June 30, 2014, inclusive of any allowances on interest receivables made during those periods.

As of June 30, 2015, four portfolio companies were either fully or partially on non-accrual status, with an aggregate debt cost basis of approximately \$49.2 million, or 13.4%, of the cost basis of all debt investments in our portfolio. Effective April 1, 2015, we placed Saunders & Associates ( Saunders ) on non-accrual status and effective January 1, 2015, we placed GFRC Holdings, LLC ( GFRC ) on non-accrual status. Effective January 1, 2015, portions of our investment in Sunshine Media Holdings ( Sunshine ) were placed on accrual status. As of June 30, 2014, three of our portfolio companies were on non-accrual status, with an aggregate debt cost basis of approximately \$52.1 million, or 16.2%, of the cost basis of all debt investments in our portfolio. Effective June 1, 2014, we placed Midwest Metal on non-accrual status, which was later exited in December 2014.

For the three months ended June 30, 2015, other income consisted primarily of \$0.3 million in success fees prepaid by Defiance Integrated Technologies, Inc. ( Defiance ), \$0.3 million in dividend income and prepaid success fees recorded as a receivable from Southern Petroleum Laboratories, Inc. ( SPL ) and \$0.2 million in dividend income received from Funko, LLC ( Funko ). Other income for the three months ended June 30, 2014, consisted primarily of \$0.7 million in dividend income received from FedCap Partners, LLC ( FedCap ), \$0.5 million in success fees received from the early payoff at par of Thibaut Acquisition Co. ( Thibaut ), \$0.4 million in legal settlement proceeds received related to an investment which was previously sold and \$0.2 million in success fees received related to our sale of substantially all of the assets of Lindmark Acquisition, LLC ( Lindmark ) and the ensuing pay down of our debt investments in Lindmark 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:

Company	As of June 30, 2015		Three Months Ended June 30, 2015	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
Funko, LLC	\$ 31,221	9.0%	\$ 444	4.5%
RBC Acquisition Corp.	22,416	6.5	633	6.4
WadeCo Specialties, Inc.	22,173	6.4	527	5.3
Francis Drilling Fluids, Ltd.	21,708	6.2	617	6.2
United Flexible, Inc. (A)	21,335	6.1	487	4.9
<b>Subtotal five largest investments</b>	<b>118,853</b>	<b>34.2</b>	<b>2,708</b>	<b>27.3</b>
Other portfolio companies	228,363	65.8	7,226	72.7
Other non-portfolio company revenue			1	
<b>Total Investment Portfolio</b>	<b>\$ 347,216</b>	<b>100.0%</b>	<b>\$ 9,935</b>	<b>100.0%</b>

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Company	As of June 30, 2014		Three Months Ended June 30, 2014	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
J.America, Inc.	\$ 17,045	6.4%	\$ 473	4.7%
Francis Drilling Fluids, Ltd.	15,677	5.9	459	4.5
AG Transportation Holdings, LLC	12,903	4.9	456	4.5
RBC Acquisition Corp.	12,496	4.7	808	7.9
Defiance Integrated Technologies, Inc.	12,133	4.6	184	1.8
<b>Subtotal five largest investments</b>	<b>70,254</b>	<b>26.5</b>	<b>2,380</b>	<b>23.4</b>
Other portfolio companies	194,829	73.5	7,796	76.6
Other non-portfolio company revenue			4	
<b>Total Investment Portfolio</b>	<b>\$ 265,083</b>	<b>100.0%</b>	<b>\$ 10,180</b>	<b>100.0%</b>

(A) New investment during applicable period.

**Expenses**

Expenses, net of any voluntary, irrevocable and non-contractual credits to fees from the Adviser, decreased slightly by 0.4% for the three months ended June 30, 2015, as compared to the prior year period. This decrease was primarily due to the decrease in the net incentive fee of \$1.0 million, which was offset primarily by the increase in interest expense on borrowings of \$0.3 million and the increase in the net base management fee of \$0.4 million.

Interest expense increased by \$0.3 million, or 45.5%, during the three months ended June 30, 2015, as compared to the prior year period, due primarily to an increase in the borrowings outstanding on our Credit Facility during the period. The weighted average balance outstanding on our Credit Facility during the three months ended June 30, 2015, was approximately \$109.8 million, as compared to \$49.4 million in the prior year period, an increase of 122.3%. This increase was partially offset by the decrease in advance rates on our borrowings effective May 1, 2015, per the recent amendment and restatement of our Credit Facility.

The increase of \$0.4 million, or 25.2%, in the net base management fee earned by the Adviser during the three months ended June 30, 2015, as compared to the prior year period, was due primarily to an increase in the average total assets outstanding due to the net growth in our investment portfolio. During the three months ended June 30, 2015, our Board of Directors accepted an unconditional, non-contractual and irrevocable voluntary credit of \$0.8 million from the Adviser to reduce the income-based incentive fee to the extent projected net investment income for the fiscal year ended September 30, 2015 did not cover 100.0% of the projected distributions to common stockholders for the fiscal year ended September 30, 2015. No such credit was granted for the three months ended June 30, 2014.

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The base management, loan servicing and incentive fees, and associated unconditional, non-contractual, and irrevocable voluntary credits, are computed quarterly, as described under *Transactions with the Advisor* in Note 4 of the notes to our accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	<b>Three Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Average total assets subject to base management fee	\$ 371,800	\$ 292,200
Multiplied by prorated annual base management fee of 2.0%	0.5%	0.5%
<b>Base management fee</b>	<b>\$ 1,859</b>	<b>\$ 1,461</b>
Portfolio company fee credit	(73)	(38)
Senior syndicated loan fee credit	(41)	(29)
<b>Net Base Management Fee</b>	<b>\$ 1,745</b>	<b>\$ 1,394</b>
<b>Loan servicing fee</b>	<b>1,015</b>	<b>917</b>
Credits to base management fee loan servicing fee	(1,015)	(917)
<b>Net Loan Servicing Fee</b>	<b>\$</b>	<b>\$</b>
<b>Incentive fee</b>	<b>1,021</b>	<b>1,266</b>
Incentive fee credit (A)	(754)	
<b>Net Incentive Fee</b>	<b>\$ 267</b>	<b>\$ 1,266</b>
Portfolio company fee credit	(73)	(38)
Senior syndicated loan fee credit	(41)	(29)
Incentive fee credit	(754)	
<b>Credit to Fees From Adviser other</b>	<b>\$ (868)</b>	<b>\$ (67)</b>

(A) 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 cover 100.0% of the distributions to common stockholders for the three months ended June 30, 2015. No such credit was granted for the three months ended June 30, 2014.

***Net Realized and Unrealized Gain (Loss)*****Net Realized Loss on Investments and Escrows**

For the three months ended June 30, 2015, we recorded a net realized loss on investments and escrows of \$1.1 million, which resulted primarily from the exit of our investment in Sunburst during the three months June 30, 2015. For the three months ended June 30, 2014, there was minimal realized activity on investments and escrows.

Net Unrealized Appreciation (Depreciation) 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 June 30, 2015, we recorded net unrealized depreciation of investments in the aggregate amount of \$1.1 million, which included reversals totaling \$2.2 million of cumulative net unrealized depreciation, primarily related to the exit of Sunburst during the period. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the three months ended June 30, 2015, consisted of approximately \$1.5 million of depreciation on our debt investments and approximately \$1.8 million of depreciation on our equity investments.

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The net realized losses and unrealized appreciation (depreciation) across our investments for the three months ended June 30, 2015, were as follows:

Portfolio Company	Three Months Ended June 30, 2015			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Funko, LLC	\$	\$ 6,213	\$	\$ 6,213
Sunburst Media Louisiana, LLC	(1,333)		2,295	962
Francis Drilling Fluids, Ltd.		735		735
Ameriquel Group, LLC		727		727
Southern Petroleum Laboratories, Inc.		661		661
Precision Acquisition Group Holdings, Inc.		461		461
WadeCo Specialties, Inc.		458		458
Sunshine Media Holdings		332		332
LWO Acquisitions Company LLC		311		311
AG Transportation Holdings, LLC		301		301
Behrens Manufacturing, LLC		294		294
Vertellus Specialties, Inc.		254		254
PLATO Learning, Inc.		(301)		(301)
Leeds Novamark Capital I, L.P.		(309)		(309)
FedCap Partners, LLC		(350)		(350)
SourceHOV LLC		(407)		(407)
GFRC Holdings, LLC		(425)		(425)
Meridian Rack & Pinion, Inc.		(531)		(531)
Alloy Die Casting Co.		(583)		(583)
Saunders & Associates		(1,036)		(1,036)
Edge Adhesives Holdings, Inc.		(1,409)		(1,409)
Defiance Integrated Technologies, Inc.		(1,491)		(1,491)
B+T Group Acquisition Inc.		(1,992)		(1,992)
RBC Acquisition Corp.		(5,867)		(5,867)
Other, net (<\$250) (A)	258	651	(139)	770
<b>Total:</b>	<b>\$ (1,075)</b>	<b>\$ (3,303)</b>	<b>\$ 2,156</b>	<b>\$ (2,222)</b>

(A) No portfolio company within this category exceeds \$250 in absolute value for any column.

The largest driver of our net unrealized depreciation for the three months ended June 30, 2015, excluding reversals, was a decline in financial and operational performance on several portfolio companies, most notably RBC Acquisition Corp. ( RBC ) of \$5.9 million, B+T Group Acquisition Inc. ( B+T ) of \$2.0 million, and Defiance of \$1.5 million. This depreciation was partially offset by the improvement in financial and operational performance and the increase in comparable multiples used in the valuation of Funko, LLC ( Funko ) of \$6.2 million.

During the three months ended June 30, 2014, we recorded net unrealized depreciation of investments in the aggregate amount of \$22.8 million, which included reversals totaling \$0.1 million in cumulative unrealized net appreciation. Excluding reversals, we had \$22.7 million in net unrealized depreciation for the three months ended June 30, 2014. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the three months ended June 30, 2014, consisted of approximately \$24.4 million of depreciation on our debt investments and approximately \$1.7 million of appreciation on our equity investments.

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The net realized gains and unrealized appreciation (depreciation) across our investments for the three months ended June 30, 2014, were as follows:

Portfolio Company	Three Months Ended June 30, 2014			
	Realized Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Appreciation	Net Gain (Loss)
Defiance Integrated Technologies, Inc.	\$	\$ 2,381	\$	\$ 2,381
WP Evenflo Group Holdings, Inc.		954		954
Francis Drilling Fluids, Ltd.		712		712
International Junior Golf Training Acquisition Company		554		554
Westland Technologies, Inc.		517		517
Edge Adhesives Holdings, Inc.		511		511
Funko, LLC		329		329
Lignetics, Inc.		299		299
Alloy Die Casting Co.		(459)		(459)
Saunders & Associates		(641)		(641)
Ameriquel Group, LLC		(815)		(815)
FedCap Partners, LLC		(933)		(933)
GFRC Holdings, LLC		(1,201)		(1,201)
Precision Acquisition Group Holdings, Inc.		(3,408)		(3,408)
Midwest Metal Distribution, Inc.		(3,491)		(3,491)
RBC Acquisition Corp.		(18,230)		(18,230)
Other, net (<\$250) (A)	54	232	(160)	126
<b>Total:</b>	<b>\$ 54</b>	<b>\$ (22,689)</b>	<b>\$ (160)</b>	<b>\$ (22,795)</b>

(A) No portfolio company within this category exceeds \$250 in absolute value for any column.

The largest driver of our net unrealized depreciation for the three months ended June 30, 2014, was a decline in financial and operating performance and, to a lesser extent, a decrease in comparable multiples used in valuing RBC of \$18.2 million, Midwest Metal of \$3.5 million and Precision Acquisition Group Holdings, Inc. ( Precision ) of \$3.4 million. This unrealized depreciation for the three months ended June 30, 2014, was partially offset by unrealized appreciation due to an incremental improvement in the financial and operational performance and, to a lesser extent, an increase in comparable multiples used in valuing Defiance of \$2.4 million.

**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 cap 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 June 30, 2015 and 2014, we recorded net unrealized depreciation of other of \$0.7 million and net unrealized appreciation of other of \$1.1 million, respectively.

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**Table of Contents****Comparison of the Nine Months Ended June 30, 2015, to the Nine Months Ended June 30, 2014**

	For the Nine Months Ended June 30,			
	2015	2014	\$ Change	% Change
<b>INVESTMENT INCOME</b>				
Interest income	\$ 25,495	\$ 24,546	\$ 949	3.9%
Other income	2,389	3,357	(968)	(28.8)
Total investment income	27,884	27,903	(19)	(0.1)
<b>EXPENSES</b>				
Base management fee	5,257	4,421	836	18.9
Loan servicing fee	2,802	2,628	174	6.6
Incentive fee	2,866	3,361	(495)	(14.7)
Administration fee	784	635	149	23.5
Interest expense on borrowings	2,735	1,994	741	37.2
Dividend expense on mandatorily redeemable preferred stock	3,087	2,309	778	33.7
Amortization of deferred financing fees	857	944	(87)	(9.2)
Other	1,792	1,553	239	15.4
Expenses before credits from Adviser	20,180	17,845	2,335	13.1
Credits to base management fee loan servicing fee	(2,802)	(2,628)	(174)	(6.6)
Credits to fees from Adviser other	(1,714)	(1,272)	(442)	(34.7)
Total expenses, net of credits	15,664	13,945	1,719	12.3
<b>NET INVESTMENT INCOME</b>	<b>12,220</b>	<b>13,958</b>	<b>(1,738)</b>	<b>(12.5)</b>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS)</b>				
Net realized loss on investments and escrows	(14,515)	(13,259)	(1,256)	(9.5)
Realized loss on extinguishment of debt		(1,297)	1,297	100.0
Net unrealized appreciation (depreciation) of investments	14,162	(9,912)	24,074	NM
Net unrealized depreciation (appreciation) of other	1,313	(1,261)	2,574	NM
Net gain (loss) from investments and other	960	(25,729)	26,689	NM
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 13,180</b>	<b>\$(11,771)</b>	<b>\$ 24,951</b>	<b>NM%</b>

NM = Not Meaningful

**Investment Income**

Interest income increased by 3.9% for the nine months ended June 30, 2015, as compared to the prior year period. This increase was due primarily to the funding of several new investments during the period, partially offset by several early payoffs at par during the prior year and allowances on certain interest receivables totaling \$1.1 million,

which reduced interest income during the nine months ended June 30, 2015. The weighted average principal balance of our interest-bearing investment portfolio during the nine months ended June 30, 2015, was \$315.8 million, compared to \$282.7 million for the prior year period, an increase of 11.7%. 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 nine months ended June 30, 2015 compared to 11.6% for the nine months ended June 30, 2014, inclusive of any allowances on interest receivables made during those periods.

As of June 30, 2015, four portfolio companies were either fully or partially on non-accrual status, with an aggregate debt cost basis of approximately \$49.2 million, or 13.4%, of the cost basis of all debt investments in our portfolio. Effective April 1, 2015, we placed Saunders on non-accrual status and effective January 1, 2015,

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we placed GFRC on non-accrual status and restored two tranches of Sunshine debt to accrual status. During the three months ended December 31, 2014, we sold our investment in Midwest Metal that had been on non-accrual status. As of June 30, 2014, three of our portfolio companies were on non-accrual, with an aggregate debt cost basis of approximately \$52.1 million, or 16.2%, of the cost basis of all debt investments in our portfolio. Effective January 1, 2014, we placed Heartland Communications Group ( Heartland ) on non-accrual status and effective June 1, 2014 we placed Midwest Metal on non-accrual status. During the three months ended December 31, 2013, we sold our investment in LocalTel, LLC ( LocalTel ) that had been on non-accrual status.

For the nine months ended June 30, 2015, other income consisted primarily of \$0.6 million in success fees related to the early payoff of NAAS at a realized gain, \$0.5 million in success fees prepaid by Defiance, \$0.3 million in success fees prepaid by FDF, \$0.3 million in dividend income and prepaid success fees recorded as a receivable from SPL, \$0.2 million in dividend income received from FDF and \$0.2 million of success fees received related to our sale of substantially all of the assets in Lindmark in September 2013. For the nine months ended June 30, 2014, other income consisted primarily of \$0.7 million in dividend income received from FedCap, \$0.5 million in success fees received related to the early payoff of Thibaut at par, \$0.4 million in legal settlement proceeds received related to a portfolio company previously sold, \$0.5 million in prepaid success fees received from FDF, \$0.1 million in prepayment fees received from POP Radio, LLC ( POP ), \$0.3 million in dividend income and other fees received from FDF and \$0.6 million in success fees received related to our sale of substantially all of the assets of Lindmark in September 2013.

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

Company	As of June 30, 2015		Nine Months Ended June 30, 2015	
	Fair Value	% of Portfolio Investment	Investment Income	% of Total Income
Funko, LLC	\$ 31,221	9.0%	\$ 914	3.3%
RBC Acquisition Corp.	22,416	6.5	1,543	5.5
WadeCo Specialties, Inc.	22,173	6.4	1,368	4.9
Francis Drilling Fluids, Ltd.	21,708	6.2	2,301	8.3
United Flexible, Inc. (A)	21,335	6.1	749	2.7
<b>Subtotal five largest investments</b>	<b>118,853</b>	<b>34.2</b>	<b>6,875</b>	<b>24.7</b>
Other portfolio companies	228,363	65.8	21,005	75.3
Other non-portfolio company revenue			4	
<b>Total Investment Portfolio</b>	<b>\$ 347,216</b>	<b>100.0%</b>	<b>\$ 27,884</b>	<b>100.0%</b>

Company	As of June 30, 2014		Nine Months Ended June 30, 2014	
	Fair Value	% of Portfolio Investment	Investment Income	% of Total Income
J.America, Inc. (A)	\$ 17,045	6.4%	\$ 966	3.5%
Francis Drilling Fluids, Ltd.	15,677	5.9	2,181	7.8
AG Transportation Holdings, LLC	12,903	4.9	1,367	4.9

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RBC Acquisition Corp.	12,496	4.7	2,986	10.7
Defiance Integrated Technologies, Inc.	12,133	4.6	559	2.0
<b>Subtotal five largest investments</b>	<b>70,254</b>	<b>26.5</b>	<b>8,059</b>	<b>28.9</b>
Other portfolio companies	194,829	73.5	19,832	71.1
Other non-portfolio company revenue			12	
<b>Total Investment Portfolio</b>	<b>\$ 265,083</b>	<b>100.0%</b>	<b>\$ 27,903</b>	<b>100.0%</b>

(A) New investment during applicable period.

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**Table of Contents****Expenses**

Expenses, net of any voluntary, irrevocable and non-contractual credits to fees from the Adviser, increased for the nine months ended June 30, 2015, by 12.3%, as compared to the prior year period. This increase was primarily due to the increase in our net base management fees to the Adviser, interest expense on borrowings, and dividend expense on our mandatorily redeemable preferred stock, partially offset by the decrease in the net incentive fee to the Adviser during the nine months ended June 30, 2015.

Interest expense increased by \$0.7 million, or 37.2%, during the nine months ended June 30, 2015, as compared to the prior year period, primarily due to increased borrowings outstanding on our Credit Facility during the period. The weighted average balance outstanding on our Credit Facility during the nine months ended June 30, 2015, was approximately \$84.7 million, as compared to \$43.1 million in the prior year period, an increase of 96.7%. This increase was slightly offset by the decrease in advance rates on our borrowings effective May 1, 2015, per the recent amendment and restatement of our Credit Facility.

The increase of \$0.8 million, or 33.7%, in dividend expense on our mandatorily redeemable preferred stock during the nine months ended June 30, 2015, 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.

The increase of \$0.6 million, or 17.3%, in the net base management fee earned by the Adviser during the nine months ended June 30, 2015, as compared to the prior year period, was due primarily to an increase in the average total assets outstanding as a result of the net growth in our investment portfolio during the period. The base management, loan servicing and incentive fees and associated unconditional, non-contractual, and irrevocable voluntary credits are computed quarterly, as described under *Transactions with the Advisor* in Note 4 of the notes to our accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Average total assets subject to base management fee	<b>\$ 350,450</b>	\$ 294,700
Multiplied by prorated annual base management fee of 2.0%	<b>1.5%</b>	1.5%
<b>Base management fee</b>	<b>\$ 5,257</b>	\$ 4,421
Portfolio company fee credit	<b>(840)</b>	(669)
Senior syndicated loan fee credit	<b>(120)</b>	(88)
<b>Net Base Management Fee</b>	<b>\$ 4,297</b>	\$ 3,664
<b>Loan servicing fee</b>	<b>2,802</b>	2,628
Credits to base management fee loan servicing fee	<b>(2,802)</b>	(2,628)
<b>Net Loan Servicing Fee</b>	<b>\$</b>	<b>\$</b>

<b>Incentive fee</b>	<b>2,866</b>	3,361
Incentive fee credit (A)	(754)	(515)
<b>Net Incentive Fee</b>	<b>\$ 2,112</b>	\$ 2,846
Portfolio company fee credit	(840)	(669)
Senior syndicated loan fee credit	(120)	(88)
Incentive fee credit	(754)	(515)
<b>Credit to Fees From Adviser other</b>	<b>\$ (1,714)</b>	\$ (1,272)

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(A) 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 cover 100.0% of the distributions to common stockholders for the nine months ended June 30, 2015 and 2014.

***Net Realized and Unrealized Gain (Loss)***

**Net Realized Loss on Investments and Escrows**

For the nine months ended June 30, 2015, we recorded a net realized loss on investments and escrows of \$14.5 million, which resulted primarily from the sales of Midwest Metal and Sunburst for a combined realized loss of \$15.8 million and net proceeds of \$10.8 million in the aggregate. This realized loss was partially offset by the realized gain of \$1.6 million we recognized on the early payoff of NAAS.

For the nine months ended June 30, 2014, we recorded a net realized loss on investments and escrows of \$13.3 million, which consisted primarily of realized losses of \$10.8 million due to our sale of LocalTel for proceeds contingent on an earn-out and \$2.8 million due to our sale of BAS Broadcasting ( BAS ) for net proceeds of \$4.7 million.

**Net Unrealized Appreciation (Depreciation) 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 nine months ended June 30, 2015, we recorded net unrealized appreciation of investments of \$14.2 million, which included reversals totaling \$15.5 million in cumulative unrealized depreciation primarily related to the sales of Midwest Metal and Sunburst during the period. Excluding reversals, we have \$1.3 million in net unrealized depreciation for the nine months ended June 30, 2015. Over our entire portfolio, the net unrealized appreciation for the nine months ended June 30, 2015, consisted of approximately \$11.1 million of depreciation on our debt investments and approximately \$9.8 million of appreciation on our equity investments.

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The net realized gains (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended June 30, 2015, were as follows:

Portfolio Company	Nine Months Ended June 30, 2015			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Funko, LLC	\$	\$ 15,858	\$	\$ 15,858
Precision Acquisition Group Holdings, Inc.		3,392		3,392
Sunburst Media Louisiana, LLC	(1,333)	2,130	2,295	3,092
Ameriquel Group, LLC		708		708
Behrens Manufacturing, LLC		608		608
Midwest Metal Distribution, Inc.	(14,980)		15,578	598
Southern Petroleum Laboratories, Inc.		501		501
Sunshine Media Holdings		421		421
Ashland Acquisitions, LLC		405		405
AG Transportation Holdings, LLC		395		395
Westland Technologies, Inc.		385		385
Heartland Communications Group		347		347
Defiance Integrated Technologies, Inc.		(355)		(355)
SourceHOV LLC		(416)		(416)
FedCap Partners, LLC		(507)		(507)
North American Aircraft Services, LLC	1,578		(2,216)	(638)
WadeCo Specialties, Inc.		(649)		(649)
Targus Group International, Inc.		(702)		(702)
Meridian Rack & Pinion, Inc.		(759)		(759)
Francis Drilling Fluids, Ltd.		(795)		(795)
B+T Group Acquisition Inc.		(1,828)		(1,828)
Edge Adhesives Holdings, Inc.		(2,170)		(2,170)
Saunders & Associates		(3,255)		(3,255)
PLATO Learning, Inc.		(3,558)		(3,558)
GFRC Holdings, LLC		(5,308)		(5,308)
RBC Acquisition Corp.		(5,867)		(5,867)
Other, net (<\$250) (A)	220	(337)	(139)	(256)
<b>Total:</b>	<b>\$ (14,515)</b>	<b>\$ (1,356)</b>	<b>\$ 15,518</b>	<b>\$ (353)</b>

(A) No portfolio company within this category exceeds \$250 in absolute value for any column.

The largest driver of our net unrealized depreciation (excluding reversals) for the nine months ended June 30, 2015, was due to incremental declines in the financial and operational performance of RBC of \$5.9 million, GFRC of \$5.3 million, Plato Learning, Inc. ( Plato ) of \$3.6 million and Saunders of \$3.3 million. Partially offsetting this net unrealized depreciation for the nine months ended June 30, 2015, was the net unrealized appreciation of Funko of \$15.9 million due to improvements in financial and operation performance and the increase in comparable multiples

used in the valuation.

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 nine months ended June 30, 2014, we recorded net unrealized depreciation of investments in the aggregate amount of \$9.9 million, which included reversals totaling \$16.7 million in cumulative unrealized depreciation, primarily related to our sales of LocalTel and BAS. Excluding reversals, we had \$26.6 million in net unrealized depreciation for the nine months ended

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June 30, 2014. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the nine months ended June 30, 2014, consisted of approximately \$26.3 million of depreciation on our debt investments and approximately \$0.3 million of depreciation on our equity investments.

The net realized gains (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended June 30, 2014, were as follows:

Portfolio Company	Nine Months Ended June 30, 2014			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
BAS Broadcasting	\$ (2,765)	\$ 187	\$ 6,905	\$ 4,327
Defiance Integrated Technologies, Inc.		3,639		3,639
Legend Communications of Wyoming, LLC		2,703		2,703
Sunshine Media Holdings		2,247		2,247
Francis Drilling Fluids, Ltd.		1,118		1,118
WP Evenflo Group Holdings, Inc.		1,105		1,105
Funko, LLC		1,047		1,047
Sunburst Media Louisiana, LLC		974		974
GFRC Holdings, LLC		600	45	645
Edge Adhesives Holdings, Inc.		511		511
Westland Technologies, Inc.		328		328
North American Aircraft Services, LLC		326		326
Lignetics, Inc.		299		299
LocalTel, LLC	(10,774)		10,218	(556)
Targus Group International, Inc.		(640)		(640)
Ameriquel Group, LLC		(829)		(829)
FedCap Partners, LLC		(933)		(933)
Alloy Die Casting Co.		(1,364)		(1,364)
Precision Acquisition Group Holdings, Inc.		(3,831)		(3,831)
Midwest Metal Distribution, Inc.		(13,452)		(13,452)
RBC Acquisition Corp.		(21,117)		(21,117)
Other, net (<\$250) (A)	280	447	(445)	282
<b>Total:</b>	<b>\$ (13,259)</b>	<b>\$ (26,635)</b>	<b>\$ 16,723</b>	<b>\$ (23,171)</b>

(A) No portfolio company within this category exceeds \$250 in absolute value for any column.

The largest driver of our net unrealized depreciation (excluding reversals) for the nine months ended June 30, 2014, was a decrease in financial and operational performance and, to a lesser extent, a decrease in comparable multiples used in valuing RBC of \$21.1 million and Midwest Metal of \$13.5 million. This unrealized depreciation for the nine months ended June 30, 2014, was partially offset by unrealized appreciation on certain portfolio companies, due to incremental improvements in their financial and operational performance, and to a lesser extent, an increase in comparable multiples used in valuations, most notably that of Defiance of \$3.6 million.

As of June 30, 2015, the fair value of our investment portfolio was less than its cost basis by approximately \$53.8 million, and our entire investment portfolio was valued at 86.6% 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 represents net unrealized appreciation of our investments of \$14.2 million for the nine months ended June 30, 2015. Eleven of the companies in our portfolio as of June 30, 2015 originated before December 31, 2008, represent 31.6% of the entire cost basis of our portfolio, were valued at 51.3% of cost and

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include all of our non-accrual investments. The remaining 35 companies in our portfolio as of June 30, 2015 originated after December 31, 2008, represent 68.4% of the entire cost basis of our portfolio and were valued at 102.8% of cost.

We believe that our aggregate investment portfolio was valued at a depreciated value as of June 30, 2015, primarily due to the lingering effects of the recession that began in 2008 and its effect 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 cap during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. During the nine months ended June 30, 2015 and 2014, we recorded net unrealized depreciation of other of \$1.3 million and net unrealized appreciation of other of \$1.3 million, 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, make distributions to our stockholders, pay management fees to the Adviser, and for other operating expenses. Net cash used in operating activities during the nine months ended June 30, 2015, was \$52.3 million, as compared to \$0.8 million for the nine months ended June 30, 2014. The increase in cash used in operating activities was primarily due to an increase in investments to new portfolio companies, partially offset by a decrease in unscheduled principal repayments during the nine months ended June 30, 2015.

As of June 30, 2015, we had loans to, syndicated participations in, or equity investments in 46 private companies with an aggregate cost basis of approximately \$401.1 million. As of June 30, 2014, we had loans to, syndicated participations in and/or equity investments in 49 private companies with an aggregate cost basis of approximately \$350.4 million.

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The following table summarizes our total portfolio investment activity during the nine months ended June 30, 2015 and 2014, at fair value:

	Nine Months Ended June 30,	
	2015	2014
Beginning investment portfolio, at fair value	\$ 281,286	\$ 256,878
New investments	65,348	72,981
Disbursements to existing portfolio companies	28,417	10,180
Scheduled principal repayments	(776)	(2,164)
Unscheduled principal repayments	(9,284)	(45,169)
Net proceeds from sales of investments	(18,541)	(4,700)
Net unrealized depreciation of investments	(1,356)	(26,635)
Reversal of prior period net unrealized depreciation on realization	15,518	16,723
Net realized loss on investments	(14,024)	(13,289)
Increase in investment balance due to PIK (A)	463	208
Cost adjustments on non-accrual loans	384	
Net change in premiums, discounts and amortization	(219)	70
<b>Investment Portfolio, at Fair Value</b>	<b>\$ 347,216</b>	<b>\$ 265,083</b>

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

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2015:

<b>For the Fiscal Years Ending September 30:</b>	<b>Amount</b>
For the remaining three months ending September 30:	
2015	\$ 22,478
2016	110,493
2017	10,271
2018	32,989
2019	62,740
Thereafter	129,793
<b>Total contractual repayments</b>	<b>\$ 368,764</b>
Equity investments	33,316
Adjustments to cost basis on debt investments	(1,027)
<b>Total Cost Basis of Investments Held at June 30, 2015:</b>	<b>\$ 401,053</b>

**Financing Activities**

Net cash provided by financing activities for the nine months ended June 30, 2015, of \$53.8 million consisted primarily of net proceeds from borrowings on our Credit Facility of \$67.9 million, partially offset by \$13.3 million of distributions to common stockholders. Net cash used in financing activities for the nine months ended June 30, 2014 of \$5.3 million consisted primarily of net repayments on borrowings on our Credit Facility of \$11.8 million and distributions to common stockholders of \$13.2 million. These net uses were partially offset by the proceeds from the issuance of our Series 2021 Term Preferred Stock, net of the voluntary redemption of the then existing Series 2016 Term Preferred Stock.

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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 nine months from October 2014 through June 2015, which totaled an aggregate of \$13.3 million. In July 2015, our Board of Directors authorized and we declared a monthly distribution of \$0.07 per common share for each of July, August and September 2015. Our Board of Directors authorized and we declared these distributions to our stockholders based on our estimates of our investment company taxable income for the fiscal year ended September 30, 2015.

For the fiscal year ended September 30, 2014, which includes the nine months ended June 30, 2014, 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 dividends), 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 ended September 30, 2015 will be 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 nine months ended June 30, 2015, 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 authorized and we declared and paid, monthly cash distributions of \$0.140625 per share of our Series 2021 Term Preferred Stock for each of the nine months from October 2014 through June 2015, which totaled an aggregate of \$2.1 million. In July 2015, our Board of directors authorized and we declared a monthly distribution of \$0.140625 per share of Series 2021 Term Preferred stock for each of July, August and September 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 our current and accumulated earnings and profits.

**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 to our Registration Statement on January 29, 2015, which the SEC declared effective 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. As of June 30, 2015, we have the ability to issue up to \$237.8 million in securities under our Registration Statement through

one or more transactions. We sold approximately 2.4 million shares, or \$61.0 million in gross proceeds, of our Series 2021 Term Preferred Stock under our Registration Statement in May 2014. In addition, we sold an aggregate of 131,462 shares, or \$1.2 million in gross proceeds, of our common stock under the Sales Agreements (discussed in more detail below) during the nine months ended June 30, 2015. To date, no other securities have been sold under our Registration Statement.

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**Table of Contents*****Common Stock***

We anticipate selling 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 July 28, 2015, our closing market price was \$7.74 per common share, a 18.4% discount to our June 30, 2015 NAV per common share of \$9.49. 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.

On February 27, 2015, we entered into the Sales Agreements (commonly referred to as at-the-market agreements ) under which we may issue and sell, from time to time, through the Sales Agents, up to an aggregate offering price of \$50.0 million shares of our common stock. During the nine months ended June 2015, we sold an aggregate of 131,462 shares of our common stock for \$1.0 million, net of underwriter s commissions and other offering expenses borne by us, under the Sales Agreements.

***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 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 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 ). Additionally, we may 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

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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 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 annual fixed dividend rate will increase by 4.0% for so long as such failure continues. As of June 30, 2015, 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. 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 dividend rate equal to 7.125% per year, payable monthly (which equated in total to approximately \$2.7 million per year).

**Revolving Credit Facility**

On May 1, 2015, we, through Business Loan, entered into a Fifth Amended and Restated Credit Facility, which increased the commitment amount from \$137.0 million to \$140.0 million, extended the revolving period end date by three years to January 19, 2019, decreased the marginal interest rate added to 30-day LIBOR from 3.75% to 3.25% per annum through the revolving period, set the unused commitment fee at 0.50% on all undrawn amounts, expanded the scope of eligible collateral, and amended other terms and conditions to among other items. Our Credit Facility was arranged by KeyBank, as administrative agent, lead arranger and a lender. If our Credit Facility is not renewed or extended by January 19, 2019, all principal and interest will be due and payable on or before May 1, 2020. Subject to certain terms and conditions, our Credit Facility may be expanded up to a total of \$250.0 million through additional commitments of new or existing lenders. We incurred fees of approximately \$1.1 million in connection with this amendment, which are being amortized through our Credit Facility's revolving period end date of January 19, 2019. On June 19, 2015, we through Business Loan, entered into certain joinder and assignment agreements with three new lenders to increase borrowing capacity on our Credit Facility by \$30.0 million to \$170.0 million. We incurred fees of approximately \$0.6 million in connection with this expansion, which are being amortized through our Credit Facility's revolving period end date of January 19, 2019.

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

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

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and

restrict material changes to our credit and collection policies without the lenders' consents. Our Credit Facility also generally limits payments on distributions to our stockholders to the aggregate net investment

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income and capital gains for each of the twelve month periods ending September 30, 2015, 2016, 2017 and 2018. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 25 obligors required in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of \$205.0 million plus 50.0% of all equity and subordinated debt raised after May 1, 2015, which equates to \$205.0 million as of June 30, 2015, (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 June 30, 2015, and as defined in the performance guaranty of our Credit Facility, we had a net worth of \$259.4 million, asset coverage of 221.0% and an active status as a BDC and RIC. In addition, we had 33 obligors in our Credit Facility's borrowing base as of June 30, 2015. As of June 30, 2015 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 June 30, 2015 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 June 30, 2015 and September 30, 2014, our unused line of credit commitments totaled \$13.6 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 June 30, 2015 and September 30, 2014, we had uncalled capital commitments related to our partnership interest in Leeds Novamark Capital I, L.P. of \$2.4 million and \$2.8 million, respectively.

The following table summarizes our contractual obligations as of June 30, 2015, at cost:

Contractual Obligations (A)	Payments Due by Fiscal Years				Total
	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	
Credit Facility (B)	\$	\$	\$ 104,600	\$	\$ 104,600
Series 2021 term preferred stock				61,000	61,000
Interest expense on debt obligations (C)	2,027	24,324	9,454	3,088	38,893

<b>Total</b>	<b>\$ 2,027</b>	<b>\$ 24,324</b>	<b>\$ 114,054</b>	<b>\$ 64,088</b>	<b>\$ 204,493</b>
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(A) Excludes our unused line of credit and uncalled capital commitments to our portfolio companies in an aggregate amount of \$13.6 million as of June 30, 2015.

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- (B) Principal balance of borrowings under our Credit Facility as of June 30, 2015, based on the current revolving period end date of January 19, 2019.
- (C) Includes estimated interest payments on our Credit Facility and dividend obligations on our Series 2021 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and outstanding balances as of June 30, 2015. Dividend payments on our Series 2021 Term Preferred Stock assume quarterly dividend declarations and monthly dividend distributions to stockholders through the date of mandatory redemption.

Of our interest bearing debt investments as of June 30, 2015, 28.7% 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 June 30, 2015 and September 30, 2014, we had aggregate unrecognized success fee receivables on our accruing debt investments of \$9.1 million and \$11.0 million (or approximately \$0.43 and \$0.52 per common share), respectively, that would be owed to us based on our current portfolio if fully paid off. Consistent with GAAP, we have not recognized our success fee receivable on our balance sheet or income statement. Due to our success fees' contingent nature, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

**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*) as our most critical accounting policy, which is described in Note 2 *Summary of Significant Accounting Policies* in the accompanying notes to our *Condensed Consolidated Financial Statements* included elsewhere in this report. Additionally, refer to Note 3 *Investments* in the accompanying notes to our accompanying *Condensed Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding fair value measurements and our application of Financial Accounting Standards Board (the *FASB*) Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ( *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

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assurance can be given that a >10 on the Adviser's scale is equal to a BBB or Baa2 on an NRSRO scale. The Adviser's risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold. 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 June 30, 2015 and September 30, 2014, representing approximately 82.0% and 80.8%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

<b>Rating</b>	<b>As of June 30, 2015</b>	<b>As of September 30, 2014</b>
Highest	8.0	9.0
Average	5.5	5.9
Weighted Average	5.5	5.2
Lowest	4.0	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 June 30, 2015 and September 30, 2014, representing approximately 12.9% and 16.6%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

<b>Rating</b>	<b>As of June 30, 2015</b>	<b>As of September 30, 2014</b>
Highest	6.0	6.0
Average	4.8	4.6
Weighted Average	5.0	4.8
Lowest	3.0	3.5

The following table lists the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO. As of June 30, 2015 and September 30, 2014, these loans represented 5.1% and 2.6%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

<b>Rating</b>	<b>As of June 30, 2015</b>	<b>As of September 30, 2014</b>
Highest	6.0	4.0
Average	4.8	4.0
Weighted Average	4.6	4.0
Lowest	3.0	4.0

**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, 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 equal to at least 100.0% of our investment company taxable income.

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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 (the date of enactment), for an unlimited period. However, any losses incurred during those post-enactment 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 a loan's status significantly improves regarding the debtor's ability and intent to pay contractual amounts due, or 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 June 30, 2015, four portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately \$49.2 million, or 13.4% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately \$10.7 million, or 3.5% 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 June 30, 2015 and September 30, 2014, we had 17 original OID loans, respectively, primarily from the syndicated investments in our portfolio. We recorded OID income of \$0.1 million and \$0.2 million for the three and nine months ended June 30, 2015, respectively, as compared to \$59 and \$0.2 million for the three and nine months ended June 30, 2014, respectively. The unamortized balance of OID investments as of June 30, 2015 and September 30, 2014, totaled \$0.8 million and \$0.6 million, respectively. As of June 30, 2015 and September 30, 2014, we had four and three investments, respectively, with a PIK interest component. We recorded PIK income of \$0.3

million and \$0.5 million for the three and nine months ended June 30, 2015, respectively, as compared to \$80 and \$0.3 million for the three and nine months ended June 30, 2014, respectively. We collected \$0 PIK interest in cash during the nine months ended June 30, 2015 and 2014, respectively.

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**Table of Contents*****Other Income Recognition***

We generally record success fees upon our receipt of cash. Success fees are contractually due upon a change of control in a portfolio company, typically from an exit or sale. We recorded an aggregate of \$1.7 million in success fees during the nine months ended June 30, 2015, which resulted from \$0.6 million related to the early payoff of NAAS at a realized gain, \$0.3 million prepayment of success fees by FDF, \$0.5 million prepayment of success fees by Defiance, \$0.1 million prepayment of success fees by SPL and \$0.2 million of success fees related to our sale of substantially all of the assets in Lindmark and the ensuing pay down of our debt investments in Lindmark at par in September 2013. We recorded an aggregate of \$1.6 million in success fees during the nine months ended June 30, 2014, which resulted from \$0.5 million related to the early payoff of Thibaut at par, \$0.5 million prepayment by FDF and \$0.6 million received as a result of our sale of substantially all of the assets in Lindmark 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 nine months ended June 30, 2015, we recorded an aggregate of \$0.6 million of dividend income, which resulted from \$0.1 million from our preferred equity investment in FDF, \$0.2 million from our preferred equity investment in Funko and \$0.3 million from our preferred equity investment in SPL. During the nine months ended June 30, 2014, we recorded an aggregate of \$1.0 million of dividend income, net of estimated income taxes payable, which resulted from \$0.2 million on our preferred equity investment in FDF, \$0.7 million on our investment in FedCap and \$0.1 million on our preferred equity investment in Funko.

Success fees and dividend income are both 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 of recent accounting pronouncements.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

We target to have approximately 10.0% of the loans in our portfolio at fixed rates, with approximately 90.0% made at variable rates or variable rates with a floor. All of our variable-rate debt investments have rates generally associated with the 30-day LIBOR.

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As of June 30, 2015, our portfolio of debt investments on a principal basis consisted of the following:

Variable rates	84.4%
Fixed rates	15.6
<b>Total:</b>	<b>100.0%</b>

Pursuant to the terms under our Credit Facility, in July 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. This agreement will entitle us to receive payments, if any, equal to the amount by which interest payments on the current notional amount at the one month LIBOR exceed the payments on the current notional amount at 5.0%. The agreement therefore helps mitigate our exposure to increases in interest rates on our borrowings on our Credit Facility, which are at variable rates. As of June 30, 2015 and September 30, 2014, our interest rate cap agreement had a fair value of \$0.

There have been no material changes in the quantitative and qualitative market risk disclosures for the nine months ended June 30, 2015 from that disclosed 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 subsequently amended on December 29, 2014.

**Table of Contents****UNDERWRITING**

Janney Montgomery Scott LLC, Ladenburg Thalmann & Co. Inc. and Wunderlich Securities, Inc., are acting as joint book-running managers of this offering. Subject to the terms and conditions of the underwriting agreement dated October 27, 2015, the underwriters have agreed to purchase severally, and we have agreed to sell to the underwriters, the number of shares of common stock set forth opposite their respective names below at the public offering price less the underwriting discounts and commissions on the cover page of this prospectus supplement.

	Number of Shares
<b>Underwriters</b>	
Janney Montgomery Scott LLC	820,000
Ladenburg Thalmann & Co. Inc.	460,000
Wunderlich Securities, Inc.	460,000
Maxim Group LLC	100,000
J.J.B. Hilliard, W.L. Lyons, LLC	40,000
National Securities Corporation	120,000
 Total	 2,000,000

Janney Montgomery Scott LLC, Ladenburg Thalmann & Co. Inc. and Wunderlich Securities, Inc. are acting as joint book-running managers and Janney Montgomery Scott LLC is the sole representative of the underwriters named above.

The underwriting agreement provides that obligations of the underwriters to purchase the shares of our common stock that are being offered are subject to the approval of certain legal matters by counsel to the underwriters and to certain other conditions. Each underwriter is obligated to purchase all of the shares of our common stock set forth opposite its name in the table above if it purchases any shares of our common stock.

The underwriters propose to offer some of the shares of our common stock directly to the public at the offering price per share shown on the cover page of this prospectus supplement and may offer shares to certain dealers at such price less a concession not in excess of \$0.25 per share. After the public offering of the shares of our common stock, the offering price and concessions described above may be changed by the underwriters.

We have granted to the underwriters an option, exercisable for up to 30 days after the date of this prospectus supplement, to purchase up to 300,000 additional shares of our common stock at the same price per share as the public offering price, less the underwriting discounts shown on the cover page of this prospectus supplement. The underwriters may exercise such option only to cover overallotments in the sale of our common stock offered by this prospectus supplement. To the extent that the underwriters exercise this option, each of the underwriters has a firm commitment, subject to certain conditions set forth in the underwriting agreement, to purchase the number of such additional shares of our common stock that is proportionate to such underwriter's initial commitment indicated in the table above.

Robert L. Marcotte, our president, has indicated his intent to purchase 75,000 shares in this offering, at the public offering price.

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The following table shows per share and total underwriting discounts and commissions to be paid to the underwriters by us. The amounts as shown assume (1) no exercise of and (2) exercise in full of the underwriters' option to purchase the over-allotment shares:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Public offering price	\$ 8.55	\$ 8.55	\$ 17,100,000	\$ 19,665,000
Underwriting discounts and commissions paid by us	\$ 0.4275	\$ 0.4275	\$ 855,000	\$ 983,250
Proceeds to us, before expenses	\$ 8.1225	\$ 8.1225	\$ 16,245,000	\$ 18,681,750

We estimate that expenses payable by us in connection with this offering, other than underwriting discounts and commissions referred to above, will be approximately \$240,000. The underwriters will reimburse us for certain other expenses related to this offering.

In connection with this offering and in compliance with applicable securities laws, including Regulation M under the Exchange Act, the underwriters may over-allot (i.e., sell more shares of common stock than the amount shown on the cover page of this prospectus supplement) and may effect transactions that stabilize, maintain or otherwise affect the market price of such shares at levels above those which might otherwise prevail in the open market. Such transactions may include making short sales and placing bids for the common stock or effecting purchases of such shares for the purpose of pegging, fixing or maintaining the market price of such shares or for the purpose of reducing a short position created in connection with this offering. The underwriters may cover a short position by exercising the over-allotment option described above in place of, or in addition to, open market purchases.

Additionally, the underwriters may engage in syndicate covering transactions which involve purchases of shares of our common stock in the open market after they have completed the distribution of such shares in order to cover syndicate short positions. In determining the appropriate source of shares to close out a covered short sale, the underwriters may consider, among other things, the market price of such shares compared to the purchase price of shares available under the over-allotment option.

The underwriters may also sell shares of our common stock in excess of the over-allotment option, thereby creating a naked short position. The underwriters must close out any such naked short position by purchasing shares in the open market. The underwriters are more likely to create a naked short position if they are concerned that there may be downward pressure on the price of our common stock in the open market after pricing, which could adversely affect investors who purchase in this offering.

The underwriters may also impose a penalty bid in connection with this offering. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the shares of our common stock originally sold by such syndicate member are purchased in a stabilizing transaction or syndicate covering transaction to cover syndicate short positions. The imposition of a penalty bid may affect the open market price of shares of our common stock to the extent that it discourages resales of such shares.

We and the underwriters make no representation or prediction as to the direction or magnitude of any effect that these transactions may have on the market price of shares of our common stock. In addition, we and the underwriters make no representation that the underwriters will engage in such transactions or that such transactions, if and when commenced, will not be discontinued without notice.

Each underwriter does not intend to confirm sales of our common stock to any accounts over which it exercises discretionary authority.

The underwriting agreement provides that we and our directors and executive officers will agree not to, directly or indirectly, sell or otherwise dispose of any of shares of our common stock for a period of 60 days after the date of this prospectus without the prior written consent of Janney Montgomery Scott LLC, on behalf of the underwriters.

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Notwithstanding the foregoing, if (1) during the last 17 days of the 60-day lock-up period, we issue an earnings release or material news or material event relating to us occurs; or (2) prior to the expiration of the 60-day lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 60-day lock-up period, and, in the case of either clause (1) or (2) immediately above, the safe harbor pursuant to Rule 139 under the Securities Act is not available to the underwriters, then the restrictions set forth above will continue to apply until the expiration of an 18-day period beginning on the date of issuance of such earnings release or the occurrence of the material news or material event.

In addition, the terms of the lock-up agreement do not prevent a stockholder party to such agreement from (a) transferring shares of our common stock acquired in open market transactions after the completion of this offering, (b) transferring any or all of the shares of our common stock or other Company securities if the transfer is by (i) gift, will or intestacy or (ii) distribution to partners, members or stockholders of the undersigned, (c) transferring shares of our common stock pursuant to any 10b5-1 trading plan in effect prior to the date of this prospectus and (d) entering into any new 10b5-1 plan, provided that no sales of shares of our common stock or other Company securities shall be made pursuant to such 10b5-1 plan until after the expiration of the lock-up period; provided, however, that in the case of a transfer pursuant to clause (b) above, it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding the securities subject to the provisions of the lock-up agreement.

We have agreed to indemnify the underwriters against certain liabilities that they may incur in connection with this offering, including liabilities under the Securities Act.

This prospectus supplement and the accompanying prospectus may be made available in electronic format on websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering, and one or more of the underwriters participating in this offering may distribute this prospectus supplement and the accompanying prospectus electronically. Janney Montgomery Scott LLC, as representative of the underwriters, may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus supplement and the accompanying prospectus that are distributed in electronic format, the information on any of these underwriters or selling group members' websites, and any other information contained on a website maintained by an underwriter or selling group member, is not part of this prospectus supplement or the accompanying prospectus.

The distribution of this prospectus supplement and the accompanying prospectus and this offering of our common stock in certain jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions.

## **Affiliations and Conflicts of Interest**

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and certain of 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 account of their customers, and such

investment and securities activities may involve our securities and/or instruments. The

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underwriters and certain of their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The principal business address of Janney Montgomery Scott LLC is 1717 Arch Street, Philadelphia, PA 19103. The principal business address of Ladenburg Thalmann & Co. Inc. is 570 Lexington Avenue, 12th Floor, New York, NY 10022. The principal business address of Wunderlich Securities, Inc. is 6000 Poplar Avenue, Suite 150, Memphis, TN 38119. The principal business address of Maxim Group LLC is 405 Lexington Avenue, 2nd Floor, New York, NY 10174. The principal business address of J.J.B. Hilliard, W.L. Lyons, LLC is 500 W. Jefferson Street, Louisville, KY 40202. The principal business address of National Securities Corporation is 410 Park Ave, 14th Floor, New York, NY 10022.

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**ADDITIONAL MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

This summary supplements the discussion contained under the caption "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus and should be read in conjunction therewith.

*Information Reporting Requirements and Withholding.* As referenced in the accompanying prospectus under the caption "Material U.S. Federal Income Tax Considerations - Taxation of Our U.S. Stockholders", a U.S. federal withholding tax rate will be imposed on proceeds from the sale of our stock received on or after January 1, 2017 by U.S. stockholders that hold our stock through foreign accounts if certain disclosure requirements related to U.S. accounts are not satisfied. The effective date of the imposition of this U.S. federal withholding tax has been extended to payments received on or after January 1, 2019.

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**CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND PAYING AGENT**

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

**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 and our common stock may be found in our registration statement on Form N-2 (including the related amendments, exhibits and schedules) 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.

**LEGAL MATTERS**

Certain legal matters regarding the securities offered hereby 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. Certain legal matters will be passed upon for the underwriters by Dechert LLP, Washington, D.C.

**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.



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<u>Condensed Consolidated Statements of Assets and Liabilities as of June 30, 2015 (unaudited) and September 30, 2014</u>	S-F-2
<u>Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2015 and 2014 (unaudited)</u>	S-F-3
<u>Condensed Consolidated Statements of Changes in Net Assets for the nine months ended June 30, 2015 and 2014 (unaudited)</u>	S-F-4
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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**  
**(UNAUDITED)**

	June 30, 2015	September 30, 2014
<b>ASSETS</b>		
Investments at fair value:		
Non-Control/Non-Affiliate investments (Cost of <b>\$266,122</b> and \$225,845, respectively)	<b>\$ 256,044</b>	\$ 198,926
Affiliate investments (Cost of <b>\$80,525</b> and \$61,281, respectively)	<b>68,435</b>	57,006
Control investments (Cost of <b>\$54,406</b> and \$62,159, respectively)	<b>22,737</b>	25,354
Total investments at fair value (Cost of <b>\$401,053</b> and \$349,285, respectively)	<b>347,216</b>	281,286
Cash and cash equivalents	<b>7,823</b>	6,314
Restricted cash and cash equivalents	<b>496</b>	675
Interest receivable, net	<b>5,174</b>	2,767
Due from custodian	<b>2,975</b>	6,022
Deferred financing fees	<b>4,339</b>	3,340
Other assets, net	<b>1,238</b>	1,025
<b>TOTAL ASSETS</b>	<b>\$ 369,261</b>	\$ 301,429
<b>LIABILITIES</b>		
Borrowings at fair value (Cost of <b>\$104,600</b> and \$36,700, respectively)	<b>\$ 104,600</b>	\$ 38,013
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25 liquidation preference per share; <b>2,460,118</b> shares authorized and <b>2,440,000</b> shares issued and outstanding	<b>61,000</b>	61,000
Accounts payable and accrued expenses	<b>417</b>	462
Interest payable	<b>231</b>	146
Fees due to Adviser (A)	<b>1,218</b>	875
Fee due to Administrator (A)	<b>235</b>	218
Other liabilities	<b>918</b>	1,055
<b>TOTAL LIABILITIES</b>	<b>\$ 168,618</b>	\$ 101,769
Commitments and contingencies (B)		
<b>NET ASSETS</b>		
Common stock, \$0.001 par value per share, <b>47,539,882</b> shares authorized; <b>21,131,622</b> shares issued and outstanding as of June 30, 2015 and 21,000,160 shares issued and outstanding as of September 30, 2014	<b>\$ 21</b>	\$ 21
Capital in excess of par value	<b>294,144</b>	307,348

Note receivable from employee (A)		(100)
Cumulative net unrealized depreciation of investments	(53,837)	(67,999)
Cumulative net unrealized (depreciation) (appreciation) of other	(61)	(1,374)
Overdistributed net investment income	(3,873)	(1,928)
Accumulated net realized losses	(35,751)	(36,308)
<b>TOTAL NET ASSETS</b>	<b>\$ 200,643</b>	<b>\$ 199,660</b>
<b>NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD</b>	<b>\$ 9.49</b>	<b>\$ 9.51</b>

(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 June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
<b>INVESTMENT INCOME</b>				
Interest income				
Non-Control/Non-Affiliate investments	\$ 7,003	\$ 6,105	\$ 20,199	\$ 18,831
Affiliate investments	1,793	1,519	4,492	2,570
Control investments	310	556	800	3,133
Other	1	4	4	12
Total interest income	9,107	8,184	25,495	24,546
Other income				
Non-Control/Non-Affiliate investments	578	670	1,656	1,631
Affiliate investments		701		701
Control investments	250	625	733	1,025
Total other income	828	1,996	2,389	3,357
Total investment income	9,935	10,180	27,884	27,903
<b>EXPENSES</b>				
Base management fee (A)	1,859	1,461	5,257	4,421
Loan servicing fee (A)	1,015	917	2,802	2,628
Incentive fee (A)	1,021	1,266	2,866	3,361
Administration fee (A)	235	219	784	635
Interest expense on borrowings	1,033	710	2,735	1,994
Dividend expense on mandatorily redeemable preferred stock	1,029	937	3,087	2,309
Amortization of deferred financing fees	253	314	857	944
Professional fees	315	98	899	725
Other general and administrative expenses	222	179	893	828
Expenses before credits from Adviser	6,982	6,101	20,180	17,845
Credit to base management fee loan servicing fee (A)	(1,015)	(917)	(2,802)	(2,628)
Credits to fees from Adviser other (A)	(868)	(67)	(1,714)	(1,272)
Total expenses, net of credits	5,099	5,117	15,664	13,945

<b>NET INVESTMENT INCOME</b>	<b>4,836</b>	5,063	<b>12,220</b>	13,958
<b>NET REALIZED AND UNREALIZED GAIN (LOSS)</b>				
Net realized gain (loss):				
Non-Control/Non-Affiliate investments	<b>(1,143)</b>	54	<b>435</b>	(2,556)
Control investments			<b>(14,459)</b>	(10,733)
Escrows	<b>68</b>		<b>(491)</b>	30
Extinguishment of debt		(1,297)		(1,297)
Total net realized loss	<b>(1,075)</b>	(1,243)	<b>(14,515)</b>	(14,556)
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments	<b>7,920</b>	(3,203)	<b>8,682</b>	9,034
Affiliate investments	<b>(7,465)</b>	(18,246)	<b>(7,815)</b>	(24,741)
Control investments	<b>(1,602)</b>	(1,400)	<b>13,295</b>	5,795
Other	<b>693</b>	(1,146)	<b>1,313</b>	(1,261)
Total net unrealized (depreciation) appreciation	<b>(454)</b>	(23,995)	<b>15,475</b>	(11,173)
Net realized and unrealized (loss) gain	<b>(1,529)</b>	(25,238)	<b>960</b>	(25,729)
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>				
	<b>\$ 3,307</b>	\$ (20,175)	<b>\$ 13,180</b>	\$ (11,771)
<b>BASIC AND DILUTED PER COMMON SHARE:</b>				
Net investment income	<b>\$ 0.23</b>	\$ 0.24	<b>\$ 0.58</b>	\$ 0.66
Net increase (decrease) in net assets resulting from operations	<b>\$ 0.16</b>	\$ (0.96)	<b>\$ 0.63</b>	\$ (0.56)
Distributions declared and paid	<b>\$ 0.21</b>	\$ 0.21	<b>\$ 0.63</b>	\$ 0.63
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: Basic and Diluted</b>				
	<b>21,123,202</b>	21,000,160	<b>21,045,014</b>	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)**

	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>OPERATIONS</b>		
Net investment income	\$ 12,220	\$ 13,958
Net realized loss on investments	(14,515)	(13,259)
Realized loss on extinguishment of debt		(1,297)
Net unrealized appreciation (depreciation) of investments and escrows	14,162	(9,912)
Net unrealized depreciation (appreciation) of other	1,313	(1,261)
Net increase (decrease) in net assets resulting from operations	13,180	(11,771)
<b>DISTRIBUTIONS</b>		
Distributions to common stockholders	(13,261)	(13,230)
<b>CAPITAL TRANSACTIONS</b>		
Repayment of principal on employee note (A)	100	
Issuance of common stock	1,169	
Offering costs for issuance of common stock	(205)	
Net increase in net assets resulting from capital transactions	1,064	
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	<b>983</b>	<b>(25,001)</b>
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<b>199,660</b>	<b>205,992</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 200,643</b>	<b>\$ 180,991</b>

(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 CASH FLOWS**

(IN THOUSANDS)

(UNAUDITED)

	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase (decrease) in net assets resulting from operations	\$ 13,180	\$ (11,771)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(93,765)	(83,161)
Principal repayments on investments	10,060	47,333
Net proceeds from sale of investments	18,541	4,700
Increase in investment balance due to paid-in-kind interest	(463)	(208)
Net change in premiums, discounts and amortization	219	(70)
Cost adjustments on non-accrual loans	(384)	
Net realized loss on investments	14,024	13,289
Net unrealized (appreciation) depreciation of investments	(14,162)	9,912
Realized loss on extinguishment of debt		1,297
Net unrealized (depreciation) appreciation other	(1,313)	1,261
Decrease in restricted cash and cash equivalents	179	378
Amortization of deferred financing fees	857	944
Increase in interest receivable	(2,407)	(322)
Decrease in due from custodian	3,047	14,658
(Increase) decrease in other assets	(213)	323
(Decrease) increase in accounts payable and accrued expenses	(45)	56
Increase (decrease) in interest payable	85	(25)
Increase in fees due to Adviser (A)	343	247
Increase in fee due to Administrator (A)	16	93
(Decrease) increase in other liabilities	(137)	265
Net cash used in operating activities	(52,338)	(801)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of mandatorily redeemable preferred stock		61,000
Redemption of previously issued mandatorily redeemable preferred stock		(38,497)
Proceeds from borrowings	109,000	91,000
Repayments on borrowings	(41,100)	(102,800)
Deferred financing fees	(1,856)	(2,797)
Proceeds from issuance of common stock	1,169	
Offering costs for issuance of common stock	(205)	
Distributions paid to common stockholders	(13,261)	(13,230)

Receipt of principal on employee note	<b>100</b>	
Net cash provided by (used in) financing activities	<b>53,847</b>	(5,324)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,509</b>	(6,125)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>6,314</b>	13,900
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 7,823</b>	<b>\$ 7,775</b>

(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 SCHEDULE OF INVESTMENTS**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS (N):</b>					
<b>Proprietary Investments:</b>					
AG Transportation Holdings, LLC	Cargo transport	Secured Second Lien Debt (13.3%, Due 3/2018) (D)	\$ 13,000	\$ 13,000	\$ 13,000
		Member Profit Participation (18.0% ownership) (F)(H)		960	293
		Profit Participation Warrants (7.0% ownership) (F)(H)		244	
				14,204	13,293
Allison Publications, LLC	Printing and publishing	Secured First Lien Line of Credit, \$150 available (8.3%, Due 9/2016) (D)	450	450	449
		Secured First Lien Debt (8.3%, Due 9/2018) (D)	2,552	2,552	2,548
		Secured First Lien Debt (13.0%, Due 9/2018) (C)(D)	5,400	5,400	5,400
				8,402	8,397
Alloy Die Casting Corp.	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018) (D)	5,235	5,235	5,170
				1,742	1,223

Preferred Stock  
(1,742 shares)  
(F)(H)

Common Stock  
(270 shares)  
(F)(H)

				18		
					6,995	6,393
Behrens Manufacturing, LLC	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.0%, Due 12/2018) (D)	4,275	4,275	4,275	
		Preferred Stock (1,253 shares) (F)(H)(K)		1,253	1,764	
				5,528	6,039	

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) (Continued):</b>					
B+T Group Acquisition Inc.	Telecommunications	Secured First Lien Debt (13.0%, Due 12/2019) (D)	\$ 6,000	\$ 6,000	\$ 5,970
		Preferred Stock (5,503 shares) (H)(F)(K)		1,799	
				7,799	5,970
Chinese Yellow Pages Company	Printing and publishing	Secured First Lien Line of Credit, \$0 available (7.3%, Due 2/2015) (D)	108	108	46
Francis Drilling Fluids, Ltd.	Oil and gas	Secured Second Lien Debt (11.4%, Due 4/2020) (D)	15,000	15,000	14,175
		Secured Second Lien Debt (10.3%, Due 4/2020) (D)	7,000	7,000	6,580
		Preferred Equity Units (999 units) (F)(H)		648	747
		Common Equity Units (999 units) (F)(H)		1	206
				22,649	21,708
Funko, LLC	Personal and non-durable consumer products	Secured First Lien Debt (9.3%, Due 5/2019) (D)(G)	7,500	7,500	7,744
			2,000	2,000	2,065

		Secured First Lien Debt (9.3%, Due 5/2019) (D)(G)			
		Preferred Equity Units (1,305 units) (F)(H)	1,305	21,412	
			10,805	31,221	
Heartland Communications Group	Broadcasting and entertainment	Secured First Lien Line of Credit, \$0 available (5.0%, Due 6/2015) (D)(G)(I)	100	93	65

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) (Continued):</b>					
		Secured First Lien Line of Credit, \$0 available (10.0%, Due 6/2015) (D)(G)(I)	\$ 100	\$ 86	\$ 65
		Secured First Lien Debt (5.0%, Due 6/2015) (D)(G)(I)	4,342	4,031	980
		Common Stock Warrants (8.8% ownership) (F)(H)		66	
				4,276	1,110
J.America, Inc.	Personal and non-durable consumer products	Secured Second Lien Debt (10.4%, 2.0% PIK, Due 12/2019) (D)(G)	7,500	7,500	7,331
		Secured Second Lien Debt (11.5%, 2.0% PIK, Due 12/2019) (D)(G)	9,500	9,500	9,239
				17,000	16,570
Leeds Novamark Capital I, L.P.	Private equity fund healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, \$2,362 uncalled capital commitment) (H)(M)		633	411
Legend Communications of	Broadcasting and	Secured First Lien	6,699	6,699	3,822



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Wyoming, LLC	entertainment	Debt (11.0%, Due 11/2014) (D)			
Meridian Rack & Pinion, Inc.	Automobile	Secured First Lien Debt (13.5%, Due 12/2018) (D)	4,140	4,140	4,124
		Preferred Stock (1,449 shares) (F)(H)		1,449	800
				5,589	4,924
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (11.0%, Due 4/2016) (D)	1,000	1,000	575

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) (Continued):</b>					
		Secured First Lien Debt (11.0%, Due 4/2016) (D)	\$ 4,125	\$ 4,125	\$ 2,351
		Secured First Lien Debt (11.0%, Due 4/2016) (C)(D)	4,053	4,053	2,290
				9,178	5,216
Saunders & Associates	Electronics	Secured First Lien Line of Credit, \$0 available (11.3%, Due 5/2013) (D)(I)	917	917	110
		Secured First Lien Debt (11.3%, Due 5/2013) (D)(I)	8,947	8,947	1,074
				9,864	1,184
Southern Petroleum Laboratories, Inc.	Oil and gas	Secured Second Lien Debt (11.5%, Due 2/2020) (D)	8,000	8,000	7,950
		Common Stock (100 shares) (F)(H)		750	1,301
				8,750	9,251
United Flexible, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$4,000 available (7.0%, Due 2/2018) (D)			
			21,000	21,000	21,000

		Secured First Lien Debt (9.3%, Due 2/2020) (D)			
		Preferred Stock (245 shares) (F)(H)	245		254
		Common Stock (500 shares) (F)(H)	5		80
			21,250		21,334
Vision Government Solutions, Inc.	Diversified/conglomerate service	Secured First Lien Line of Credit, \$250 available (7.5%, Due 12/2017) (D)	1,750	1,750	1,754

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**JUNE 30, 2015**  
**(DOLLAR AMOUNTS IN THOUSANDS)**  
**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) (Continued):</b>					
		Secured First Lien Debt (9.75%, Due 12/2019) (D)	\$ 9,000	\$ 9,000	\$ 9,023
				10,750	10,777
WadeCo Specialties, Inc.	Oil and gas	Secured First Lien Line of Credit, \$2,525 available (8.0%, Due 3/2016) (D)	2,475	2,475	2,400
		Secured First Lien Debt (8.0%, Due 3/2019) (D)	13,000	13,000	12,610
		Secured First Lien Debt (12.0%, Due 3/2019) (D)	7,000	7,000	6,720
		Preferred Stock (1,000 shares) (F)(H)		313	443
				22,788	22,173
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Debt (12.5%, Due 4/2016) (D)	4,000	4,000	3,995
		Common Stock (58,333 shares) (F)(H)		408	144

			4,408	4,139	
<b>Subtotal Non-Control/Non-Affiliate Proprietary Investments</b>			<b>\$ 197,675</b>	<b>\$ 193,978</b>	
<b>Syndicated Investments:</b>					
Ameriqua Group, LLC	Beverage, food and tobacco	Secured First Lien Debt (9.0% and 1.3% PIK, Due 3/2016) (E)	\$ 7,358	\$ 7,330	\$ 6,990
Ardent Medical Services, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (11.0%, Due 1/2019) (J)	7,143	7,136	7,223
Autoparts Holdings Limited	Automobile	Secured Second Lien Debt (11.0%, Due 1/2018) (E)	700	698	637
First American Payment Systems, L.P.	Finance	Secured Second Lien Debt (10.8%, Due 4/2019) (D)	4,195	4,171	4,146

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) (Continued):</b>					
GTCR Valor Companies, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021) (E)	\$ 3,000	\$ 2,983	\$ 2,910
New Trident Holdcorp, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.3%, Due 7/2020) (E)	4,000	3,988	3,800
PLATO Learning, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.0% PIK, Due 6/2020) (F)	2,652	2,596	1,750
		Common Stock (21,429 shares) (F)(H)		2,636	
				5,232	1,750
PSC Industrial Holdings Corp.	Diversified/conglomerate service	Secured Second Lien Debt (9.3%, Due 12/2021) (E)	3,500	3,434	3,465
RP Crown Parent, LLC	Electronics	Secured Second Lien Debt (11.3%, Due 12/2019) (E)	2,000	1,970	1,840
SourceHOV LLC	Finance	Secured Second Lien Debt (11.5%, Due 4/2020) (E)	5,000	4,815	4,400
Targus Group International, Inc.	Textiles and leather	Secured First Lien Debt (12.8% and 2.0% PIK, Due 5/2016) (E)	8,953	8,917	7,431
The Active Network, Inc.	Electronics	Secured Second Lien Debt (9.5%,	1,000	995	948

		Due 11/2021) (E)			
Vertellus Specialties Inc.	Chemicals, plastics and rubber	Secured First Lien Debt (10.5%, Due 10/2019) (E)	3,970	3,844	3,752
Vision Solutions, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 7/2017) (E)	8,000	7,964	7,960
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Secured Second Lien Debt (9.3%, Due 11/2021) (E)	4,500	4,475	4,410

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS (N) (Continued):</b>					
W3 Co.	Oil and gas	Secured Second Lien Debt (9.3%, Due 9/2020) (E)	\$ 499	\$ 495	\$ 404
<b>Subtotal Syndicated Investments</b>				<b>\$ 68,447</b>	<b>\$ 62,066</b>
<b>Total Non-Control/Non-Affiliate Investments (represented 73.7% of total investments at fair value)</b>				<b>\$ 266,122</b>	<b>\$ 256,044</b>
<b>AFFILIATE INVESTMENTS (O):</b>					
<b>Proprietary Investments:</b>					
Ashland Acquisition LLC	Printing and publishing	Secured First Lien Line of Credit, \$1,500 available (12.0%, Due 7/2016) (D)(G)	\$	\$	\$
		Secured First Lien Debt (12.0%, Due 7/2018) (D)(G)	7,000	7,000	7,044
		Preferred Equity Units (4,400 units) (F)(H)		440	557
		Common Equity Units (4,400 units) (F)(H)			63
				<b>7,440</b>	<b>7,664</b>
Edge Adhesives Holdings, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$7	993	993	987



available (12.5%,  
Due 2/2016) (D)

Secured First Lien Debt (12.5%, Due 2/2019) (D)	6,200	6,200	6,169
Secured First Lien Debt (13.8%, Due 2/2019) (D)	1,600	1,600	1,594
Preferred Stock (2,516 shares) (F)(H)		2,516	967
		11,309	9,717

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>AFFILIATE INVESTMENTS (O) (Continued):</b>					
FedCap Partners, LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units) (H)(L)		\$ 1,634	\$ 1,647
Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Secured Second Lien Debt (12.0%, Due 2/2021) (D)	6,000	6,000	5,985
		Secured Second Lien Debt (12.0%, Due 2/2021) (D)	6,000	6,000	5,985
		Common Stock (139,330 shares) (F)(H)		1,590	1,946
				13,590	13,916
LWO Acquisitions Company LLC	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$1,600 available (6.5%, Due 12/2017) (D)	1,400	1,400	1,416
		Secured First Lien Debt (9.5%, Due 12/2019) (D)	10,579	10,579	10,698
		Common Stock (921,000 shares) (F)(H)		921	961
				12,900	13,075
RBC Acquisition Corp.	Healthcare, education and childcare	Secured First Lien Line of Credit, \$0	4,000	4,000	4,000

available (9.0%, Due 12/2015) (F)			
Mortgage Note (9.5%, Due 12/2015) (F)(G)	6,891	6,891	6,891
Secured First Lien Debt (12.0%, Due 12/2015) (C)(F)	11,392	11,392	11,392
Secured First Lien Debt (12.5%, Due 12/2015) (F)(G)	6,000	6,000	133

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company (A)	Industry	Investment (B)	Principal	Cost	Fair Value
<b>AFFILIATE INVESTMENTS (O) (Continued):</b>					
		Preferred Stock (4,999,000 shares) (F)(H)(K)		\$ 4,999	\$
		Common Stock (2,000,000 shares) (F)(H)		370	
				33,652	22,416
<b>Total Affiliate Proprietary Investments (represented 19.7% of total investments at fair value)</b>				<b>\$ 80,525</b>	<b>\$ 68,435</b>
<b>CONTROL INVESTMENTS (P):</b>					
<b>Proprietary Investments:</b>					
Defiance Integrated Technologies, Inc.	Automobile	Secured Second Lien Debt (11.0%, Due 4/2016) (F)	\$ 6,385	\$ 6,385	\$ 6,385
		Common Stock (15,500 shares) (F)(H)		1	6,106
				6,386	12,491
GFRC Holdings, LLC	Buildings and real estate	Secured First Lien Line of Credit, \$0 available (10.5%, Due 12/2014) (F)(I)	986	986	160
		Secured First Lien Debt (10.5%, Due 6/2016) (F)(I)	4,924	4,924	797

Secured First Lien Debt (13.0%, Due 6/2016) (F)(I)	6,598	6,598	1,068
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