

GLADSTONE CAPITAL CORP

Form 497

October 25, 2016

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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting offers to buy these securities in any state where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 25, 2016

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated March 29, 2016)

Shares

Common Stock

We are offering _____ 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 will be offered at a discount from our most recently estimated 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 11, 2016, and as subsequently approved by our Board of Directors. Our current authority to offer shares at a price below NAV per share ends on the one year anniversary of our 2016 annual meeting of stockholders, unless our stockholders vote to extend this authority at our 2017 annual meeting of stockholders. 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 24, 2016 was \$8.33 per share. The estimated NAV per share of our common stock at October 24, 2016 was \$8.10, which represents the midpoint in our estimated NAV per share range of \$8.05 and \$8.15. 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-12 of this prospectus supplement and on page 13 of the accompanying prospectus and *Sales of Common Stock Below Net Asset Value* beginning on page S-18 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 including, among other things, risks relating to investments in securities of small, private and developing businesses. 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-12 of this prospectus supplement and beginning on page 13 of the accompanying prospectus before you invest in our 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. 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. 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.**

	Per Share	Total ⁽²⁾
Public offering price	\$	\$
Underwriting discounts and commissions (sales load)	\$	\$
Proceeds to Gladstone Capital Corporation, before expenses ⁽¹⁾	\$	\$

⁽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 _____ shares of common stock at the public offering price less the sales load payable by us solely to cover overallotments, if any. If such option is exercised in full, the total underwriting discounts and commissions will be \$ _____, and the total proceeds, before expenses, to us would be \$ _____. See *Underwriting* on page S-66 of this prospectus supplement.

The underwriters are expected to deliver the shares on or about October , 2016.

Joint Book-Running Managers

**Janney Montgomery Scott
Ladenburg Thalmann**

**D.A. Davidson & Co.
Wunderlich**

Prospectus Supplement dated October , 2016

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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 in our common stock.

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. 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). 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.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus in making an investment decision. Neither we, nor the underwriters, have 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 summary highlights some of the information in this prospectus supplement and the accompanying prospectus. 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, 2016, our portfolio consisted of investments in 43 companies in 20 states in 20 different industries with a fair value of \$308.2 million, consisting of senior secured term debt, subordinated secured term debt, preferred equity and common equity.

As of October 24, 2016, we had 23,344,422 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 June 30, 2016, we have made 161 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 2016. Our monthly distribution declared per share for our Series 2021 Term Preferred Stock was \$0.140625 for each of October, November and December 2016.

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.

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 \$8 million to \$30 million, although investment size may vary depending upon our total assets or available capital at the time of investment. We lend to borrowers that need funds for growth capital, to finance acquisitions, or to recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We expect that our investment portfolio over time will consist of approximately 90.0% in debt investments and 10.0% in equity investments, at cost. As of June 30, 2016, our investment portfolio was made up of approximately 90.2% in debt investments and 9.8% in equity investments, at cost.

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

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

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

Our Board of Directors has the authority to modify or waive our current operating policies and our strategies without prior notice and without stockholder approval.

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, secured first lien 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 secured debt security usually takes the form of first priority liens on all or substantially all of the assets of the business. Senior secured debt securities may include investments sourced from in the syndicated loan market.

Senior Secured Subordinated Debt Securities: We seek to invest a portion of our assets in secured second lien debt securities, also known as senior subordinated loans and senior subordinated notes. These secured

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

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

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

Additionally, pursuant to the 1940 Act, we must maintain at least 70.0% of our total assets in qualifying assets, 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.

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

Our Investment Adviser and Administrator

The Adviser is our affiliate, 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, the Administrator, employs, among others, our chief financial officer and treasurer, chief accounting officer, chief compliance officer, chief valuation officer, general counsel and secretary (who also serves as our Administrator's president) and their respective staffs. Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Brubaker (our vice chairman and chief operating officer) serve as directors and executive officers of the following of our affiliates: Gladstone Commercial, a publicly traded real estate investment trust; Gladstone Investment, a publicly traded BDC and RIC; Gladstone Land, a publicly traded real estate investment trust that invests in farmland and farm related property; the Adviser; and the Administrator. Our president is also an executive managing director of the Adviser. David Gladstone also serves on the board of managers of our affiliate, 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 (the Advisory Agreement) since October 1, 2004. The investment advisory and management

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agreement originally included administrative services; however, it was amended and restated on October 1, 2006 and at that time we entered into an administration agreement with the Administrator to provide such services. The investment advisory and management agreement was further amended in October 2015 to reduce the base management fee payable under the agreement from 2.00% per annum to 1.75% per annum, effective July 1, 2015, with all other terms remaining unchanged. 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, 2016*

Set forth below are certain preliminary estimates of our financial condition and results of operations for the year ended September 30, 2016. 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, 2016 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, 2016 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, 2016.

Our NAV per share of common stock outstanding as of September 30, 2016 and October 24, 2016 is estimated to be between \$8.05 to \$8.15.

We expect to announce final results of operations for the three months and year ended September 30, 2016 on November 17, 2016 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 July 2016, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

Record Date	Payment Date	Distribution per Common Share	Distribution per Series 2021 Term Preferred Share
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July 22, 2016	August 2, 2016	\$ 0.07	\$ 0.140625
August 22, 2016	August 31, 2016	0.07	0.140625
September 21, 2016	September 30, 2016	0.07	0.140625
Total for the Quarter		\$ 0.21	\$ 0.421875

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In October 2016, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

Record Date	Payment Date	Distribution per Common Share	Distribution per Series 2021 Term Preferred Share
October 19, 2016	October 31, 2016	\$ 0.07	\$ 0.140625
November 15, 2016	November 30, 2016	0.07	0.140625
December 16, 2016	December 30, 2016	0.07	0.140625
Total for the Quarter		\$ 0.21	\$ 0.421875

Investors in the offering will not be entitled to the distribution payable on October 31, 2016.

Investment Activity

In September 2016, we invested \$7.5 million in Canopy Safety Brands, LLC (Canopy) through a combination of secured first lien debt and equity. Canopy is a manufacturer and distributor of personal protective equipment.

In September 2016, we invested \$2.0 million in Datapipe, Inc. (Datapipe) through secured second lien debt. Datapipe is a global provider of outsourced, mission-critical managed private and public cloud services.

In September 2016, we sold our investment in Westland Technologies, Inc. for net proceeds of \$5.3 million, which resulted in a net realized gain of \$0.9 million.

In September 2016, we sold our investment in Southern Petroleum Laboratories, Inc. for net proceeds of \$9.8 million, which resulted in a realized gain of \$0.9 million.

In September 2016, we restructured our investment in Precision Acquisition Group Holdings, Inc. which resulted in a realized loss of \$3.8 million.

In October 2016, RP Crown Parent, LLC paid off at par for proceeds of \$2.0 million.

Renewal of our Investment Advisory and Management Agreement

On July 12, 2016, our Board of Directors, including a majority of the directors who are not parties to the agreement or interested person of any such party, approved the annual renewal of the Advisory Agreement with the Adviser through August 31, 2017. Mr. Gladstone, our chairman and chief executive officer, controls the Adviser. In reaching a decision to approve the Advisory Agreement, our Board of Directors reviewed a significant amount of information and considered, among other things:

the nature, quality and extent of the advisory and other services to be provided to us by the Adviser;

our investment performance and that of the Adviser;

the costs of the services to be provided and profits to be realized by the Adviser from the relationship with us;

the fee structures of comparable externally managed business development companies that engage in similar investing activities; and

various other matters.

Based on the information reviewed and the considerations detailed above, our Board of Directors, including all of the directors who are not interested persons as that term is defined in the 1940 Act, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and approved the Advisory Agreement, as being in the best interests of our stockholders.

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THE OFFERING

Common stock offered by us	shares (or shares if the underwriters exercise their overallotment option in full).
Common stock outstanding prior to this offering	23,344,422 shares
Common stock to be outstanding after this offering	shares (or shares if the underwriters exercise their overallotment option in full).
Use of proceeds	<p>We estimate that the net proceeds from this offering will be approximately \$ million (or \$ million, if the underwriters exercise their overallotment option in full), after deducting underwriting discounts and commissions and expenses of this offering payable by us of approximately \$.</p> <p>We intend to repay outstanding indebtedness under the \$170.0 million revolving credit facility (the Credit Facility) that our wholly-owned subsidiary, Gladstone Business Loan, LLC (Business Loan), entered into with KeyBank National Association (KeyBank) 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, 2016, we had \$73.3 million of borrowings at cost outstanding under our Credit Facility and currently have \$65.7 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 3.72% as of June 30, 2016) through the revolving period end date of January 19, 2019 and is due and payable on or before April 19, 2020. See <i>Use of Proceeds</i> beginning on page S-16 of this prospectus supplement for more information.</p>
NASDAQ Global Select ticker symbol	GLAD
Distributions on common stock	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 continue 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*

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Investment in Our Securities Distributions to our stockholders have included and may in the future include a return of capital in the accompanying prospectus.

In October 2016, we declared a monthly distribution of \$0.07 per common share payable on October 31, 2016 to holders of record as of October 19, 2016. Because the record date for the distribution is before the 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 estimated NAV per share range of \$8.05 to \$8.15.

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-12 of this prospectus supplement and page 13 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-69 of this prospectus supplement and *Material U.S. Federal Income Tax Considerations* beginning on page 118 of the accompanying prospectus for a discussion of certain 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 percentages are annualized and have been calculated based on actual expenses incurred in the quarter ended June 30, 2016, and average net assets attributable to common stockholders for the quarter ended June 30, 2016.

Stockholder Transaction Expenses:

Sales load (as a percentage of offering price) ⁽¹⁾	4.0%
Offering expenses (as a percentage of offering price) ⁽²⁾	
Dividend reinvestment plan expenses ⁽³⁾	None
Total stockholder transaction expenses	
Annual expenses (as a percentage of net assets attributable to common stock)⁽⁴⁾ :	
Base Management fee ⁽⁵⁾	2.95%
Loan servicing fee ⁽⁶⁾	1.93%
Incentive fee (20.0% of realized capital gains and 20.0% of pre-incentive fee net investment income) ⁽⁷⁾	2.55%
Interest payments on borrowed funds ⁽⁸⁾	1.79%
Dividend expense on mandatorily redeemable preferred stock ⁽⁹⁾	2.40%
Other expenses ⁽¹⁰⁾	1.99%
Total annual expenses ⁽¹¹⁾	13.61%

(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, was based on an assumed public offering price of \$8.33 per share, the last reported sales price of our common stock on NASDAQ on October 24, 2016. If the underwriters exercise their overallotment option in full, the offering expenses borne by our stockholders (as a percentage of the offering price) will be approximately . See *Underwriting* for additional information on our underwriting arrangements for this offering.

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

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

(5) In accordance with the Advisory Agreement, our annual base management fee is 1.75% (0.4375% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. In accordance with the requirements of the SEC, the table above shows Gladstone Capital's base management fee as a percentage of average net assets attributable to common shareholders. For purposes of the table, the gross base management fee has been converted to 2.95% of the average net assets as of June 30, 2016 by dividing the total

dollar amount of the management fee by Gladstone Capital's average net assets. The base management fee for the quarter ended June 30, 2016 before application of any credits was \$1.4 million.

Under the Advisory Agreement, the Adviser has provided and continues to provide managerial assistance to our portfolio companies. It may also provide services other than managerial assistance to our portfolio companies and receive fees therefor. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated

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third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. Generally, at the end of each quarter, 100.0% of these fees are voluntarily, irrevocably and unconditionally credited against the base management fee that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser. For the quarter ended June 30, 2016, the base management fee credit was \$0.3 million. See *Management Certain Transactions* in the accompanying prospectus.

- (6) In addition, the Adviser services, administers and collects on the loans held by Business Loan, in return for which the Adviser receives a 1.5% annual loan servicing fee payable monthly by Business Loan based on the monthly aggregate balance of loans held by Business Loan in accordance with our Credit Facility. For the three months ended June 30, 2016, the total loan servicing fee was \$0.9 million. The entire loan servicing fee paid to the Adviser by Business Loan is generally voluntarily, irrevocably and unconditionally credited against the base management fee otherwise payable to the Adviser since Business Loan is a consolidated subsidiary of the Company, and overall, the base management fee (including any loan servicing fee) cannot exceed 1.75% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement. See *Management Certain Transactions Investment Advisory and Management Agreement* in the accompanying prospectus and footnote 7 below.
- (7) In accordance with our Advisory Agreement, the incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20.0% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100.0% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125.0% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide the Adviser with 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125.0% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our preincentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 1.75% base management fee (see footnote 5 above). The capital gains-based incentive fee equals 20.0% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year. We have not recorded any capital gains-based incentive fee from our inception through June 30, 2016. The income-based incentive fee for the quarter ended June 30, 2016 was \$1.2 million.

From time to time, the Adviser has voluntarily, irrevocably and unconditionally agreed to waive a portion of the incentive fees, to the extent net investment income did not cover 100.0% of the distributions to common stockholders during the period. For the quarter ended June 30, 2016, the incentive fee credit was \$0.2 million. There can be no guarantee that the Adviser will continue to credit any portion of the fees under the Advisory Agreement in the future.

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

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

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

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

$$= 0.25\%$$

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

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

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

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

$$= 0.46\%$$

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

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

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

$$= 1\%$$

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

- (8) Includes interest payments and amortization of deferred financing costs related to the Credit Facility. As of June 30, 2016, we had \$73.3 million in borrowings outstanding on our Credit Facility.
- (9) Includes amortization of deferred financing costs related to our Series 2021 Term Preferred Stock, as well as amounts paid to preferred stockholders during the three months ended June 30, 2016. See *Description of Our Securities Preferred Stock Series 2021 Term Preferred Stock* in the accompanying prospectus for additional information.
- (10) Includes our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement. See *Management Certain Transactions Administration Agreement* in the accompanying prospectus.
- (11) Total annualized gross expenses, based on actual amounts incurred for the quarter ended June 30, 2016, would be \$25.3 million. After all voluntary credits described in footnote 5 above, footnote 6 and footnote 7 above are applied to the base management fee, the loan servicing fee and the incentive fee, total annualized expenses after fee credits, based on actual amounts incurred for the quarter ended June 30, 2016, would be \$19.7 million, or 10.62% as a percentage of net assets.

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment:				
assuming a 5.00% annual return consisting entirely of ordinary income ⁽¹⁾⁽²⁾	\$ 120	\$ 335	\$ 521	\$ 884
assuming a 5.00% annual return consisting entirely of capital gains ⁽²⁾⁽³⁾	\$ 129	\$ 356	\$ 550	\$ 915

- (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 weighted average price of all shares of our common stock purchase on the open market by the plan agent on such trade date or dates. 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 and that no accumulated capital losses or unrealized depreciation exist that would have to be overcome first before a capital gains based incentive fee is payable.

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RISK FACTORS

There are material limitations with making preliminary estimates of our financial results for the three months and year ended September 30, 2016 prior to the completion of our and our auditors' financial review procedures for such period.

The preliminary financial estimates contained in *Prospectus Supplement Summary Recent Developments* are not a comprehensive statement of our financial results for the three months and year ended September 30, 2016 and have not been audited by our independent registered public accounting firm. Our consolidated financial statements for the year ended September 30, 2016 will not be available until after this offering is completed and, consequently, will not be available to you prior to investing in this offering. Our actual financial results for the three months and year ended September 30, 2016 may differ materially from the preliminary financial estimates we have provided as a result of the completion of our financial closing procedures, final adjustments and other developments arising between now and the time that our financial results for the three months and year ended September 30, 2016 are finalized. The preliminary financial data included herein have been prepared by, and are the responsibility of, management. PricewaterhouseCoopers LLP, our independent registered public accounting firm, has not audited, reviewed, compiled or performed any procedures with respect to such preliminary estimates. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

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, 2016.

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, 2016. Further, our financial statements

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have not been audited by our independent registered public accounting firm for any periods since September 30, 2015. 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, 2016 and based on the preliminary assessment of our Board of Directors, the fair value has increased since June 30, 2016. If our Board of Directors makes a final determination that the fair value of our investment portfolio at September 30, 2016 was less than such fair value at June 30, 2016, 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, 2016 was greater than such fair value at June 30, 2016, 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, 2016, 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 generally traded below NAV in the last three years. In addition, if our 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 11, 2016, 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 may 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 2017 (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 may 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.

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

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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, but are not limited to:

the recurrence or impact of adverse events in the economy and the capital markets, including stock price volatility;

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

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 _____ 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 \$ _____ million (or \$ _____ million, if the underwriters exercise their overallotment option in full) based on an assumed public offering price of \$8.33 per share, which was the last reported sales price of our common stock on NASDAQ on October 24, 2016.

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, 2016, we had \$73.3 million of borrowings outstanding under our Credit Facility. We currently have \$65.7 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 3.72% as of June 30, 2016) and the revolving period ends in January 2019 and is due and payable on or before April 19, 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 this 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.

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The following table sets forth our capitalization as of June 30, 2016:

on an actual basis; and

on an as adjusted basis to give effect to the sale of _____ shares of common stock in this offering at a per share public offering price of \$8.33 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*.

	As of June 30, 2016	
	Actual	As Adjusted
	(Unaudited)	
	(Dollars in thousands)	
Borrowings		
Borrowings at fair value (cost: \$73,300, actual; \$, as adjusted) ⁽¹⁾⁽²⁾	\$ 73,300	\$
Total Borrowings	\$ 73,300	\$
Preferred Stock		
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
Total Preferred Stock (4,000,000 shares authorized and 2,440,000 issued and outstanding, actual and as adjusted)	\$ 61,000	\$ 61,000
Net Assets Applicable to Common Stockholders		
Common stock, \$0.001 par value per share, 46,000,000 shares authorized, actual and as adjusted; 23,344,422 shares issued and outstanding, actual and shares issued and outstanding, as adjusted ⁽³⁾	\$ 23	\$
Capital in excess of par value	327,697	
Cumulative net unrealized depreciation on investments	(78,100)	
Net investment income in excess of distributions	4,599	
Accumulated net realized losses	(68,705)	
Total Net Assets Available to Common Stockholders	\$ 185,514	\$
Total Capitalization	\$ 319,814	\$

- (1) Our borrowings have not been fair-value adjusted for the as adjusted presentation as of June 30, 2016.
- (2) Does not include approximately \$7.6 million in net repayments made subsequent to June 30, 2016.
- (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 24, 2016:

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUNT HELD BY US OR FOR OUR ACCOUNT	AMOUNT OUTSTANDING (EXCLUSIVE OF AMOUNTS HELD BY US OR FOR OUR ACCOUNT)
Common Stock	46,000,000		23,344,422
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 2016 annual stockholders meeting on February 11, 2016, 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 11, 2016 and expiring on the first anniversary of such date (the "Stockholder Approval"). The offering of common stock being made pursuant to this prospectus supplement will be at a price below our most recently estimated NAV per share range on October 24, 2016 of \$8.05 to \$8.15 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) as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, 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 will be conducted below its NAV per share and 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 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, both before and after the offering and other borrowing terms; and

the potential investment opportunities available relative to the potential dilutive effect of additional capital at the time of the offering.

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.

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We will not sell shares of our common stock under this prospectus pursuant to the Stockholder Approval without first filing a new post-effective amendment to the registration statement if the cumulative dilution to our net asset value per share from offerings under the registration statement, as amended by any post-effective amendments, exceeds 15%. This would be measured separately for each offering pursuant to the registration statement, as amended, by calculating the percentage dilution or accretion to aggregate net asset value from that offering and then summing the percentage from each offering. We do not expect dilution from this offering to exceed 15%.

In addition, the maximum number of shares issuable below NAV per share that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. 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 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, 2016 except NAV per share, which is based on the midpoint of the estimated range of NAV per share as of October 24, 2016. The following example assumes a sale of 2,500,000 shares of common stock at an assumed public offering price of \$8.33 per share, which was the closing price of our common stock on October 24, 2016, with a 4.00% underwriting discount and commission and \$240,000 of estimated offering expenses (\$0.10 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
<i>Offering Price</i>			
Price per common share to public		\$ 8.33	
Net proceeds per common share to us		\$ 7.90	
<i>Decrease to NAV</i>			
Total common shares outstanding	23,344,422	25,844,422	10.71
NAV per common share	\$ 8.10	\$ 8.08	(0.24)
<i>Dilution to Stockholder</i>			
Common shares held by common stockholder	23,344	23,344	
Percentage held by common stockholder	0.10%	0.09%	(9.67)
<i>Total Asset Values</i>			
Total NAV held by common stockholder	\$ 189,090	\$ 188,640	(0.24)
Total investment by common stockholder (Assumed to be \$8.10 per common share on common shares held prior to sale)	\$ 189,090	\$ 189,090	
Total dilution to common stockholder (Total NAV less total investment)		\$ (450)	
<i>Per Share Amounts</i>			
NAV per share held by common stockholder	\$ 8.10	\$ 8.08	(0.24)
Investment per share held by common stockholder (Assumed to be \$8.10 per common share on common shares held prior to sale)	\$ 8.10	\$ 8.10	
Dilution per common share held by stockholder (NAV per common share less investment per share)		\$ (0.02)	
Percentage dilution to common stockholder (Dilution per common share divided by investment per common share)			(0.24)

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

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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.

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., 1,250 shares, which is 0.05% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 3,750 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, 2016 except NAV per share, which is based on the midpoint of the estimated range of NAV per share as of October 24, 2016. The following example assumes a sale of 2,500,000 shares of common stock at an assumed public offering price of \$8.33 per share, with a 4.00% underwriting discount and commission and \$240,000 of estimated offering expenses (\$0.10 per share, net). The numbers in this table have been rounded to the nearest hundredth of one percent.

	PRIOR TO SALE BELOW NAV	50% PARTICIPATION FOLLOWING SALE	% CHANGE	150% PARTICIPATION FOLLOWING SALE	% CHANGE
Offering Price					
Price per common share to public		\$ 8.33		\$ 8.33	
Net Proceeds per common share to issuer		\$ 7.90		\$ 7.90	
Decrease to NAV					
Total common shares outstanding	23,344,422	25,844,422	10.71	25,844,422	10.71
NAV per common share	\$ 8.10	\$ 8.08	(0.24)	\$ 8.08	(0.24)
Dilution/Accretion to Common Stockholder					
Common shares held by stockholder	23,344	24,594	5.35	27,094	16.06
Percentage held by common stockholder	0.10%	0.10%	(4.84)	0.10%	4.84
Total Asset Values					
Total NAV held by common stockholder	\$ 189,090	\$ 198,741	5.10	\$ 218,943	15.79
Total investment by common stockholder (Assumed to be \$8.10 per common share on common shares held prior to sale)	\$ 189,090	\$ 199,502	5.51	\$ 220,327	16.52
Total dilution to common stockholder (Total NAV less total investment)		\$ (761)		\$ (1,385)	
Per Common Share Amounts					
NAV per common share held by stockholder	\$ 8.10	\$ 8.08	(0.24)	\$ 8.08	(0.24)
Investment per common share held by stockholder (Assumed	\$ 8.10	\$ 8.11	0.14	\$ 8.13	0.39

to be \$8.10 per common share
on common shares held prior
to sale)

Dilution per common share
held by stockholder (NAV per
common share less investment
per common share)

\$ (0.03)

\$ (0.05)

Percentage dilution to
stockholder (Dilution per
common share divided by
investment per common share)

(0.38)

(0.63)

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Table of Contents**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 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, 2016 except NAV per share, which is based on the midpoint of the estimated range of NAV per share as of October 24, 2016. The following example assumes a sale of 2,500,000 shares of common stock at an assumed public offering price of \$8.33 per share, with a 4.00% underwriting discount and commission and \$240,000 of estimated offering expenses (\$0.10 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
<i>Offering Price</i>			
Price per common share to public		\$ 8.33	
Net proceeds per common share to issuer		\$ 7.90	
<i>Decrease to NAV</i>			
Total common shares outstanding	23,344,422	25,844,422	10.71
NAV per common share	\$ 8.10	\$ 8.08	(0.24)
<i>Accretion to New Investor</i>			
Common shares held by new investor		2,500	
Percentage held by new investor		% 0.01%	
<i>Total Asset Values</i>			
Total NAV held by new investor		\$ 20,202	
Total investment by new investor (At price to public)		\$ 20,825	
Total dilution to new investor (Total NAV less total investment)		\$ (623)	

Per Common Share Amounts

NAV per common share held by new investor	\$	8.08	
Investment per share held by new investor (At price to public)	\$	8.33	
Dilution per common share held by new investor (NAV per common share less investment per common share)	\$	(0.25)	
Percentage dilution to new investor (accretion per common share divided by investment per common share)			(2.99)

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Table of Contents**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 sales prices per share of our common stock on the NASDAQ, the high and low sales prices as a percentage of NAV per share and quarterly distributions declared per share for each quarter since October 1, 2013.

					(DISCOUNT) OR PREMIUM OF HIGH SALES PRICE TO NAV ⁽²⁾	(DISCOUNT) OR PREMIUM OF LOW SALES PRICE TO NAV ⁽²⁾
SALES PRICE						
	NAV ⁽¹⁾	HIGH	LOW	DISTRIBUTIONS DECLARED		
Fiscal Year ending September 30, 2014 ⁽³⁾						
First Quarter	\$ 10.10	\$ 9.92	\$ 8.60	\$ 0.21	(1.8)%	(14.9)%
Second Quarter	9.79	10.37	9.27	0.21	5.9	(5.3)
Third Quarter	8.62	10.21	9.41	0.21	18.4	9.2
Fourth Quarter	9.51	10.27	8.06	0.21	8.0	(15.2)
Fiscal Year ending September 30, 2015 ⁽⁴⁾						
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	9.06	9.25	7.58	0.21	2.1	(16.3)

**Fiscal Year ending
September 30, 2016⁽⁵⁾**

First Quarter	8.38	9.09	6.39	0.21	8.5	(23.8)
Second Quarter	7.92	7.59	4.71	0.21	(4.2)	(40.5)
Third Quarter	7.95	7.67	6.80	0.21	(3.5)	(14.5)
Fourth Quarter	*	8.75	7.24	0.21	*	*

**Fiscal Year ending
September 30, 2017⁽⁶⁾**

First Quarter (through October 24, 2016)	*	8.65	8.02	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, 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.
 - (4) For the fiscal year ended September 30, 2015, our current and accumulated earnings and profits (after taking into account mandatorily redeemable preferred stock dividends) exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$1.7 million of the first common distributions paid in fiscal year 2016 as having been paid in the respective prior year.
 - (5) The characterization of the common stockholder distributions declared and paid for the fiscal year ended September 30, 2016 will be determined based upon taxable income for the full fiscal year and distributions paid during the full fiscal year.
 - (6) The characterization of the common stockholder distributions declared and paid for the fiscal year ending September 30, 2017 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 24, 2016, there were 42 record owners of our common stock. The last reported sales price of our common stock on NASDAQ on October 24, 2016 was \$8.33 per share, representing a 2.8% premium to our estimated NAV per share of \$8.10, which is based on the midpoint of the estimated range of NAV per share as of October 21, 2016.

Table of Contents**CONSOLIDATED SELECTED FINANCIAL DATA**

The following consolidated selected financial data for the fiscal years ended September 30, 2015, 2014, 2013, 2012 and 2011 are derived from our audited consolidated financial statements. The consolidated selected financial data for the nine months ended June 30, 2016 and 2015 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.

	Nine Months Ended June 30,		Year Ended September 30,					
	2016	2015	(Dollar amounts in thousands, except per share data)					
	2015	2014	2013	2012	2011			
Statement of Operations Data:								
Total Investment Income	\$ 29,362	\$ 27,884	\$ 38,058	\$ 36,585	\$ 36,154	\$ 40,322	\$ 35,211	
Total Expenses, Net of Credits from Adviser	14,778	15,664	20,358	18,217	17,768	21,278	16,799	
Net Investment Income	14,584	12,220	17,700	18,368	18,386	19,044	18,412	
Net Realized and Unrealized Gain (Loss) on Investments, Borrowings and Other	(23,912)	960	(9,216)	(7,135)	13,833	(27,052)	(39,511)	
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (9,328)	\$ 13,180	\$ 8,484	\$ 11,233	\$ 32,219	\$ (8,008)	\$ (21,099)	
Per Share Data:								
Net Investment Income per Common Share Basic and Diluted ^(A)	\$ 0.63	\$ 0.58	\$ 0.84	\$ 0.87	\$ 0.88	\$ 0.91	\$ 0.88	
Net Increase (Decrease) in Net Assets Resulting	(0.40)	0.63	0.40	0.53	1.53	(0.38)	(1.00)	

From Operations
per Common
Share Basic and
Diluted^(A)

Cash

Distributions

Declared Per

Common Share

0.63

0.63

0.84

0.84

0.84

0.84

0.84

**Statement of
Assets and
Liabilities Data:**

Total Assets \$ **325,550** \$ 369,261 \$ **382,482** \$ 301,429 \$ 295,091 \$ 293,402 \$ 317,624

Net Assets **185,514** 200,643 **191,444** 199,660 205,992 188,564 213,721

Net Asset Value

Per Common

Share

7.95

9.49

9.06

9.51

9.81

8.98

10.16

Common Shares

Outstanding

23,344,422

21,131,622

21,131,622

21,000,160

21,000,160

21,000,160

21,039,242

Weighted

Common Shares

Outstanding Basic

and Diluted

23,363,952

21,123,202

21,066,844

21,000,160

21,000,160

21,011,123

21,039,242

**Senior Securities
Data:**

Borrowings under

Credit Facility, at

cost^(B)

\$ **73,300**

\$ 104,600

\$ **127,300**

\$ 36,700

\$ 46,900

\$ 58,800

\$ 99,400

Mandatorily

redeemable

preferred stock^(B)

61,000

61,000

61,000

61,000

38,497

38,497

**Other Unaudited
Data:**

Number of

Portfolio

Companies at

Year End

43

46

48

45

47

50

59

Average Size of

Portfolio

Company

Investment at

Cost

\$ **8,984**

\$ 8,719

\$ **8,547**

\$ 7,762

\$ 7,069

\$ 7,300

\$ 6,488

Principal Amount

of New

Investments

54,300

65,348

102,299

81,731

80,418

45,050

110,903

Proceeds from

Loan Repayments

and Investments

Sold

98,425

28,601

40,273

72,560

117,048

73,857

50,002

Weighted

Average Yield on

Investments^(C)

11.1%

10.8%

10.9%

11.5%

11.6%

11.3%

11.2%

Total Return ^(D)	(3.04)	(5.40)	2.40	9.62	9.90	41.39	(33.77)
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- (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.

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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, 2015 and September 30, 2014 and the first three quarters of the fiscal year ending September 30, 2016. 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, 2016		
	Quarter Ended	Quarter Ended	Quarter Ended
	December 31, 2015	March 31, 2016	June 30, 2016
	(in thousands, except per share data)		
Total investment income	\$ 10,060	\$ 9,456	\$ 9,844
Net investment income	4,759	4,917	4,907
Net increase (decrease) in net assets resulting from operations	(8,704)	(6,139)	5,516
Net increase (decrease) in net assets resulting from operations per weighted average common share (basic and diluted)	\$ (0.38)	\$ (0.26)	\$ 0.24

	Year Ended September 30, 2015			
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015
	(in thousands, except per share data)			
Total investment income	\$ 8,726	\$ 9,223	\$ 9,935	\$ 10,174
Net investment income	3,691	3,693	4,836	5,480
Net increase (decrease) in net assets resulting from operations	331	9,542	3,307	(4,696)
Net increase (decrease) in net assets resulting from operations per weighted average common share (basic and diluted)	\$ 0.02	\$ 0.45	\$ 0.16	\$ (0.22)

	Year Ended September 30, 2014			
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
	December 31, 2013	March 31, 2014	June 30, 2014	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	\$ 0.50	\$ (0.10)	\$ (0.96)	\$ 1.09

(basic and diluted)

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

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. Except per share amounts, dollar amounts in the tables included herein are in thousands unless otherwise indicated.

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 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 primary investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from \$8 million to \$30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We intend for our investment portfolio to consist of approximately 90.0% debt investments and 10.0% equity investments, at cost. As of June 30, 2016, our investment portfolio was made up of approximately 90.2% debt investments and 9.8% 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.

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 has enhanced and will continue to enhance our ability to further our investment objectives and strategies.

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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.

Additionally, since February 2011, Gladstone Securities, LLC (*Gladstone Securities*), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee.

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 and Investment Activity

During the nine months ended June 30, 2016, we invested \$54.3 million in five new portfolio companies and extended \$5.6 million of investments to existing portfolio companies. In addition, during the nine months ended June 30, 2016, we exited 10 portfolio companies through sales and early payoffs. We received a total of \$98.4 million in combined net proceeds and principal repayments from the aforementioned portfolio company exits as well as existing portfolio companies during the nine months ended June 30, 2016. This activity resulted in a net reduction in our overall portfolio of five portfolio companies to 43 and a net decrease of 5.8% in our portfolio at cost since September 30, 2015. Our continued focus throughout 2016 will be to rebuild our investment portfolio by making new investments and to exit challenged and non-strategic investments in our portfolio in an orderly manner over the next several quarters. Since our initial public offering in August 2001, we have made 423 different loans to, or investments in, 201 companies for a total of approximately \$1.5 billion, before giving effect to principal repayments on investments and divestitures.

During the nine months ended June 30, 2016, the following significant transactions occurred:

In October 2015, Allison Publications, LLC paid off at par for proceeds of \$8.2 million.

In October 2015, we sold our investment in Funko, LLC (*Funko*), which resulted in dividend and prepayment fee income of \$0.3 million and a realized gain of \$16.9 million. In connection with the sale, we received net cash proceeds of \$15.3 million, full repayment of our debt investment of \$9.5 million, receivables of \$3.1 million, recorded within other assets, net on the accompanying *Consolidated Statement of Assets and Liabilities*, and a continuing preferred and common equity investment in Funko Acquisition Holdings, LLC, with a combined cost basis and fair value of \$0.3 million at the close of the transaction. Additionally, we recorded a tax liability for the net unrealized built-in gain of \$9.8 million that was realized upon the sale, of which \$6.3 million has been subsequently paid. The remaining tax liability of \$3.5 million is included within other liabilities on the accompanying *Consolidated Statement of Assets and Liabilities* as

of June 30, 2016.

In October 2015, Ameriqua Group, LLC paid off at par for proceeds of \$7.4 million.

In October 2015, we sold our investment in First American Payment Systems, L.P. for net proceeds of \$4.0 million, which resulted in a net realized loss of \$0.2 million.

In November 2015, we restructured our investment in Legend Communications of Wyoming, LLC (Legend) resulting in a \$2.7 million pay down on the existing loan and a new \$3.8 million investment in Drumcree, LLC, which is listed separately on the accompanying *Consolidated Statement of Investments* as of December 31, 2015. In March 2016, Legend paid off at par for proceeds of \$4.0 million.

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In December 2015, we sold our investment in Heartland Communications Group (Heartland) for net proceeds of \$1.5 million, which resulted in a realized loss of \$2.4 million. Heartland was on non-accrual status at the time of the sale.

In January 2016, we invested \$8.5 million in LCR Contractors, Inc. through secured first lien debt.

In February 2016, our investment in Targus Group International, Inc. (Targus) was restructured, which resulted in a realized loss of \$5.5 million and a new investment in Targus Cayman HoldCo Limited, which is listed on the accompanying *Consolidated Statement of Investments* as of June 30, 2016.

In March 2016, we invested \$10.0 million in Travel Sentry, Inc. through secured first lien debt.

In March 2016, J. America paid off at par for proceeds of \$5.1 million.

In April 2016, we received net proceeds of \$8.0 million related to the sale of Ashland Acquisition LLC, which resulted in a realized gain of approximately \$0.1 million.

In May 2016, we invested \$2.0 million in Netsmart Technologies, Inc. through secured second lien debt.

In June 2016, we invested \$30.0 million in IA Tech, LLC through secured first lien debt.

In June 2016, Vision Solutions, Inc. paid off at par for proceeds of \$8.0 million.

In June 2016, GTCR Valor Companies, Inc. paid off at par for proceeds of \$3.0 million.

Refer to Note 13 *Subsequent Events* in the accompanying *Consolidated Financial Statements* included elsewhere in this prospectus supplement for portfolio activity occurring subsequent to June 30, 2016.

Capital Raising

We issued shares of our common stock in an overnight offering in October 2015 with the over-allotment closing in November 2015 at a public offering price of \$8.55 per share, which was below the then current net asset value (NAV) of \$9.06 per share. The resulting proceeds, in part, provided us with additional equity capital to help ensure continued compliance with regulatory tests and will allow us to grow the portfolio and generate additional income through new investments. Refer to *Liquidity and Capital Resources* *Equity* *Common Stock* for further discussion of our common stock offerings.

Although we were able to access the capital markets over the last year, uncertain market conditions continue to affect the trading price of our capital stock and thus may inhibit our ability to finance new investments through the issuance of equity. The current volatility in the credit market and the uncertainty surrounding the U.S. economy have led to

significant stock market fluctuations, particularly with respect to the stock of financial services companies like ours. During times of increased price volatility, our common stock may be more likely to continue to trade at a price below our NAV per share, which is not uncommon for BDCs like us.

On August 2, 2016, the closing market price of our common stock was \$7.91, a 0.5% discount to our June 30, 2016 NAV per share of \$7.95. When our stock trades below NAV per common share, as it has consistently traded over the last several years, our ability to issue equity is constrained by provisions of the 1940 Act, which generally prohibits the issuance and sale of our common stock below NAV per common share without stockholder approval, other than through sales to our then-existing stockholders pursuant to a rights offering. At our annual meeting of stockholders held on February 11, 2016, 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.

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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 on an annual basis 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. 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 of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock.

We expect that, given these regulatory and contractual constraints in combination with current market conditions, the debt and equity capital available may be limited in the near term. However, we believe that the recent amendments to our Credit Facility to decrease the interest rate on advances and extend its revolving period end date until 2019, and our syndication and expansion of our Credit Facility in June 2015 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.

Recent Developments

Registration Statement

We filed a universal shelf registration statement (our Registration Statement) on Form N-2 (File No. 333-208637) with the SEC on December 18, 2015, and subsequently filed Pre-Effective Amendment No. 1 on March 17, 2016 and Pre-Effective Amendment No. 2 on March 29, 2016, which the SEC declared effective on March 29, 2016. Our Registration Statement registered an aggregate of \$300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, preferred stock or debt securities. No securities have been issued under the registration statement as of June 30, 2016.

Common Stock Share Repurchase Program

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of the Company's common stock. The repurchases are intended to be implemented through open market transactions on U.S. exchanges or in privately negotiated transactions, in accordance with applicable securities laws, and any market purchases will be made during open trading window periods or pursuant to any applicable Rule 10b5-1 trading plans. The timing, prices, and amounts of repurchases will depend upon prevailing market prices, general economic and market conditions and other considerations. The repurchase program does not obligate us to acquire any particular number of shares of common stock. The termination date is the earlier of repurchasing the total authorized amount of \$7.5 million or January 31, 2017. During the three months ended June 30, 2016, we repurchased 41,414 shares of our common stock at an average share price of \$6.95, resulting in gross purchases of \$0.3 million. During the nine months ended June 30, 2016, we repurchased 87,200 shares of our common stock at an average share price of \$6.53, resulting in gross purchases of \$0.6 million.

Table of Contents**RESULTS OF OPERATIONS****Comparison of the Three Months Ended June 30, 2016, to the Three Months Ended June 30, 2015**

	Three Months Ended June 30,			
	2016	2015	\$ Change	% Change
INVESTMENT INCOME				
Interest income, net	\$ 8,253	\$ 9,107	\$ (854)	(9.4)%
Other income	1,591	828	763	92.1
Total investment income	9,844	9,935	(91)	(0.9)
EXPENSES				
Base management fee	1,369	1,859	(490)	(26.4)
Loan servicing fee	896	1,015	(119)	(11.7)
Incentive fee	1,187	1,021	166	16.3
Administration fee	287	235	52	22.1
Interest expense on borrowings	648	1,033	(385)	(37.3)
Dividend expense on mandatorily redeemable preferred stock	1,029	1,029		
Amortization of deferred financing fees	273	253	20	7.9
Other expenses	640	537	103	19.2
Expenses, before credits from Adviser	6,329	6,982	(653)	(9.4)
Credit to base management fee loan servicing fee	(896)	(1,015)	119	11.7
Credits to fees from Adviser other	(496)	(868)	372	42.9
Total expenses, net of credits	4,937	5,099	(162)	(3.2)
NET INVESTMENT INCOME	4,907	4,836	71	1.5
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized loss on investments	(84)	(1,143)	1,059	92.7
Net realized gain on other		68	(68)	(100.0)
Net unrealized appreciation (depreciation) of investments	693	(1,147)	1,840	NM
Net unrealized depreciation of other		693	(693)	(100.0)
Net gain (loss) from investments and other	609	(1,529)	2,138	NM
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 5,516	\$ 3,307	\$ 2,209	66.8%

NM = Not Meaningful

Investment Income

Total investment income decreased slightly by 0.9% for the three months ended June 30, 2016, as compared to the prior year period. This decrease was primarily due to a decrease in interest income, which resulted from a decrease in

the size of our interest-bearing portfolio for the three months ended June 30, 2016 as compared to the prior year period, partially offset by an increase in other income.

Interest income, net decreased by 9.4% for the three months ended June 30, 2016, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended June 30, 2016, was \$303.6 million, compared to \$330.6 million for the prior year period, a decrease of 8.2%. This decrease was due primarily to exits that occurred during the first quarter of fiscal year 2016. The weighted average yield on our interest-bearing investment portfolio is based on the current stated interest rate on

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interest-bearing investments which decreased to 10.9% for the three months ended June 30, 2016, compared to 11.1% for the three months ended June 30, 2015, inclusive of any allowances on interest receivables made during those periods.

As of June 30, 2016, two portfolio companies were either fully or partially on non-accrual status, with an aggregate debt cost basis of approximately \$26.5 million, or 7.5% of the cost basis of all debt investments in our portfolio. 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.

For the three months ended June 30, 2016, other income increased by 92.1% as compared to the prior year period. For the three months ended June 30, 2016, other income consisted primarily of \$1.5 million in success fees recognized and \$0.1 million in prepayment fees received. Other income for the three months ended June 30, 2015, consisted primarily of \$0.5 million in dividend income received and \$0.3 million in success fees recognized.

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, 2016		Three Months Ended June 30, 2016	
	Fair Value	% of Portfolio Investment	Income	% of Total Income
IA Tech, LLC ^(A)	\$ 30,000	9.7%	\$ 40	0.4%
RBC Acquisition Corp.	22,090	7.2	658	6.7
WadeCo Specialties, Inc.	19,630	6.4	528	5.4
United Flexible, Inc.	17,304	5.6	556	5.6
Lignetics, Inc.	15,499	5.0	425	4.3
Subtotal five largest investments	104,523	33.9	2,207	22.4
Other portfolio companies	203,703	66.1	7,637	77.6
Total Investment Portfolio	\$ 308,226	100.0%	\$ 9,844	100.0%

Company	As of June 30, 2015		Three Months Ended June 30, 2015	
	Fair Value	% of Portfolio Investment	Income	% of Total Income
Funko, LLC ^(B)	\$ 31,221	9.0%	\$ 444	4.5%
RBC Acquisition Group	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
Subtotal five largest investments	118,853	34.2	2,708	27.3
Other portfolio companies	228,363	65.8	7,226	72.7

Other non-portfolio company
revenue

Total Investment Portfolio	\$ 347,216	100.0%	\$ 9,935	100.0%
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- (A) New investment during the applicable period.
(B) Investment exited subsequent to June 30, 2015.

Expenses

Expenses, net of any voluntary, irrevocable and non-contractual credits to fees from the Adviser, decreased by 3.2% for the three months ended June 30, 2016, as compared to the prior year period. This decrease was primarily due to a decrease in interest expense on borrowings and a decrease in net base management fees, partially offset by an increase in net incentive fee and other expenses.

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Interest expense on borrowings decreased by \$0.4 million, or 37.3%, during the three months ended June 30, 2016, as compared to the prior year period, due primarily to a decrease in the borrowings outstanding under our Credit Facility during the period due to the sales and payoffs discussed above. The weighted average balance outstanding under our Credit Facility during the three months ended June 30, 2016, was \$52.5 million, as compared to \$109.8 million in the prior year period, a decrease of 52.2%.

Net base management fee earned by the Adviser decreased by \$0.7 million, or 14.3%, during the three months ended June 30, 2016, as compared to the prior year period, resulting from a decrease in the average total assets outstanding. Our Board of Directors accepted an unconditional, non-contractual and irrevocable voluntary credit of \$0.2 million from the Adviser to reduce the income-based incentive fee to the extent net investment income for the quarter ended June 30, 2016 did not cover 100.0% of the distributions to common stockholders during the period. The credit granted for the quarter ended June 30, 2015, was \$0.8 million.

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 Adviser* in Note 4 *Related Party Transactions* of the notes accompanying our *Consolidated Financial Statements* included elsewhere in this prospectus supplement and are summarized in the following table:

	Three Months Ended June 30,	
	2016	2015
Average total assets subject to base management fee ^(A)	\$ 312,914	\$ 371,800
Multiplied by prorated annual base management fee of 1.75% 2.0%	0.4375%	0.5%
Base management fee^(B)	\$ 1,369	\$ 1,859
Portfolio company fee credit	(319)	(73)
Senior syndicated loan fee credit	(17)	(41)
Net Base Management Fee	\$ 1,033	\$ 1,745
Loan servicing fee^(B)	896	1,015
Credit to base management fee loan servicing fee ^(B)	(896)	(1,015)
Net Loan Servicing Fee	\$	\$
Incentive fee^(B)	1,187	1,021
Incentive fee credit	(160)	(754)
Net Incentive Fee	\$ 1,027	\$ 267
Portfolio company fee credit	(319)	(73)
Senior syndicated loan fee credit	(17)	(41)
Incentive fee credit	(160)	(754)
Credits to Fees From Adviser other^(B)	\$ (496)	\$ (868)

- (A) Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.
- (B) Reflected, on a gross basis, as a line item on our *Consolidated Statements of Operations* included elsewhere in this prospectus supplement.

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Table of Contents***Net Realized and Unrealized Gain (Loss)*****Net Realized Gain (Loss) on Investments**

We had no significant realized gains (losses) on investments for the three months ended June 30, 2016. For the three months ended June 30, 2015, we recorded a net realized loss on investments of \$1.1 million, which resulted primarily from the exit of our investment in Sunburst during the three months ended June 30, 2015.

Net Unrealized Appreciation (Depreciation) of Investments

During the three months ended June 30, 2016, we recorded net unrealized appreciation of investments of \$0.7 million. The realized gain (loss) and unrealized appreciation (depreciation) across our investments for the three months ended June 30, 2016, were as follows:

Portfolio Company	Three Months Ended June 30, 2016			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Southern Petroleum Laboratories, Inc.	\$	\$ 1,906	\$	\$ 1,906
RBC Acquisition Corp.		1,232		1,232
Vision Solutions, Inc.		777		777
Westland Technologies, Inc.		683		683
Flight Fit N Fun LLC		633		633
Precision Acquisition Group Holdings, Inc.		597		597
Behrens Manufacturing, LLC		588		588
Vitera Healthcare Solutions, LLC		449		449
Vertellus Specialties Inc.		368		368
Targus Cayman HoldCo, Ltd.		(338)		(338)
SourceHOV, LLC		(358)		(358)
Ashland Acquisitions, LLC	72		(572)	(500)
New Trident Holdcorp, Inc.		(600)		(600)
Lignetics, Inc.		(622)		(622)
Sunshine Media Holdings		(1,301)		(1,301)
LWO Acquisitions Company LLC		(1,478)		(1,478)
Francis Drilling Fluids, Ltd.		(1,565)		(1,565)
Other, net (<\$250)	(156)	294		138
Total:	\$ (84)	\$ 1,265	\$ (572)	\$ 609

The primary driver of net unrealized appreciation of \$0.7 million for the three months ended June 30, 2016, was an improvement in the performance of certain portfolio companies and an increase in comparable multiples used to estimate the fair value of our investments, which more than offset the decreased performance of several of our portfolio companies.

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The net realized gains (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 Gain (Loss)	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 Adhesive 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)	258	651	(139)	770
Total:	\$ (1,075)	\$ (3,303)	\$ 2,156	\$ (2,222)

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. 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 of \$6.2 million.

Net Unrealized Depreciation of Other

During the three months ended June 30, 2015, we recorded \$0.7 million of net unrealized depreciation on our Credit Facility recorded at fair value whereas no such amounts were incurred in the current period.

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Table of Contents**Comparison of the Nine Months Ended June 30, 2016, to the Nine Months Ended June 30, 2015**

	For the Nine Months Ended June 30,			
	2016	2015	\$ Change	% Change
INVESTMENT INCOME				
Interest income, net	\$ 26,107	\$ 25,495	\$ 612	2.4%
Other income	3,255	2,389	866	36.2
Total investment income	29,362	27,884	1,478	5.3
EXPENSES				
Base management fee	4,258	5,257	(999)	(19.0)
Loan servicing fee	2,876	2,802	74	2.6
Incentive fee	3,369	2,866	503	17.6
Administration fee	900	784	116	14.8
Interest expense on borrowings	2,066	2,735	(669)	(24.5)
Dividend expense on mandatorily redeemable preferred stock	3,088	3,087	1	0.0
Amortization of deferred financing fees	802	857	(55)	(6.4)
Other expenses	2,031	1,792	239	13.3
Expenses, before credits from Adviser	19,390	20,180	(790)	(3.9)
Credits to base management fee loan servicing fee	(2,876)	(2,802)	(74)	2.6
Credits to fees from Adviser other	(1,736)	(1,714)	(22)	1.3
Total expenses, net of credits	14,778	15,664	(886)	(5.7)
NET INVESTMENT INCOME	14,584	12,220	2,364	19.3
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss) on investments	9,837	(14,024)	23,861	NM
Net realized loss on other	(64)	(491)	427	87.0
Net unrealized (depreciation) appreciation of investments	(33,747)	14,162	(47,909)	NM
Net unrealized depreciation of other	62	1,313	(1,251)	(95.3)
Net (loss) gain from investments and other	(23,912)	960	(24,872)	(2,591)
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ (9,328)	\$ 13,180	\$ (22,508)	(171)%

NM = Not Meaningful

Investment Income

Total investment income increased by 5.3% for the nine months ended June 30, 2016, as compared to the prior year period driven by increases in other income and interest income.

Interest income, net increased by 2.4% for the nine months ended June 30, 2016, as compared to the prior year period. The increase in interest income was primarily driven by a reserve recorded on certain interest receivables totaling \$0.9 million during the prior year period, which reduced interest income for the nine months ended June 30, 2015. There was no reserve recorded during the nine months ended June 30, 2016. The weighted average principal balance of our interest-bearing investment portfolio was relatively flat when comparing the current and prior year period at \$313.5 million during the nine months ended June 30, 2016, compared to \$315.8 million for the prior year period. The weighted average yield on our interest-bearing investment portfolio increased to 11.1% for the nine months ended June 30, 2016, compared to 10.8% for the nine months ended June 30, 2015, inclusive of any allowances on interest receivables made during those periods.

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Other income increased by 36.2% during the nine months ended June 30, 2016, as compared to the prior year period. For the nine months ended June 30, 2016, other income consisted primarily of \$2.8 million in success fees recognized, \$0.3 million in dividend income received, and \$0.2 million in prepayment fees received. For the nine months ended June 30, 2015, other income consisted primarily of \$1.7 million in success fees recognized and \$0.6 million in dividend income.

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, 2016		Nine Months Ended June 30, 2016	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
IA Tech, LLC ^(A)	\$ 30,000	9.7%	\$ 40	0.1%
RBC Acquisition Corp.	22,090	7.2	2,159	7.3
WadeCo Specialties, Inc.	19,630	6.4	1,563	5.3
United Flexible, Inc.	17,304	5.6	1,544	5.3
Lignetics, Inc.	15,499	5.0	1,279	4.4
Subtotal five largest investments	104,523	33.9	6,585	22.4
Other portfolio companies	203,703	66.1	22,777	77.6
Total Investment Portfolio	\$ 308,226	100.0%	\$ 29,362	100.0%

Company	As of June 30, 2015		Nine Months Ended June 30, 2015	
	Fair Value	% of Portfolio	Investment Income	% of Total Income
Funko, LLC ^(B)	\$ 31,221	9.0%	\$ 914	3.3%
RBC Acquisition Group	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
Subtotal five largest investments	118,853	34.2	6,875	24.7
Other portfolio companies	228,363	65.8	21,005	75.3
Other non-portfolio company revenue			4	
Total Investment Portfolio	\$ 347,216	100.0%	\$ 27,884	100.0%

^(A) New investment during the applicable period.

^(B) Investment exited subsequent to June 30, 2015.

Expenses

Expenses, net of any voluntary, irrevocable and non-contractual credits to fees from the Adviser, decreased for the nine months ended June 30, 2016, by 5.7%, as compared to the prior year period. This decrease was primarily due to a decrease in interest expense on borrowings and a decrease in net base management fee, partially offset by an increase in net incentive fee and an increase in other expenses.

Interest expense decreased by \$0.7 million, or 24.5%, during the nine months ended June 30, 2016, as compared to the prior year period, primarily due to decreased borrowings outstanding throughout the period on our Credit Facility. The weighted average balance outstanding under our Credit Facility during the nine months ended June 30, 2016, was approximately \$59.8 million, as compared to \$84.7 million in the prior year period, a decrease of 29.4%.

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Net base management fee earned by the Adviser decreased by \$0.7 million, or 15.5%, during the nine months ended June 30, 2016, as compared to the prior year period, resulting from a decrease in the average total assets outstanding. Our Board of Directors accepted unconditional, non-contractual and irrevocable voluntary credits totaling \$1.1 million from the Adviser to reduce the income-based incentive fee to the extent that net investment income did not cover 100.0% of the distributions to common stockholders during the nine months ended June 30, 2016. The credits granted during the nine months ended June 30, 2015 totaled \$0.8 million. Base management, loan servicing and incentive fees and associated unconditional, non-contractual, and irrevocable voluntary credits are computed quarterly, as described under *Investment Advisory and Management Agreement* in Note 4 *Related Party Transactions* of the notes accompanying our *Consolidated Financial Statements* included elsewhere in this prospectus supplement and are summarized in the following table:

	Nine Months Ended June 30,	
	2016	2015
Average total assets subject to base management fee ^(A)	\$ 324,419	\$ 350,450
Multiplied by prorated annual base management fee of 1.75-2.0%	1.3125%	1.5%
Base management fee^(B)	\$ 4,258	\$ 5,257
Portfolio company fee credit	(553)	(840)
Senior syndicated loan fee credit	(73)	(120)
Net Base Management Fee	\$ 3,632	\$ 4,297
Loan servicing fee^(B)	2,876	2,802
Credits to base management fee loan servicing fee ^(B)	(2,876)	(2,802)
Net Loan Servicing Fee	\$	\$
Incentive fee^(B)	3,369	2,866
Incentive fee credit	(1,110)	(754)
Net Incentive Fee	\$ 2,259	\$ 2,112
Portfolio company fee credit	(553)	(840)
Senior syndicated loan fee credit	(73)	(120)
Incentive fee credit	(1,110)	(754)
Credit to Fees From Adviser other^(B)	\$ (1,736)	\$ (1,714)

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

^(B)

Reflected, on a gross basis, as a line item on our *Consolidated Statements of Operations* included elsewhere in this prospectus supplement.

Net Realized and Unrealized Gain (Loss)

Net Realized Gain (Loss) on Investments

For the nine months ended June 30, 2016, we recorded a net realized gain on investments of \$9.8 million, which resulted primarily from a realized gain of \$16.9 million from the sale of Funko, partially offset by a realized loss of \$5.5 million recognized from the restructure of Targus and a realized loss of \$2.4 million from our sale of Heartland during the period.

For the nine months ended June 30, 2015, we recorded a net realized loss on investments of \$14.5 million, which primarily consisted of realized losses of \$15.8 million resulting from the sales of Midwest Metal and Sunburst Media-Louisiana, LLC (Sunburst) during the period. This was partially offset by a realized gain of \$1.6 million related to the early payoff of North American Aircraft Services, LLC (NAAS).

Table of Contents**Net Unrealized Appreciation (Depreciation) of Investments**

During the nine months ended June 30, 2016, we recorded net unrealized depreciation of investments of \$33.7 million. The net realized gain (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended June 30, 2016, were as follows:

Portfolio Company	Nine Months Ended June 30, 2016			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Legend Communications of Wyoming, LLC	\$	\$ 2,857	\$ 27	\$ 2,884
Behrens Manufacturing, LLC		2,008		2,008
Funko, LLC	16,887	66	(16,009)	944
Southern Petroleum Laboratories, Inc.		871		871
Westland Technologies, Inc.		622		622
J. America, Inc.		482		482
Triple H Food Processors		450		450
Mikaway		(282)		(282)
Ashland Acquisitions, LLC	72	183	(572)	(317)
United Flexible, Inc.		(329)		(329)
FedCap Partners, LLC		(381)		(381)
Vitera Healthcare Solutions, LLC		(475)		(475)
New Trident Holdcorp, Inc.		(561)		(561)
Lignetics, Inc.		(573)		(573)
AG Transportation Holdings, LLC		(584)		(584)
Vertellus Specialties Inc.		(882)		(882)
Vision Government Solutions, Inc.		(986)		(986)
WadeCo Specialties, Inc.		(1,082)		(1,082)
Precision Acquisition Group Holdings, Inc.		(1,282)		(1,282)
SourceHOV LLC		(1,722)		(1,722)
RBC Acquisition Corp.	1,207	(3,183)		(1,976)
Sunshine Media Holdings		(2,593)		(2,593)
LWO Acquisitions Company LLC		(3,474)		(3,474)
Targus Cayman HoldCo, Ltd.	(5,500)	(2,530)	4,198	(3,832)
Defiance Integrated Technologies, Inc.		(4,348)		(4,348)
Francis Drilling Fluids, Ltd.		(5,840)		(5,840)
Other, net (<\$250)	(2,829)	(727)	2,904	(652)
Total:	\$ 9,837	\$ (24,295)	\$ (9,452)	\$ (23,910)

The largest driver of our net unrealized depreciation for the nine months ended June 30, 2016 was derived from a decline in financial and operation performance of certain portfolio companies and, to a lesser extent, decreases in comparable multiples used in valuations, most notably Francis Drilling Fluids, Ltd. (FDF) of \$5.8 million and Defiance Integrated Technologies, Inc. (Defiance) of \$4.3 million. The change was also driven by the reversal of \$16.0 million of previously recorded unrealized appreciation on our investment in Funko upon exit. This depreciation

was partially offset by the unrealized appreciation resulting from an increase in performance on certain portfolio companies, most notably Behrens Manufacturing, LLC of \$2.9 million and the reversal of \$4.1 million of previously recorded unrealized depreciation on our investment in Targus upon restructure.

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The net realized gain (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)	220	(337)	(139)	(256)
Total:	\$ (14,515)	\$ (1,356)	\$ 15,518	\$ (353)

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 certain portfolio companies, most notably RBC of \$5.9 million, GFRC Holdings, LLC (GFRC) of \$5.3 million, Plato Learning, Inc. of \$3.6 million and Saunders & Associates (Saunders) of \$3.3 million. Partially offsetting this net unrealized depreciation for the nine months ended June 30, 2015, was the 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 Realized Loss on Other

During the nine months ended June 30, 2016, we recorded a net realized loss of \$0.1 million, due to the expiration of our interest rate cap agreement in January 2016. For the nine months ended June 30, 2015, we recorded a net realized loss on other of \$0.5 million resulting primarily from unearned escrows on the previous sale of Midwest Metal Distribution, Inc. (Midwest Metal) during the three months ended December 31, 2014.

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Table of Contents**Net Unrealized Depreciation of Other**

During the nine months ended June 30, 2016, we reversed \$0.1 million of unrealized depreciation related to the expiration of our interest rate cap agreement in January 2016. During the nine months ended June 30, 2015, we recorded \$1.3 million of net unrealized depreciation on our Credit Facility recorded at fair value whereas no such amounts were incurred in the current period.

Comparison of the Year Ended September 30, 2015 to the Year Ended September 30, 2014

	For the Year Ended September 30,			
			\$	
	2015	2014	Change	% Change
INVESTMENT INCOME				
Interest income	\$ 34,895	\$ 32,170	\$ 2,725	8.5%
Other income	3,163	4,415	(1,252)	(28.4)
Total investment income	38,058	36,585	1,473	4.0
EXPENSES				
Base management fee	6,888	5,864	1,024	17.5
Loan servicing fee	3,816	3,503	313	8.9
Incentive fee	4,083	4,297	(214)	(5.0)
Administration fee	1,033	853	180	21.1
Interest expense on borrowings	3,828	2,628	1,200	45.7
Dividend expense on mandatorily redeemable preferred stock	4,116	3,338	778	23.3
Amortization of deferred financing fees	1,106	1,247	(141)	(11.3)
Other expenses	2,188	2,084	104	5.0
Expenses, before credits from Adviser	27,058	23,814	3,244	13.6
Credit to base management fee loan servicing fee	(3,816)	(3,503)	(313)	(8.9)
Credit to fees from Adviser other	(2,884)	(2,094)	(790)	(37.7)
Total expenses, net of credits	20,358	18,217	2,141	11.8
NET INVESTMENT INCOME	17,700	18,368	(668)	(3.6)
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized loss on investments and escrows	(34,176)	(12,113)	(22,063)	(182.1)
Net realized loss on extinguishment of debt		(1,297)	1,297	NM
Net unrealized appreciation of investments	23,647	7,389	16,258	220.0
Net unrealized depreciation (appreciation) of other	1,313	(1,114)	2,427	217.9
Net loss from investments, escrows and other	(9,216)	(7,135)	(2,081)	(29.2)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 8,484	\$ 11,233	\$ (2,749)	(24.5)%

PER BASIC AND DILUTED COMMON SHARE

Net investment income	\$	0.84	\$	0.87	\$	(0.03)	(25.2)%
Net increase in net assets resulting from operations	\$	0.40	\$	0.53	\$	(0.13)	(3.4)%

NM = Not Meaningful

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Table of Contents***Investment Income***

Total interest income increased by 8.5% for the year ended September 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. The level of interest income on our investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the year, multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2015, was \$319.1 million, compared to \$280.4 million for the prior year, an increase of \$38.7 million, or 13.8%. The weighted average yield on our interest-bearing investments is based on the current stated interest rate on interest-bearing investments for the year ended

September 30, 2015 was 10.9% compared to 11.5% for the year ended September 30, 2014, inclusive of any allowances on interest receivables made during those periods.

As of September 30, 2015, two portfolio companies were on non-accrual status, with an aggregate debt cost basis of approximately \$26.4 million, or 7.1% of the cost basis of all debt investments in our portfolio. During the quarter ended December 31, 2014, we sold our investment in Midwest Metal, which had been on non-accrual status. Effective January 1, 2015, we placed GFRC on non-accrual status and restored two tranches of Sunshine Media Holdings (Sunshine) debt to accrual status and effective April 1, 2015, we placed Saunders on non-accrual status. During the quarter ended September 30, 2015, we sold our investment in Saunders which was on non-accrual and restructured our investment in GFRC and restored it to accrual status. 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. Effective January 1, 2014, we placed Heartland on non-accrual status and effective June 1, 2014 we placed Midwest Metal on non-accrual status. During the quarter ended December 31, 2013, we sold our investment in LocalTel, LLC (LocalTel), which had been on non-accrual status. See *Overview Business Portfolio and Investment Activity* for more information.

For the year ended September 30, 2015, other income consisted primarily of \$0.6 million in success fees related to the early payoff of NAAS at a realized gain, \$0.8 million in success fees prepaid by Defiance, \$0.5 million in dividend income received from Funko, \$0.3 million in success fees prepaid by FDF, \$0.3 million in dividend income and prepaid success fees from Southern Petroleum Laboratories, Inc. (SPL), \$0.3 million in settlement fees received from Sunburst, \$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 Acquisition, LLC (Lindmark) in September 2013. For the year ended September 30, 2014, other income consisted primarily of \$0.7 million in dividend income received from FedCap Partners, LLC (FedCap), \$0.5 million in success fees received related to the early payoff of Thibaut Acquisition Co. (Thibaut) at par, \$0.4 million in legal settlement proceeds received related to a portfolio company previously sold, \$0.8 million in aggregate of prepaid success fees, dividend income and other fees received from FDF, \$0.1 million in prepayment fees received from Pop Radio, LLC (POP), an aggregate of \$0.3 million in prepayment fees from the early payoff of five syndicate investments at par and \$1.4 million in success fees received related to our sale of substantially all of the assets of Lindmark in 2013.

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

Portfolio Company	As of September 30, 2015		Year Ended September 30, 2015	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Funko, LLC	\$ 26,814	7.3%	\$ 1,385	3.6%
WadeCo Specialties, Inc.	21,920	6.0	1,896	5.0
RBC Acquisition Corp.	20,617	5.6	2,343	6.2
United Flexible, Inc. ^(A)	20,355	5.6	1,226	3.2
Francis Drilling Fluids, Ltd.	19,928	5.5	2,946	7.7
Subtotal five largest investments	109,634	30.0	9,796	25.7
Other portfolio companies	256,257	70.0	28,257	74.3
Other non-portfolio company income			5	
Total Investment Portfolio	\$ 365,891	100.0%	\$ 38,058	100.0%

Portfolio Company	As of September 30, 2014		Year Ended September 30, 2014	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
RBC Acquisition Corp.	\$ 28,283	10.1%	\$ 2,879	7.9%
Francis Drilling Fluids, Ltd.	22,837	8.1	2,847	7.8
J. America, Inc. ^(A)	16,648	5.9	1,444	4.0
Funko, LLC	13,508	4.8	1,100	3.0
Defiance Integrated Technologies, Inc.	13,006	4.6	743	2.0
Subtotal five largest investments	94,282	33.5	9,013	24.7
Other portfolio companies	187,004	66.5	27,557	75.3
Other non-portfolio company income			15	
Total Investment Portfolio	\$ 281,286	100.0%	\$ 36,585	100.0%

^(A) - New investment during applicable period.

Expenses

Expenses, net of credits from the Adviser, increased for the year ended September 30, 2015, by 11.8% as compared to the prior year. This increase was primarily due to increases in our net base management fees to the Advisor, interest expense on borrowings, and dividend expense on our mandatorily redeemable preferred stock, partially offset by a decrease in the net incentive fee to the Adviser.

Interest expense increased by \$1.2 million, or 45.7%, during the year ended September 30, 2015, as compared to the prior year, primarily due to increased borrowings outstanding throughout the period on our Credit Facility. The weighted average balance outstanding on our Credit Facility during the year ended September 30, 2015, was approximately \$92.5 million, as compared to \$41.9 million in the prior year period, an increase of 120.9%. This was partially offset by lower average borrowing rates on our Credit Facility. The weighted average borrowing rate during the year ended September 30, 2015, was approximately 4.1% compared to 6.3% in the prior year period, a decrease of 34.9%.

The increase of \$0.8 million, or 23.3%, in dividend expense on our mandatorily redeemable preferred stock during the year ended September 30, 2015, as compared to the prior year, was primarily due to the higher monthly distribution amount on our Series 2021 Term Preferred Stock, which was issued in May 2014, and

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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 \$0.4 million in the net base management fee earned by the Adviser during the year ended September 30, 2015, as compared to the prior year, 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. This was partially offset by a decrease in the annual base management fee from 2.0% to 1.75% effective July 1, 2015. The base management, loan servicing and incentive fees and associated unconditional, non-contractual, and irrevocable voluntary credits are computed quarterly, as described under *Investment Advisory and Management Agreement* and *Loan Servicing Fee Pursuant to Credit Agreement* in Note 4 of the notes to our *Condensed Consolidated Financial Statements* in the accompanying prospectus and are summarized in the following table:

	Year Ended September 30,	
	2015	2014
Average total assets subject to base management fee ^(A)	\$ 355,510	\$ 293,200
Multiplied by annual base management fee of 1.75% 2.0%	1.75% - 2.0%	2.0%
Base management fee^(B)	6,888	5,864
Portfolio fee credit	(1,399)	(797)
Senior syndicated loan fee credit	(118)	(117)
Net Base Management Fee	\$ 5,371	\$ 4,950
Loan servicing fee^(B)	\$ 3,816	\$ 3,503
Credit to base management fee loan servicing fee ^(B)	(3,816)	(3,503)
Net Loan Servicing Fee	\$	\$
Incentive fee^(B)	\$ 4,083	\$ 4,297
Incentive fee credit	(1,367)	(1,180)
Net Incentive Fee	\$ 2,716	\$ 3,117
Portfolio fee credit	\$ (1,399)	\$ (797)
Senior syndicated loan fee credit	(118)	(117)
Incentive fee credit	(1,367)	(1,180)
Credit to Fees from Adviser Other^(B)	\$ (2,884)	\$ (2,094)

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

(B) Reflected, on a gross basis, as a line item on our Consolidated Statement of Operations contained in the accompanying prospectus.

Realized Loss and Unrealized Appreciation

Net Realized Loss on Investments and Escrows

For the year ended September 30, 2015, we recorded a net realized loss on investments and escrows of \$34.2 million, which resulted primarily from the sales of Midwest Metal, Sunburst, Saunders and the restructure of GFRC for a combined realized loss of \$34.1 million and net proceeds of \$7.1 million. This realized loss was partially offset by the realized gain of \$1.6 million we recognized on the early payoff of NAAS.

For the year ended September 30, 2014, we recorded a net realized loss on investments and escrows of \$12.1 million, which primarily consisted of realized losses of \$10.8 million due to our sale of LocalTel for proceeds

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contingent on an earn-out and \$2.8 million due to our sale of BAS Broadcasting (BAS) for net proceeds of \$4.7 million. Partially offsetting these realized losses, was the realized gain of \$1.0 million we recognized on the exit of WP Evenflo Group Holdings, Inc. (WP Evenflo).

Net Unrealized Appreciation of Investments

Net unrealized appreciation (depreciation) of investments is the net change in the fair value of our investment portfolio during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are actually realized. During the year ended September 30, 2015, we recorded net unrealized appreciation of investments in the aggregate amount of \$23.6 million, which included the reversal of an aggregate of \$34.6 million in cumulative unrealized depreciation primarily related to the sales of Midwest Metal, Sunburst, Saunders and restructure of GFRC during the fiscal year. Excluding reversals, we recorded \$11.0 million in net unrealized depreciation for the year ended September 30, 2015. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the year ended September 30, 2015, consisted of approximately \$15.2 million of depreciation on our debt investments and approximately \$4.2 million of appreciation on our equity investments.

The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2015, were as follows:

Portfolio Company	Year Ended September 30, 2015			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Funko, LLC	\$	\$ 11,451	\$	\$ 11,451
Sunburst Media Louisiana, LLC	(1,333)	2,130	2,295	3,092
Precision Acquisition Group Holdings, Inc.		2,831		2,831
Sunshine Media Holdings		1,861		1,861
Heartland Communications Group		1,123		1,123
Behrens Manufacturing, LLC		1,102		1,102
Ameriquel Group, LLC		1,063		1,063
Westland Technologies, Inc.		899		899
Midwest Metal Distribution, Inc.	(14,980)		15,578	598
Ashland Acquisitions, LLC		571		571
AG Transportation Holdings, LLC		516		516
New Trident Holdcorp, Inc.		(282)		(282)
Vertellus Specialties Inc.		(315)		(315)
LWO Acquisitions		(390)		(390)
SourceHOV LLC		(473)		(473)
FedCap Partners, LLC		(507)		(507)
North American Aircraft Services, LLC	1,578		(2,216)	(638)
WadeCo. Specialties, Inc.		(818)		(818)
Alloy Die Casting		(1,251)		(1,251)
Targus Group International, Inc.		(1,254)		(1,254)
Meridian Rack & Pinion, Inc.		(1,647)		(1,647)
B+T Group Acquisition Inc.		(1,934)		(1,934)

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Francis Drilling Fluids, Ltd.		(2,575)		(2,575)
PLATO Learning, Inc.		(2,663)		(2,663)
Edge Adhesives Holdings, Inc.		(3,196)	6	(3,190)
Saunders & Associates	(8,884)	(3,255)	8,680	(3,459)
GFRC Holdings, LLC	(10,797)	(5,308)	10,483	(5,622)
RBC Acquisition Corp.		(7,647)		(7,647)
Other, net (<\$250)	240	(985)	(226)	(971)
Total:	\$ (34,176)	\$ (10,953)	\$ 34,600	\$ (10,529)

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The largest driver of our net unrealized depreciation (excluding reversals) for the year ended September 30, 2015, were the decreases in comparable multiples used in valuations and a decline in the financial and operational performance of GFRC and RBC, resulting in \$5.6 million and \$7.6 million, respectively, of net unrealized depreciation during the year. Partially offsetting this net unrealized depreciation for the year ended September 30, 2015, was the net unrealized appreciation on Funko of \$11.5 million due to increases in comparable multiples used in valuations and incremental improvements in the financial and operational performance of these portfolio companies.

During the year ended September 30, 2014, we recorded net unrealized appreciation of investments in the aggregate amount of \$7.4 million, which included the reversal of an aggregate of \$18.0 million in cumulative unrealized depreciation primarily related to the repayment of principal in full at par on International Junior Golf Training Acquisition Company (Junior) and the sales of BAS and LocalTel during the fiscal year. Excluding reversals, we recorded \$10.6 million in net unrealized depreciation for the year ended September 30, 2014. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the year ended September 30, 2014, consisted of approximately \$16.3 million of depreciation on our debt investments and approximately \$5.7 million of appreciation on our equity investments.

The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2014, were as follows:

Portfolio Company	Year Ended September 30, 2014			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Defiance Integrated Technologies, Inc.	\$	\$ 4,594	\$	\$ 4,594
BAS Broadcasting	(2,765)	187	6,905	4,327
Funko, LLC		4,162		4,162
Legend Communications of Wyoming, LLC		2,729		2,729
International Junior Golf Training Acquisition Company		(6)	2,261	2,255
Sunshine Media Holdings		1,955		1,955
North American Aircraft Services, LLC		1,755		1,755
Francis Drilling Fluids, Ltd.		1,186		1,186
WP Evenflo Group Holdings, Inc.	988	1,105	(1,002)	1,091
Sunburst Media Louisiana, LLC		974		974
Edge Adhesives Holdings, Inc.		579		579
Westland Technologies, Inc.		405		405
J. America, Inc.		(352)		(352)
LocalTel, LLC	(10,768)		10,218	(550)
Alloy Die Casting Co.		(643)		(643)
Lindmark Acquisition, LLC		(827)		(827)
FedCap Partners, LLC		(827)		(827)
Ameriquel Group, LLC		(838)		(838)
Saunders and Associates		(3,945)		(3,945)
Precision Acquisition Group Holdings, Inc.		(4,601)		(4,601)
RBC Acquisition Corp.		(5,330)		(5,330)

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Midwest Metal Distribution, Inc.		(12,892)		(12,892)
Other, net (<\$250)	432	43	(406)	69
Total:	\$ (12,113)	\$ (10,587)	\$ 17,976	\$ (4,724)

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The largest driver of our net unrealized depreciation (excluding reversals) for the year ended September 30, 2014, was the decreases in comparable multiples used in valuations and a decline in the financial and operational performance of Midwest Metal and RBC resulting in \$12.9 million and \$5.3 million, respectively, of net unrealized depreciation during the year. Partially offsetting this net unrealized depreciation for the year ended September 30, 2014, was the net unrealized appreciation on Defiance of \$4.6 million and on Funko of \$4.2 million due to increases in comparable multiples used in valuations and incremental improvements in the financial and operational performance of these portfolio companies.

As of September 30, 2015, the fair value of our investment portfolio was less than its cost basis by approximately \$44.4 million and our entire investment portfolio was valued at 89.2% of cost, as compared to cumulative net unrealized depreciation of \$68.0 million and a valuation of our entire portfolio at 80.5% of cost as of September 30, 2014. This decrease year over year in the cumulative unrealized depreciation on investments represents net unrealized appreciation of \$23.6 million for the year ended September 30, 2015. Of our current investment portfolio, 10 portfolio companies originated before December 31, 2008, which represented 25.8% of the entire cost basis of our portfolio, were valued at 60.0% of cost and included our two investments on non-accrual status. Our 38 portfolio companies that originated after December 31, 2008, representing 74.2% of the entire cost basis of our portfolio, were valued at 99.3% of cost and none of which were on non-accrual status.

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

Net Unrealized (Appreciation) Depreciation of Other

Net unrealized (appreciation) depreciation of other includes the net change in the fair value of our Credit Facility and our interest rate swap during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. During the year ended September 30, 2015, we recorded a net unrealized depreciation of other of \$1.3 million, compared to a net unrealized appreciation of \$1.1 million for the year ended September 30, 2014. Our Credit Facility was fair valued at \$127.3 million and \$38.0 million as of September 30, 2015 and 2014, respectively. The interest rate swap was fair valued at \$0 as of September 30, 2015 and 2014.

Comparison of the Year Ended September 30, 2014 to the Year Ended September 30, 2013

	For the Year Ended September 30,			
	2014	2013	\$ Change	% Change
INVESTMENT INCOME				
Interest income	\$ 32,170	\$ 33,533	\$ (1,363)	(4.1)%
Other income	4,415	2,621	1,794	68.4
Total investment income	36,585	36,154	431	1.2
EXPENSES				
Base management fee	5,864	5,622	242	4.3
Loan servicing fee	3,503	3,656	(153)	(4.2)

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Incentive fee	4,297	4,343	(46)	(1.1)
Administration fee	853	647	206	31.8
Interest expense on borrowings	2,628	3,182	(554)	(17.4)
Dividend expense on mandatorily redeemable preferred stock	3,338	2,744	594	21.6
Amortization of deferred financing fees	1,247	1,211	36	3.0
Other expenses	2,084	1,540	544	35.3
Expenses, before credits from Adviser	23,814	22,945	869	3.8

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	For the Year Ended September 30,			
	2014	2013	\$ Change	% Change
Credit to base management fee loan servicing fee	(3,503)	(3,656)	153	4.2
Credit to fees from Adviser other	(2,094)	(1,521)	(573)	(37.7)
Total expenses, net of credits	18,217	17,768	449	2.5
NET INVESTMENT INCOME	18,368	18,386	(18)	(0.1)
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized loss on investments and escrows	(12,113)	(5,231)	(6,882)	(131.6)
Net realized loss on extinguishment of debt	(1,297)		(1,297)	(100.0)
Net unrealized appreciation of investments	7,389	15,673	(8,284)	(52.9)
Net unrealized (appreciation) depreciation of other	(1,114)	3,391	(4,505)	NM
Net (loss) gain from investments, escrows and other	(7,135)	13,833	(20,968)	NM
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 11,233	\$ 32,219	\$ (20,986)	(65.1)%
PER BASIC AND DILUTED COMMON SHARE				
Net investment income	\$ 0.87	\$ 0.88	\$ (0.01)	(1.1)%
Net increase in net assets resulting from operations	\$ 0.53	\$ 1.53	\$ (1.00)	(65.4)%

NM = Not Meaningful

Investment Income

Total interest income decreased by 4.1% for the year ended September 30, 2014, as compared to the prior year period. This decrease was due primarily to the increase in early payoffs at par during the year, resulting in a lower weighted average principal balance of interest-bearing investments compared to the prior year, offset by new investments funding later in the current year. The level of interest income on our investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the year, multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2014, was \$280.4 million, compared to \$287.3 million for the prior year, a decrease of \$6.9 million, or 2.4%. The weighted average yield on our interest-bearing investments is based on the current stated interest rate on interest-bearing investments and remained consistent year over year at 11.5% for the year ended September 30, 2014 and 11.6% for the year ended September 30, 2013.

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. As of September 30, 2013, two portfolio companies were on non-accrual status, with an aggregate debt cost basis of approximately \$39.5 million, or 12.6%, of the cost basis of all debt investments in our portfolio. Effective January 1, 2014, we placed Heartland on non-accrual status and effective June 1, 2014 we placed Midwest Metal on non-accrual status. During the year ended September 30, 2014, we sold our investment in LocalTel that had been on non-accrual status. During the year ended September 30, 2013, we sold our investments in three portfolio companies that had been on

non-accrual status and wrote off our investment in one portfolio company that had been on non-accrual status. There were no other new non-accruals added and no non-accruals were placed on accrual during the years ended September 30, 2014 and 2013.

Other income for the year ended September 30, 2014, 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, \$0.8 million in aggregate of prepaid success fees, dividend income and other fees received from FDF, \$0.1 million in

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prepayment fees received from POP, an aggregate of \$0.3 million in prepayment fees from the early payoff of five syndicate investments at par and \$1.4 million in success fees received related to our sale of substantially all of the assets of Lindmark and the ensuing pay down of our debt investments in Lindmark at par in September 2013. For the year ended September 30, 2013, other income consisted primarily of \$1.1 million in success fees received related to the early payoff of Westlake Hardware, Inc. (Westlake) at par, \$0.6 million in success fees related to the early payoff of CMI Acquisition, LLC (CMI) at par and an aggregate of \$0.9 million in prepayment fees from the early payoffs of eight of our syndicate investments at par during the prior year.

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

Portfolio Company	As of September 30, 2014		Year Ended September 30, 2014	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
RBC Acquisition Corp.	\$ 28,283	10.1%	\$ 2,879	7.9%
Francis Drilling Fluids, Ltd.	22,837	8.1	2,847	7.8
J. America, Inc. ^(A)	16,648	5.9	1,444	4.0
Funko, LLC	13,508	4.8	1,100	3.0
Defiance Integrated Technologies, Inc.	13,006	4.6	743	2.0
Subtotal five largest investments	94,282	33.5	9,013	24.7
Other portfolio companies	187,004	66.5	27,557	75.3
Other non-portfolio company income			15	
Total Investment Portfolio	\$ 281,286	100.0%	\$ 36,585	100.0%

Portfolio Company	As of September 30, 2013		Year Ended September 30, 2013	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
RBC Acquisition Corp.	\$ 30,991	12.1%	\$ 2,416	6.7%
Allen Edmonds Shoe Corporation ^(A)	19,604	7.6	1,717	4.8
Midwest Metal Distribution, Inc.	17,733	6.9	2,240	6.2
Francis Drilling Fluids, Ltd.	14,667	5.7	1,977	5.4
AG Transportation Holdings, LLC ^(A)	12,984	5.1	1,407	3.9
Subtotal five largest investments	95,979	37.4	9,757	27.0
Other portfolio companies	160,899	62.6	26,265	72.6
Other non-portfolio company income			132	0.4

Total Investment Portfolio	\$ 256,878	100.0%	\$ 36,154	100.0%
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(A) New investment during applicable year.

Expenses

Expenses, net of credits from the Adviser, increased for the year ended September 30, 2014, by 2.5% as compared to the prior year. This increase was primarily due to increases in dividend expense on our mandatorily redeemable preferred stock and other expenses, which were partially offset by decreases in the net base management and incentive fees and interest expense on our Credit Facility.

The increase of \$0.6 million in dividend expense on our mandatorily redeemable preferred stock during the year ended September 30, 2014, as compared to the prior year, was primarily due to the higher monthly distribution amount on our Series 2021 Term Preferred Stock, which was issued in May 2014 and voluntary redemption of

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our Series 2016 Term Preferred Stock, which was issued in November 2011 and redeemed in May 2014, (resulting in more shares of our Series 2021 Term Preferred Stock being issued and outstanding, partially offset by a lower rate on the new issuance). Refer to *Liquidity and Capital Resources Equity Term Preferred Stock* for further discussion of our mandatorily redeemable preferred stock.

The increase of \$0.5 million in other expenses during the year ended September 30, 2014, as compared to the prior year, was primarily due to the receipt of certain previously reserved for reimbursable deal expenses in the prior year. Additionally, there were increased due diligence expenses related to certain prospective portfolio companies during the year ended September 30, 2014, when compared to the prior year.

Partially offsetting these increases in expenses were decreases in the net base management and incentive fees of \$0.2 million each when compared to the prior year, which were due primarily to the larger credits of each of these fees during the year ended September 30, 2014. During both fiscal years ended September 30, 2014 and 2013, there were incentive fees earned during the year; however, partial incentive fee credits were provided by the Adviser to ensure distributions to stockholders were covered entirely by net investment income.

The base management fee, loan servicing fee, incentive fee and associated irrevocable, unconditional and non-contractual credits are computed quarterly, as described under *Investment Advisory and Management Agreement* and *Loan Servicing Fee Pursuant to the Credit Agreement* in Note 4 of the notes to our *Consolidated Financial Statements* in the accompanying prospectus and are summarized in the table below:

	Year Ended September 30,	
	2014	2013
Average total assets subject to base management fee ^(A)	\$ 293,200	\$ 281,100
Multiplied by annual base management fee of 2.0%	2.0%	2.0%
Base management fee^(B)	5,864	5,622
Portfolio fee credit	(797)	(324)
Senior syndicated loan fee credit	(117)	(183)
Net Base Management Fee	\$ 4,950	\$ 5,115
Loan servicing fee^(B)	\$ 3,503	\$ 3,656
Credit to base management fee loan servicing fee ^(B)	(3,503)	(3,656)
Net Loan Servicing Fee	\$	\$
Incentive fee^(B)	\$ 4,297	\$ 4,343
Incentive fee credit	(1,180)	(1,014)
Net Incentive Fee	\$ 3,117	\$ 3,329
Portfolio fee credit	\$ (797)	\$ (324)
Senior syndicated loan fee credit	(117)	(183)
Incentive fee credit	(1,180)	(1,014)

Credit to Fees from Adviser Other^(B)	\$ (2,094)	\$ (1,521)
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- (A) Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the four most recently completed quarters within the respective years and appropriately adjusted for any share issuances or repurchases during the applicable year.
- (B) Reflected, on a gross basis, as a line item on our *Consolidated Statement of Operations* located in the accompanying prospectus.

Interest expense on our Credit Facility decreased by \$0.6 million for the year ended September 30, 2014, as compared to the prior year, due primarily to decreased borrowings under our Credit Facility, resulting primarily from the repayments made from proceeds on the Series 2021 Term Preferred Stock offering in May 2014. The

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weighted average balance outstanding on our Credit Facility decreased year over year from \$53.2 million as of September 30, 2013 to \$41.9 million as of September 30, 2014, a decrease of 21.2%. Additionally, the decrease in interest expense for the year ended September 30, 2014, as compared to the prior year, was due to the January 2013 amendment of our Credit Facility to remove the LIBOR minimum of 1.5% on advances.

Realized Loss and Unrealized Appreciation

Net Realized Loss on Investments and Escrows

For the year ended September 30, 2014, we recorded a net realized loss on investments and escrows of \$12.1 million, which primarily consisted 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 for net proceeds of \$4.7 million. Partially offsetting these realized losses, was the realized gain of \$1.0 million we recognized on the exit of WP Evenflo.

For the year ended September 30, 2013, we recorded a net realized loss on investments and escrows of \$5.2 million, which primarily consisted of realized losses of \$2.9 million related to the sale of Kansas Cable Holdings, Inc. (KCH) for net proceeds of \$0.6 million, \$2.4 million related to the sale of Viapack, Inc. (Viapack) for net proceeds of \$5.9 million and \$0.9 million related to the write off of Access TV. These realized losses were partially offset by realized gains of \$1.0 million, which consisted of a combined \$0.5 million of escrowed proceeds and tax refunds received in connection with exits on two investments in fiscal year 2012 and an aggregate of \$0.5 million of unamortized discounts related to the early payoffs at par of 12 syndicated investments during the year.

Realized Loss on Extinguishment of Debt

Realized loss on extinguishment of debt of \$1.3 million for the year ended September 30, 2014, is comprised primarily of our unamortized deferred financing costs at the time of the voluntary redemption of our then existing Series 2016 Term Preferred Stock in May 2014.

Net Unrealized Appreciation of Investments

Net unrealized appreciation (depreciation) of investments is the net change in the fair value of our investment portfolio during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are actually realized. During the year ended September 30, 2014, we recorded net unrealized appreciation of investments in the aggregate amount of \$7.4 million, which included the reversal of an aggregate of \$18.0 million in cumulative unrealized depreciation primarily related to the repayment of principal in full at par on Junior Golf and the sales of BAS and LocalTel during the fiscal year. Excluding reversals, we recorded \$10.6 million in net unrealized depreciation for the year ended September 30, 2014. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the year ended September 30, 2014, consisted of approximately \$16.3 million of depreciation on our debt investments and approximately \$5.7 million of appreciation on our equity investments.

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The net realized (loss) gain and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2014, were as follows:

Portfolio Company	Year Ended September 30, 2014			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Defiance Integrated Technologies, Inc.	\$	\$ 4,594	\$	\$ 4,594
BAS Broadcasting	(2,765)	187	6,905	4,327
Funko, LLC		4,162		4,162
Legend Communications of Wyoming, LLC		2,729		2,729
International Junior Golf Training Acquisition Company		(6)	2,261	2,255
Sunshine Media Holdings		1,955		1,955
North American Aircraft Services, LLC		1,755		1,755
Francis Drilling Fluids, Ltd.		1,186		1,186
WP Evenflo Group Holdings, Inc.	988	1,105	(1,002)	1,091
Sunburst Media Louisiana, LLC		974		974
Edge Adhesives Holdings, Inc.		579		579
Westland Technologies, Inc.		405		405
J. America, Inc.		(352)		(352)
LocalTel, LLC	(10,768)		10,218	(550)
Alloy Die Casting Co.		(643)		(643)
Lindmark Acquisition, LLC		(827)		(827)
FedCap Partners, LLC		(827)		(827)
Ameriquel Group, LLC		(838)		(838)
Saunders and Associates		(3,945)		(3,945)
Precision Acquisition Group Holdings, Inc.		(4,601)		(4,601)
RBC Acquisition Corp.		(5,330)		(5,330)
Midwest Metal Distribution, Inc.		(12,892)		(12,892)
Other, net (<\$250)	432	43	(406)	69
Total:	\$ (12,113)	\$ (10,587)	\$ 17,976	\$ (4,724)

The largest driver of our net unrealized depreciation (excluding reversals) for the year ended September 30, 2014, was the decreases in comparable multiples used in valuations and a decline in the financial and operational performance of Midwest Metal and RBC resulting in \$12.9 million and \$5.3 million, respectively, of net unrealized depreciation during the year. Partially offsetting this net unrealized depreciation for the year ended September 30, 2014, was the net unrealized appreciation on Defiance of \$4.6 million and on Funko of \$4.2 million due to increases in comparable multiples used in valuations and incremental improvements in the financial and operational performance of these portfolio companies.

During the year ended September 30, 2013, we recorded net unrealized appreciation of investments in the aggregate amount of \$15.7 million, which included the reversal of an aggregate of \$26.0 million in unrealized depreciation primarily related to the repayment of principal in full at par on Lindmark, the sales of Viapack and KCH, and the write

off of Access TV. Excluding reversals, we recorded \$10.4 million in net unrealized depreciation for the year ended September 30, 2013. Over our entire portfolio, the net unrealized depreciation (excluding reversals) for the year ended September 30, 2013, consisted of approximately \$5.3 million of depreciation on our debt investments and approximately \$5.1 million of depreciation on our equity investments.

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The net realized (loss) gain and unrealized (depreciation) appreciation across our investments for the year ended September 30, 2013, were as follows:

Portfolio Company	Year Ended September 30, 2013			
	Realized (Loss) Gain	Unrealized (Depreciation) Appreciation	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Lindmark Acquisition, LLC	\$	\$ (224)	\$ 14,006	\$ 13,782
Viapack, Inc.	(2,407)		6,660	4,253
RBC Acquisition Corp.		2,159		2,159
Sunshine Media Holdings		1,632		1,632
Westlake Hardware, Inc.			640	640
GFRC Holdings, LLC		572		572
North American Aircraft Services LLC		505	8	513
CMI Acquisition, LLC		(927)	1,426	499
Kansas Cable Holdings, Inc.	(2,906)	401	2,922	417
Funko, LLC		396		396
FedCap Partners, LLC		384		384
Allison Publications, LLC		265		265
Access Television Network, Inc.	(872)		903	31
Saunders & Associates		(296)		(296)
WP Evenflo Group Holdings, Inc.		(443)	3	(440)
Francis Drilling Fluids, Ltd.		(718)		(718)
Westland Technologies, Inc.		(825)		(825)
Targus Group International, Inc.		(881)		(881)
Heartland Communications Group		(951)		(951)
AG Transportation Holdings, LLC		(1,078)		(1,078)
Precision Acquisition Group Holdings, Inc.		(1,193)		(1,193)
LocalTel, LLC		(1,209)		(1,209)
BAS Broadcasting		(1,493)		(1,493)
Legend Communications of Wyoming, LLC		(1,557)		(1,557)
Sunburst Media Louisiana, LLC		(1,650)		(1,650)
Midwest Metal Distribution, Inc.		(2,101)		(2,101)
Defiance Integrated Technologies, Inc.		(2,246)		(2,246)
Other, net (<\$250)	954	1,123	(540)	1,537
Total:	\$ (5,231)	\$ (10,355)	\$ 26,028	\$ 10,442

The largest driver of our net unrealized depreciation (excluding reversals) for the year ended September 30, 2013, was due to a decline in financial and operational performance of Defiance and Midwest Metal resulting in \$2.2 million and \$2.1 million, respectively, of net unrealized depreciation during the year. Partially offsetting this net unrealized depreciation was the net unrealized appreciation on RBC of \$2.2 million during the year ended September 30, 2013, due to an incremental improvement in the financial and operational performance of this portfolio company.

As of September 30, 2014, the fair value of our investment portfolio was less than its cost basis by approximately \$68.0 million and our entire investment portfolio was valued at 80.5% of cost, as compared to cumulative net unrealized depreciation of \$75.4 million and a valuation of our entire portfolio at 77.3% of cost as of September 30, 2013. This decrease year over year in the cumulative unrealized depreciation on investments represents net unrealized appreciation of \$10.1 million for the year ended September 30, 2014. Of our current investment portfolio, 11 portfolio companies originated before December 31, 2007, which represented 39.0% of the entire cost basis of our portfolio, were valued at 54.0% of cost and included our three investments on non-accrual status. Our 34 portfolio companies that originated after December 31, 2007, representing 61.0% of the entire cost basis of our portfolio, were valued at 97.5% of cost and none of which were on non-accrual status.

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Net unrealized (appreciation) depreciation of other includes the net change in the fair value of our Credit Facility and our interest rate swap during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. During the year ended September 30, 2014, we recorded a net unrealized appreciation of other of \$1.1 million, compared to a net unrealized depreciation of \$3.4 million for the year ended September 30, 2013. Our Credit Facility was fair valued at \$38.0 million and \$47.1 million as of September 30, 2014 and 2013, respectively. The interest rate swap was fair valued at \$0 and \$4 as of September 30, 2014 and 2013, 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 provided by operating activities during the nine months ended June 30, 2016, was \$51.9 million, as compared to net cash used in operating activities of \$52.3 million for the nine months ended June 30, 2015. This change was primarily due to increased investment repayments from sales and payoffs and a decrease in purchases of new investments. Repayments and proceeds from sales of investments totaled \$98.4 million during the nine months ended June 30, 2016 compared to \$28.6 million during the nine months ended June 30, 2015. Purchases of investments were \$59.9 million during the nine months ended June 30, 2016 compared to \$93.8 million during the nine months ended June 30, 2015.

As of June 30, 2016, we had loans to, syndicated participations in, or equity investments in 43 private companies with an aggregate cost basis of approximately \$386.3 million. As of June 30, 2015, we had loans to, syndicated participations in and/or equity investments in 46 private companies with an aggregate cost basis of approximately \$401.1 million.

The following table summarizes our total portfolio investment activity during the nine months ended June 30, 2016 and 2015, at fair value:

	Nine Months Ended June 30,	
	2016	2015
Beginning investment portfolio, at fair value	\$ 365,891	\$ 281,286
New investments	54,300	65,348
Disbursements to existing portfolio companies	5,562	28,417
Scheduled principal repayments	(1,169)	(776)
Unscheduled principal repayments	(77,427)	(9,284)
Net proceeds from sales	(19,829)	(18,541)
Net unrealized (depreciation) appreciation	(24,295)	(1,356)
Reversal of prior period (appreciation) depreciation	(9,452)	15,518
Net realized gain (loss)	9,837	(14,024)

Increase in investments due to PIK (A) or other	4,311	463
Cost adjustments on non-accrual loans	388	384
Net change in premiums, discounts and amortization	109	(219)
Investment Portfolio, at Fair Value	\$ 308,226	\$ 347,216

- (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.

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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, 2016:

		Amount^(A)
For the remaining three months ending September 30:	2016	\$ 38,702
For the fiscal year ending September 30:	2017	43,464
	2018	28,833
	2019	45,661
	2020	91,225
	Thereafter	100,877
	Total contractual repayments	\$ 348,762
	Equity investments	38,036
	Adjustments to cost basis on debt investments	(472)
	Cost basis of investments held at June 30, 2016:	\$ 386,326

(A) Subsequent to June 30, 2016, one debt investment with a principal balance of \$29.0 million which previously had a maturity date during the fiscal year ending September 30, 2016, was extended to mature during the fiscal year ended September 30, 2018.

Net cash used by operating activities for the year ended September 30, 2015, was \$74.5 million as compared to net cash provided by operating activities of \$0.5 million for the year ended September 30, 2014. The increase in cash used by operating activities was primarily due to the increase in purchases of investments and a decrease in repayments on investments during the year ended September 30, 2015. For the year ended September 30, 2013, net cash provided by operating activities was \$32.1 million, which was primarily driven by principal repayments and net proceeds from sales of investments during fiscal year 2013.

As of September 30, 2015, we had loans to, syndicated participations in or equity investments in 48 private companies, with an aggregate cost basis of approximately \$410.2 million. As of September 30, 2014, we had loans to, syndicated participations in or equity investments in 45 private companies, with an aggregate cost basis of approximately \$349.3 million.

The following table summarizes our total portfolio investment activity during the years ended September 30, 2015 and 2014:

	Year Ended September 30,	
	2015	2014
Beginning investment portfolio, at fair value	\$ 281,286	\$ 256,878
New investments	102,299	81,731
Disbursements to existing portfolio companies	33,824	20,314

Scheduled principal repayments	(1,182)	(2,802)
Unscheduled principal repayments	(12,559)	(65,058)
Net proceeds from sales of investments	(28,602)	(4,700)
Net unrealized depreciation of investments	(10,953)	(10,587)
Reversal of prior period net depreciation of investments on realization	34,600	17,976
Net realized loss on investments	(33,666)	(12,163)
Increase in investment balance due to PIK interest ^(A)	665	288
Cost adjustments on non-accrual loans	328	(717)
Net change in premiums, discounts and amortization	(149)	126
Ending Investment Portfolio, at Fair Value	\$ 365,891	\$ 281,286

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

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

Year Ending September 30,	Amount
2016	\$ 102,851
2017	11,072
2018	34,499
2019	62,609
Thereafter	163,904
Total contractual repayments	\$ 374,935
Equity investments	36,319
Adjustments to cost basis on debt investments	(1,010)
Investment Portfolio as of September 30, 2015, at Cost:	\$ 410,244

Financing Activities

Net cash used in financing activities totaled \$50.7 million for the nine months ended June 30, 2016 and consisted primarily of net repayments on our Credit Facility of \$54.0 million and \$14.6 million of distributions to common stockholders, partially offset by \$18.5 million in net proceeds from our common stock offering during the nine months ended June 30, 2016. Net cash provided by financing activities totaled \$53.8 million for the nine months ended June 30, 2015 and 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 provided by financing activities for the year ended September 30, 2015 of \$72.0 million consisted primarily of \$90.6 million in net borrowings on our Credit Facility and \$17.7 million in distributions to common stockholders.

Net cash used in financing activities for the year ended September 30, 2014 of \$8.1 million consisted primarily of \$17.6 million in distributions to common stockholders and \$10.2 million in net repayments on our Credit Facility. These financing activities were partially offset by the gross proceeds of \$61.0 million from the issuance of our Series 2021 Term Preferred Stock, net of the voluntary redemption of \$38.5 million of the then existing Series 2016 Term Preferred Stock in May 2014.

Net cash used in financing activities for the year ended September 30, 2013 of \$28.1 million consisted primarily of \$17.6 million in distributions to common stockholders and \$11.9 million in net repayments on our Credit Facility.

Distributions to Stockholders***Common Stock Distributions***

To qualify to be taxed as a RIC and thus avoid corporate-level federal income tax on the income that we distribute to our stockholders, we are required to distribute to our stockholders on an annual basis at least 90.0% of our investment company taxable income. Additionally, our Credit Facility has a covenant that generally limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts deemed to have been paid during the prior year in accordance with Section 855(a) of the Code. In accordance with these requirements, we paid monthly cash distributions of \$0.07 per common share for each of the nine months from

October 2015 through June 2016, which totaled an aggregate of \$14.6 million. In July 2016, our Board of Directors declared a monthly distribution of \$0.07 per common share for each of July, August, and September 2016. Our Board of Directors declared these distributions to our stockholders based on our estimates of our investment company taxable income for the fiscal year ending September 30, 2016.

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For the fiscal year ended September 30, 2015, which includes the nine months ended June 30, 2015, 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 the fiscal year ended September 30, 2015, our current and accumulated earnings and profits (after taking into account our mandatorily redeemable preferred stock distributions), exceeded common stock distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$1.7 million of the first common distributions paid in fiscal year 2016 as having been paid in the respective prior year. For each of the years ended September 30, 2014 and 2013, common stockholder distributions declared and paid exceeded our current and accumulated earnings and profits (after taking into account our mandatorily redeemable preferred dividends), which resulted in an estimated partial return of capital of approximately \$15.2 million and \$1.3 million, respectively. The returns of capital resulted primarily from accounting principles generally accepted in the U.S. (GAAP) realized losses being recognized as ordinary losses for federal income tax purposes in each of those fiscal years.

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 our investment company taxable income for the full fiscal year and distributions paid during the full fiscal year. Such a characterization made on a quarterly basis may not be representative of the actual full fiscal year characterization.

Preferred Stock Dividends

We paid monthly cash dividends of \$0.140625 per share of our Series 2021 Term Preferred Stock for each of the nine months from October 2015 through June 2016, which totaled an aggregate of \$3.1 million. In July 2016, our Board of Directors declared a monthly dividend of \$0.140625 per share of Series 2021 Term Preferred stock for each of July, August, and September 2016. For federal income tax purposes, dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

During the year ended September 30, 2015, we paid monthly cash dividends of \$0.140625 per share of our Series 2021 Term Preferred Stock for each month, which totaled an aggregate of \$4.1 million, including monthly cash dividends of \$0.1484375 per share of our Series 2021 Term Preferred Stock for each of the nine months from October 2013 through May 2014, which totaled an aggregate of \$2.3 million.

Equity

Registration Statement

We filed our Registration Statement on December 18, 2015, and subsequently filed Pre-Effective Amendment No. 1 on March 17, 2016 and Pre-Effective Amendment No. 2 on March 29, 2016, which the SEC declared effective on March 29, 2016. Our Registration Statement registered an aggregate of \$300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, preferred stock or debt securities.

Common Stock

At our Annual Meeting of Stockholders held on February 11, 2016, 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.

Pursuant to our prior registration statement, on February 27, 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or the Sales Agreements) with KeyBanc Capital Markets

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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 year ended September 30, 2015, we sold an aggregate of 131,462 shares of our common stock under the Sales Agreements for net proceeds, net of underwriter's commissions and other offering expenses borne by us, of approximately \$1.0 million. We did not sell any shares under the Sales Agreements during the nine months ended June 30, 2016.

Pursuant to our prior registration statement, on October 27, 2015, we completed a public offering of 2.0 million shares of our common stock at a public offering price of \$8.55 per share. Gross proceeds totaled \$17.1 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately \$16.0 million. In connection with the offering, in November 2015, the underwriters exercised their option to purchase an additional 300,000 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of \$2.6 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately \$2.4 million. The net proceeds of this offering were used to repay borrowings under our Credit Facility.

We may issue 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. To the extent that our common stock continues to trade at a market price below our NAV per share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder and independent director approval or a rights offering to existing common stockholders.

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of the Company's common stock. The repurchase program does not obligate the Company to acquire any particular number of shares of common stock. Refer to *Overview Recent Developments* for further discussion of our common stock share repurchase program and purchases made during the quarter ended June 30, 2016.

Term Preferred Stock

Pursuant to our prior 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 7.125% Series 2016 Term Preferred Stock, par value \$0.001 per share, and the remainder was used to repay a portion of outstanding borrowings under our Credit Facility.

Our Series 2021 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend rate equal to 6.75% per year, payable monthly (which equates in total to approximately \$4.1 million per year). We are required to redeem all of the outstanding Series 2021 Term Preferred Stock on June 30, 2021 for cash at a redemption price equal to \$25.00 per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date of redemption (the *Redemption Price*). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2021 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control, and (2) if we fail to maintain an asset coverage ratio of at least 200% on our senior securities that are stock (which, currently is only the Series 2021 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report. We may also voluntarily redeem all or a portion of the Series 2021 Term Preferred Stock at our option at the Redemption Price at any time on or after June 30, 2017. The asset coverage on our senior securities that are stock (thus, our Series 2021 Term Preferred Stock) as of September 30, 2015 and June 30, 2016 was 199.3% and 235.4%, respectively.

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If we fail to redeem our Series 2021 Term Preferred Stock pursuant to the mandatory redemption required on June 30, 2021, or in any other circumstance in which we are required to mandatorily redeem our Series 2021 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of June 30, 2016, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2021 Term Preferred Stock.

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 London Interbank Offered Rate (LIBOR) from 3.75% to 3.25% per annum, 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 and with The Bank of New York Mellon Trust Company, N.A. as custodian. KeyBank, which also serves as the trustee of the account, generally remits the collected funds to us once a month.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders' consents. Our Credit Facility generally limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts deemed to have been paid during the prior year in accordance with Section 855(a) of the Code. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, portfolio company leverage and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 25 obligors required in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of \$205.0 million plus 50% of all equity and subordinated debt raised after May 1, 2015 less 50% of any equity and subordinated debt retired or redeemed after May 1, 2015, which equates to \$214.5 million as of June 30, 2016, (ii) asset coverage with respect to senior securities

representing indebtedness of at least 200%, in accordance with Sections 18 and 61 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code.

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As of June 30, 2016, and as defined in the performance guaranty of our Credit Facility, we had a net worth of \$244.8 million, asset coverage on our senior securities representing indebtedness of 430.9% and an active status as a BDC and RIC. In addition, we had 31 obligors in our Credit Facility's borrowing base as of June 30, 2016. As of June 30, 2016 we were in compliance with all of our Credit Facility covenants. Refer to Note 5 *Borrowings* of the notes to our accompanying *Condensed Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding our revolving line of credit.

Off-Balance Sheet Arrangements

As of June 30, 2016 and September 30, 2015, we had aggregate unrecognized success fee receivables on our accruing debt investments of \$6.4 million and \$7.7 million (or approximately \$0.27 per common share and \$0.37 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.

Of our interest bearing debt investments as of September 30, 2015, 30.2% 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 September 30, 2015 and 2014, we had aggregate off-balance sheet success fee receivables of \$7.7 million and \$11.0 million (or approximately \$0.37 per common share and \$0.52 per common share), respectively, on our accruing debt investments 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.

Contractual Obligations

We have lines of credit, a delayed draw term loan, and an uncalled capital commitment with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit, the unused delayed draw term loan and the uncalled capital commitment as of June 30, 2016 and September 30, 2015 to be immaterial.

The following table summarizes our contractual obligations as of June 30, 2016, 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)	\$	\$ 73,300	\$	\$	\$ 73,300
Series 2021 Term Preferred Stock			61,000		61,000
Interest expense on debt obligations ^(C)	1,841	19,926	11,323		33,090
Total	\$ 1,841	\$ 93,226	\$ 72,323	\$	\$ 167,390

- (A) Excludes unused line of credit commitments, an unused delayed draw term loan and an uncalled capital commitment to our portfolio companies in the aggregate principal amount of \$8.4 million
- (B) Principal balance of borrowings under our Credit Facility as of June 30, 2016, based on the current revolving period end date of January 19, 2019.
- (C) Includes estimated interest payments on our Credit Facility and distribution obligations on our Series 2021 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and outstanding balances as of June 30, 2016. Distribution payments on our Series 2021 Term Preferred Stock assume quarterly distribution declarations and monthly distributions to stockholders through the date of mandatory redemption.

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As of the fiscal years ended September 30, 2015 and 2014, our unused line of credit commitments totaled \$14.7 million and \$5.9 million, at cost, 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 September 30, 2015 and 2014, we had uncalled capital commitments related to our partnership interest in Leeds Novamark Capital I, L.P. of \$2.2 million and \$2.8 million, at cost, respectively.

The following table shows our contractual obligations as of September 30, 2015, at cost:

Contractual Obligations^(A)	Payments Due by Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Credit Facility ^(B)	\$	\$	\$ 127,300	\$	\$ 127,300
Mandatorily Redeemable Preferred Stock			61,000		61,000
Interest expense on debt obligations ^(C)	8,787	26,360	12,750		47,897
Total	\$ 8,787	\$ 26,360	\$ 201,050	\$	\$ 236,197

(A) Excludes our unused line of credit and uncalled capital commitments to our portfolio companies in an aggregate amount of \$16.9 million, at cost, as of September 30, 2015.

(B) Principal balance of borrowings outstanding under our Credit Facility, based on the current contractual revolver period end date to the revolving nature of the facility.

(C) Includes estimated interest payments on our Credit Facility and dividend obligations on our Series 2021 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and balances as of September 30, 2015. Dividend payments on our Series 2021 Term Preferred Stock assume quarterly dividend declarations and monthly dividend distributions through the date of mandatory redemption.

CRITICAL ACCOUNTING POLICIES

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

Investment Valuation

Fair value measurements of our investments may involve subjective judgments and estimates and due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate from period to period. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Refer to Note 2 *Summary of Significant Accounting Policies* and Note 3 *Investments* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding fair value measurements.

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

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portfolio companies in which we hold board seats and also require them to provide annual audited and monthly unaudited financial statements. Using these financial 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 debt securities that have been rated by a SEC-registered Nationally Recognized Statistical Rating Organization (NRSRO), the Adviser generally uses the average of two corporate-level NRSRO's risk ratings for such security. For all other debt securities, the Adviser uses a proprietary risk rating system. While the Adviser seeks to mirror the NRSRO systems, we cannot provide any assurance that the Adviser's risk rating system will provide the same risk rating as an NRSRO for these securities. The Adviser's risk rating system is used to estimate the probability of default on debt securities and the expected loss if there is a default. The Adviser's risk rating system uses a scale of 0 to >10, with >10 being the lowest probability of default. It is the Adviser's understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on an NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, the Adviser's scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB from an NRSRO; however, no assurance can be given that a >10 on the Adviser's scale is equal to a BBB or Baa2 on an NRSRO scale. The Adviser's risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

The following table reflects risk ratings for all proprietary debt securities in our portfolio as of June 30, 2016, September 30, 2015 and 2014, representing approximately 90.8%, 84.1% and 80.8%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of June 30, 2016	As of September 30, 2015	As of September 30, 2014
Highest	8.0	8.0	9.0
Average	5.2	5.9	5.9
Weighted Average	5.1	6.0	5.2
Lowest	3.0	4.0	2.0

The following table reflects corporate-level risk ratings for all syndicated debt securities in our portfolio that were rated by an NRSRO as of June 30, 2016, September 30, 2015 and 2014, representing approximately 6.7%, 10.8% and 16.6%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of June 30, 2016	As of September 30, 2015	As of September 30, 2014
Highest	5.0	6.0	6.0
Average	3.8	4.8	4.6
Weighted Average	4.0	4.9	4.8
Lowest	2.0	3.0	3.5

The following table lists the risk ratings for all syndicated debt securities in our portfolio that were not rated by an NRSRO. As of June 30, 2016, September 30, 2015 and 2014, these loans represented 2.6%, 5.1% and 2.6%, respectively, of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of June 30, 2016	As of September 30, 2015	As of September 30, 2014
Highest	5.0	6.0	4.0
Average	4.0	4.8	4.0
Weighted Average	3.0	4.3	4.0
Lowest	3.5	3.0	4.0

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Tax Status

We intend to continue to maintain our qualification as a RIC under Subchapter M of the Code for federal income tax purposes. Refer to Note 9 *Distributions to Common Stockholders* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding our tax status.

Revenue Recognition

Interest Income Recognition

Interest income, including the amortization of premiums, acquisition costs and amendment fees, the accretion of OID, and PIK interest, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest.

Other Income Recognition

We record success fee income when earned, which often occurs upon receipt of cash. Success fees are generally contractually due upon a change of control in a portfolio company, typically from an exit or sale. 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. We generally record prepayment fees upon receipt of cash. Prepayment fees are contractually due at the time of an investment's exit, based on the prepayment fee schedule. Success fees, dividend income, and prepayment fees are all recorded in other income in our accompanying *Consolidated Statements of Operations*.

Refer to Note 2 *Summary of Significant Accounting Policies* in the notes accompanying our *Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding revenue recognition.

Recent Accounting Pronouncements

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

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All of our variable-rate debt investments have rates generally associated with the 30-day LIBOR. As of June 30, 2016, our portfolio of debt investments on a principal basis consisted of the following:

Variable rates	89.2%
Fixed rates	10.8
Total:	100.0%

There have been no material changes in the quantitative and qualitative market risk disclosures for the nine months ended June 30, 2016 from that disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, as filed with the SEC on November 23, 2015, as amended on December 29, 2015.

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Janney Montgomery Scott LLC, D.A. Davidson & Co., 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 1, 2016, 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
Underwriters	
Janney Montgomery Scott LLC	
D.A. Davidson & Co.	
Ladenburg Thalmann & Co. Inc.	
Wunderlich Securities, Inc.	

Total

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 \$ _____ per share. Investors must pay for the shares purchased in this offering on or before October 1, 2016. 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 _____ 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 solely to cover over-allotments. 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.

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' overallotment option:

Per Share

Total

	Without Overallotment	With Overallotment	Without Overallotment	With Overallotment
Public offering price	\$	\$	\$	\$
Underwriting discounts and commissions paid by us	\$	\$	\$	\$
Proceeds to us, before expenses	\$	\$	\$	\$

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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.

In connection with this offering and in compliance with applicable securities laws, including Regulation M under the Exchange Act, the underwriters may overallocate (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 overallocation 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 overallocation option.

The underwriters may also sell shares of our common stock in excess of the overallocation 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.

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.

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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 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 D.A. Davidson & Co. is 8 Third Street North, Great Falls, MT 59401. 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.

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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 by U.S. stockholders that hold our stock through certain foreign accounts if certain disclosure and other requirements 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 Loan, are held under a custodian agreement with The Bank of New York Mellon Corp., which acts as collateral custodian pursuant to the Credit Facility with 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.

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, 2015 and September 30, 2014 and for each of the three years in the period ended September 30, 2015 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Annual Report on Internal Control over Financial Reporting) as of September 30, 2015 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>Consolidated Statements of Changes in Net Assets for the nine months ended June 30, 2016 and 2015 (unaudited)</u>	S-F-4
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Table of Contents**GLADSTONE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES****(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)****(UNAUDITED)**

	June 30, 2016	September 30, 2015
ASSETS		
Investments, at fair value:		
Non-Control/Non-Affiliate investments (Cost of \$259,811 and \$287,055, respectively)	\$ 231,609	\$ 277,411
Affiliate investments (Cost of \$84,639 and \$81,427, respectively)	60,695	66,029
Control investments (Cost of \$41,876 and \$41,762 respectively)	15,922	22,451
Total investments at fair value (Cost of \$386,326 and \$410,244 respectively)	308,226	365,891
Cash and cash equivalents	5,022	3,808
Restricted cash and cash equivalents	60	283
Interest receivable, net	2,654	5,581
Due from custodian	1,779	1,186
Deferred financing fees, net	3,434	4,161
Other assets, net	4,375	1,572
TOTAL ASSETS	\$ 325,550	\$ 382,482
LIABILITIES		
Borrowings, at fair value (Cost of \$73,300 and \$127,300, respectively)	\$ 73,300	\$ 127,300
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25 liquidation preference per share; 4,000,000 shares authorized and 2,440,000 shares issued and outstanding	61,000	61,000
Accounts payable and accrued expenses	434	597
Interest payable	164	272
Fees due to Adviser ^(A)	1,364	904
Fee due to Administrator ^(A)	287	250
Other liabilities	3,487	715
TOTAL LIABILITIES	\$ 140,036	\$ 191,038
Commitments and contingencies ^(B)		
NET ASSETS		
Common stock, \$0.001 par value per share, 46,000,000 shares authorized; 23,344,422 and 21,131,622 shares issued and outstanding as of June 30, 2016 and September 30, 2015, respectively	\$ 23	\$ 21

Capital in excess of par value	327,697	307,862
Cumulative net unrealized depreciation of investments	(78,100)	(44,353)
Cumulative net unrealized depreciation of other		(61)
Under (over) distributed net investment income	4,599	(1,541)
Accumulated net realized losses	(68,705)	(70,484)
TOTAL NET ASSETS	\$ 185,514	\$ 191,444
NET ASSET VALUE PER COMMON SHARE	\$ 7.95	\$ 9.06

(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 CONSOLIDATED FINANCIAL STATEMENTS.

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Table of Contents**GLADSTONE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)****(UNAUDITED)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
INVESTMENT INCOME				
Interest income, net				
Non-Control/Non-Affiliate investments	\$ 5,878	\$ 7,003	\$ 19,203	\$ 20,199
Affiliate investments	2,069	1,793	5,980	4,492
Control investments	304	310	921	800
Other	2	1	3	4
Total interest income	8,253	9,107	26,107	25,495
Other income				
Non-Control/Non-Affiliate investments	542	578	1,831	1,656
Affiliate investments	466		466	
Control investments	583	250	958	733
Total other income	1,591	828	3,255	2,389
Total investment income	9,844	9,935	29,362	27,884
EXPENSES				
Base management fee ^(A)	1,369	1,859	4,258	5,257
Loan servicing fee ^(A)	896	1,015	2,876	2,802
Incentive fee ^(A)	1,187	1,021	3,369	2,866
Administration fee ^(A)	287	235	900	784
Interest expense on borrowings	648	1,033	2,066	2,735
Dividend expense on mandatorily redeemable preferred stock	1,029	1,029	3,088	3,087
Amortization of deferred financing fees	273	253	802	857
Professional fees	214	315	925	899
Other general and administrative expenses	426	222	1,106	893
Expenses, before credits from Adviser	6,329	6,982	19,390	20,180
Credit to base management fee loan servicing fee ^(A)	(896)	(1,015)	(2,876)	(2,802)
Credits to fees from Adviser other ^(A)	(496)	(868)	(1,736)	(1,714)
Total expenses, net of credits	4,937	5,099	14,778	15,664

NET INVESTMENT INCOME	4,907	4,836	14,584	12,220
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized (loss) gain:				
Non-Control/Non-Affiliate investments	(153)	(1,143)	8,875	435
Affiliate investments	72		1,280	
Control investments	(3)		(318)	(14,459)
Other		68	(64)	(491)
Total net realized (loss) gain	(84)	(1,075)	9,773	(14,515)
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments	4,176	7,920	(18,558)	8,682
Affiliate investments	(2,012)	(7,465)	(8,546)	(7,815)
Control investments	(1,471)	(1,602)	(6,643)	13,295
Other		693	62	1,313
Total net unrealized appreciation (depreciation)	693	(454)	(33,685)	15,475
Net realized and unrealized gain (loss)	609	(1,529)	(23,912)	960
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS				
	\$ 5,516	\$ 3,307	\$ (9,328)	\$ 13,180
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	\$ 0.21	\$ 0.23	\$ 0.63	\$ 0.58
Net increase (decrease) in net assets resulting from operations	\$ 0.24	\$ 0.16	\$ (0.40)	\$ 0.63
Distributions declared and paid	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.63
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: Basic and Diluted				
	23,363,952	21,123,202	23,145,842	21,045,014

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

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

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended June 30,	
	2016	2015
OPERATIONS		
Net investment income	\$ 14,584	\$ 12,220
Net realized gain (loss) on investments and other	9,773	(14,515)
Net unrealized (depreciation) appreciation of investments	(33,747)	14,162
Net unrealized depreciation of other	62	1,313
Net (decrease) increase in net assets resulting from operations	(9,328)	13,180
DISTRIBUTIONS		
Distributions to common stockholders from net investment income	(11,395)	(13,261)
Distributions to common stockholders from realized gains	(3,189)	
Total distributions to common stockholders	(14,584)	(13,261)
CAPITAL TRANSACTIONS		
Issuance of common stock	19,665	1,169
Offering costs for issuance of common stock	(1,111)	(205)
Repurchase of common stock	(572)	
Repayment of principal on employee note		100
Net increase in net assets resulting from capital transactions	17,982	1,064
NET (DECREASE) INCREASE IN NET ASSETS	(5,930)	983
NET ASSETS, BEGINNING OF PERIOD	191,444	199,660
NET ASSETS, END OF PERIOD	\$ 185,514	\$ 200,643

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

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets resulting from operations	\$ (9,328)	\$ 13,180
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(59,862)	(93,765)
Principal repayments on investments	78,596	10,060
Net proceeds from sale of investments	19,829	18,541
Net realized (gain) loss on investments	(9,837)	14,024
Increase in investments due to paid-in-kind interest or other	(4,311)	(463)
Net change in premiums, discounts and amortization	(109)	219
Cost adjustments on non-accrual loans	(388)	(384)
Net unrealized depreciation (appreciation) of investments	33,747	(14,162)
Net realized loss on other	64	
Net unrealized depreciation of other	(62)	(1,313)
Decrease in restricted cash and cash equivalents	223	179
Amortization of deferred financing fees	802	857
Decrease (increase) in interest receivable, net	2,927	(2,407)
(Increase) decrease in due from custodian	(593)	3,047
Increase in other assets, net	(2,803)	(213)
Decrease in accounts payable and accrued expenses	(163)	(45)
(Decrease) increase in interest payable	(108)	85
Increase in fees due to Adviser ^(A)	460	343
Increase in fee due to Administrator ^(A)	37	16
Increase (decrease) in other liabilities and other	2,770	(137)
Net cash provided by (used in) operating activities	51,891	(52,338)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	77,000	109,000
Repayments on borrowings	(131,000)	(41,100)
Deferred financing fees	(75)	(1,856)
Proceeds from issuance of common stock	19,665	1,169
Offering costs for issuance of common stock	(1,111)	(205)
Repurchases of common stock	(572)	
Distributions paid to common stockholders	(14,584)	(13,261)
Receipt of principal on employee note		100

Net cash (used in) provided by financing activities	(50,677)	53,847
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,214	1,509
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,808	6,314
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,022	\$ 7,823
NON-CASH ACTIVITIES^(B)	\$ 3,921	\$

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

(B) Significant non-cash operating activities consisted principally of the following transaction: In February 2016, our investment in Targus Group International, Inc. (Targus) was restructured. As part of the transaction, our secured first lien debt investment with a cost basis and fair value of \$9.0 million and \$6.9 million, respectively, was restructured resulting in a common stock investment with a cost basis of \$2.3 million and a secured first lien debt investment with a cost basis of \$2.1 million. We contributed \$0.5 million in cash as part of the transaction. The restructure resulted in a net realized loss of \$5.5 million and a new investment in Targus Cayman HoldCo Limited, which is listed on the accompanying *Consolidated Statement of Investments* as of June 30, 2016.

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

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N) :					
Proprietary Investments:					
AG Transportation Holdings, LLC	Cargo transport	Secured Second Lien Debt (13.3%, Due 3/2018) ^(D)	\$ 13,000	\$ 13,000	\$ 12,870
		Member Profit Participation (18.0% ownership) ^{(F)(H)}		1,000	
		Profit Participation Warrants (7.0% ownership) ^{(F)(H)}		244	
				14,244	12,870
Alloy Die Casting Corp. ^(T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018) ^(D)	5,235	5,235	4,947
		Secured First Lien Debt (13.5%, Due 4/2017) ^(D)	75	75	75
		Preferred Stock (1,742 shares) ^{(F)(H)}		1,742	248
		Common Stock (270 shares) ^{(F)(H)}		18	
				7,070	5,270
Behrens Manufacturing, LLC ^(T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.0%, Due 12/2018) ^(D)	4,275	4,275	4,302
		Preferred Stock (1,253 shares) ^{(F)(H)(K)}		1,253	4,239
				5,528	8,541

B+T Group Acquisition Inc. ^(T)	Telecommunications	Secured First Lien Debt (13.0%, Due 12/2019) (D)	6,000	6,000	5,670
		Preferred Stock (5,503 shares) ^{(F)(H)(K)}		1,799	
				7,799	5,670
Chinese Yellow Pages Company	Printing and publishing	Secured First Lien Line of Credit, \$0 available (7.3%, Due 2/2015) ^(F)	108	108	
Drumcree, LLC	Broadcasting and entertainment	Secured First Lien Debt (13.0% PIK, Due 1/2017) ^{(F)(G)}	4,680	4,680	4,680
Flight Fit N Fun LLC	Leisure, Amusement, Motion Pictures, Entertainment	Secured First Lien Debt (12.0%, Due 9/2020) ^(D)	7,800	7,800	7,761
		Preferred Stock (700,000 units) ^{(F)(H)}		700	969
				8,500	8,730
Francis Drilling Fluids, Ltd.	Oil and gas	Secured Second Lien Debt (11.4%, Due 4/2020) ^(D)	15,000	15,000	9,750
		Secured Second Lien Debt (10.8%, Due 4/2020) ^(D)	7,000	7,000	4,550
		Preferred Equity Units (999 units) ^{(F)(H)}		860	
		Common Equity Units (999 units) ^{(F)(H)}		1	
				22,861	14,300
Funko Acquisition Holdings, LLC ^(T)	Personal and non-durable consumer products	Preferred Equity Units (260 units) ^{(H)(F)}		260	326
		Common Stock (975 units) ^{(H)(F)}			
				260	326

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N) (Continued):					
GFRC Holdings, LLC	Buildings and real estate	Secured First Lien Line of Credit, \$295 available (9.0%, Due 9/2018) ^(F)	905	905	905
		Secured First Lien Debt (9.0%, Due 9/2018) ^(F)	1,000	1,000	1,000
		Preferred Stock (1,000 shares) ^{(F)(H)}		1,025	851
		Common Stock Warrants (45.0% ownership) ^{(F)(H)}			
				2,930	2,756
IA Tech, LLC	Diversified/conglomerate service	Secured First Lien Debt (12.0%, Due 6/2021) ^(J)	30,000	30,000	30,000
LCR Contractors, LLC	Buildings and Real Estate	Secured First Lien Debt (10.0%, Due 1/2021) ^(D)	8,500	8,500	8,479
Leeds Novamark Capital I, L.P.	Private equity fund healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, \$2,004 uncalled capital commitment) ^{(H)(M)(S)}		991	759
Meridian Rack & Pinion, Inc. ^(T)	Automobile	Secured First Lien Debt (13.5%, Due 12/2018) ^(D)	4,140	4,140	3,705
		Preferred Stock (1,449 shares) ^{(F)(H)}		1,449	258
				5,589	3,963
Mikaway	Beverage, food and tobacco	Secured Second Lien Debt (11.5%, Due 1/2021) ^(D)	\$ 6,750	\$ 6,750	\$ 6,699
		Common Stock (450 units) ^{(F)(H)}		450	219
				7,200	6,918
Precision Acquisition Group Holdings, Inc.	Machinery	Secured First Lien Equipment Note	1,000	1,000	368

		(11.0%, Due 4/2016) ^(F)			
		Secured First Lien Debt (11.0%, Due 4/2016) ^(F)	4,125	4,125	1,516
		Secured First Lien Debt (11.0%, Due 4/2016) ^{(C)(F)}	4,053	4,053	1,489
				9,178	3,373
Southern Petroleum Laboratories, Inc.	Oil and gas	Secured Second Lien Debt (11.5%, Due 1/2020) ^(D)	8,000	8,000	8,000
		Preferred Stock (4,135,127 shares) ^{(F)(H)}		831	1,826
				8,831	9,826
Travel Sentry, Inc.	Diversified/conglomerate service	Secured First Lien Debt (9.5%, Due 12/2021) ^(D)	10,000	10,000	9,964
Triple H Food Processors	Beverage, food and tobacco	Secured First Lien Line of Credit, \$1,500 available (7.8%, Due 8/2018) ^(D)			
		Secured First Lien Debt (9.8%, Due 8/2020) ^(D)	7,700	7,700	7,767
		Common Stock (250,000 units) ^{(F)(H)}		250	633
				7,950	8,400
TWS Acquisition Corporation	Healthcare, education and childcare	Secured First Lien Line of Credit, \$1,500 available (9.0%, Due 7/2017) ^(D)			
		Secured First Lien Debt (9.0%, Due 7/2020) ^(D)	10,000	10,000	10,100
				10,000	10,100

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N) (Continued):					
United Flexible, Inc.	Diversified/conglomerate manufacturing	Secured Second Lien Debt (10.5%, 2.0% PIK,			
		Due 2/2022) ^(D)	17,544	17,544	17,017
		Preferred Stock (260 shares) ^{(F)(H)}		260	287
		Common Stock (538 shares) ^{(F)(H)}		9	
				17,813	17,304
Vision Government Solutions, Inc.	Diversified/conglomerate service	Secured First Lien Line of Credit, \$0 available (7.5%, Due 1/2017) ^(D)	1,450	1,450	1,331
		Secured First Lien Delayed Draw Term Loan, \$1,300 available (10.0%, Due 1/2017) ^{(D)(G)}	1,200	1,200	1,084
		Secured First Lien Debt (9.8%, Due 1/2017) ^(D)	9,000	9,000	8,130
				11,650	10,545
WadeCo Specialties, Inc.	Oil and gas	Secured First Lien Line of Credit, \$1,125 available (8.0%, Due 4/2017) ^(D)	1,875	1,875	1,758
		Secured First Lien Debt (8.0%, Due 3/2019) ^(D)	12,000	12,000	11,253
		Secured First Lien Debt (12.0%, Due 3/2019) ^(D)	7,000	7,000	6,475
		Preferred Stock (1,000 shares) ^{(F)(H)}		617	144
				21,492	19,630
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Debt (10.5%, Due 1/2017) ^(D)	4,000	4,000	4,000
				408	1,275

		Common Stock (58,333 shares) ^{(F)(H)}			
			4,408	5,275	
Subtotal	Non-Control/Non-Affiliate Proprietary Investments		\$ 227,582	\$ 207,679	
Syndicated Investments:					
Autoparts Holdings Limited	Automobile	Secured Second Lien Debt (11.0%, Due 1/2018) ^(E)	\$ 700	\$ 698	\$ 504
NetSmart Technologies, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.5%, Due 10/2023) ^(E)	2,000	1,951	2,000
New Trident Holdcorp, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.3%, Due 7/2020) ^(E)	4,000	3,990	3,160
PLATO Learning, Inc.	Healthcare, education and childcare	Unsecured Debt (10.0% PIK, Due 6/2020) ^{(D)(G)}	\$ 2,927	\$ 2,885	\$ 2,924
		Common Stock (21,429 shares) ^{(F)(H)}		2,637	
			5,522	2,924	

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N) (Continued):					
PSC Industrial Holdings Corp.	Diversified/conglomerate service	Secured Second Lien Debt (9.3%, Due 12/2021) ^(E)	3,500	3,441	3,307
RP Crown Parent, LLC	Electronics	Secured Second Lien Debt (11.3%, Due 12/2019) ^(E)	2,000	1,976	1,648
SourceHOV LLC	Finance	Secured Second Lien Debt (11.5%, Due 4/2020) ^(E)	5,000	4,845	2,649
The Active Network, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021) ^(E)	1,000	996	983
Vertellus Specialties Inc.	Chemicals, plastics and rubber	Secured First Lien Debt (10.5%, Due 10/2019) ^{(E)(I)}	3,940	3,837	2,640
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Secured Second Lien Debt (9.3%, Due 11/2021) ^(E)	4,500	4,478	3,915
W3 Co.	Oil and gas	Secured Second Lien Debt (9.3%, Due 9/2020) ^(E)	499	495	200
Subtotal Non-Control/Non-Affiliate Syndicated Investments				\$ 32,229	\$ 23,930
Total Non-Control/Non-Affiliate Investments (represented 75.1% of total investments at fair value)				\$ 259,811	\$ 231,609
AFFILIATE INVESTMENTS^(O) :					
Proprietary Investments:					
Edge Adhesives Holdings LLC ^(T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (12.5%, Due 2/2019) ^(D)	\$ 6,200	\$ 6,200	\$ 5,983
		Secured First Lien Debt (13.8%, Due 2/2019) ^(D)	1,600	1,600	1,548
		Preferred Stock (2,516 units) ^{(F)(H)}		2,516	
				10,316	7,531
FedCap Partners LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units, \$0 Uncalled Commitment) ^{(H)(L)(S)}		1,634	1,265

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Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Secured Second Lien Debt (12.0%, Due 2/2021) ^(D)	6,000	6,000	5,940
		Secured Second Lien Debt (12.0%, Due 2/2021) ^(D)	8,000	8,000	7,920
		Common Stock (152,603 shares) ^{(F)(H)}		1,856	1,640
				15,856	15,500
LWO Acquisitions Company LLC	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$0 available (6.5%, Due 12/2017) ^(D)	2,450	2,450	2,301
		Secured First Lien Debt (9.5%, Due 12/2019) ^(D)	10,632	10,632	7,838
		Common Units (921,000 units) ^{(F)(H)}		921	
				14,003	10,139
RBC Acquisition Corp.	Healthcare, education and childcare	Secured First Lien Debt (8.0%, Due 2/2019) ^(F)	\$ 6,954	\$ 6,954	\$ 6,954
		Secured First Lien Line of Credit, \$0 available (6.0%, 3% PIK, Due 12/2016) ^{(F)(G)}	4,594	4,594	4,594
		Secured First Lien Debt (8.0%, 4.0% PIK, Due 12/2016) ^{(C)(F)(G)}	13,668	13,668	10,542
		Secured First Lien Mortgage Note (Due 12/2017) ^{(F)(Q)}	7,704	7,704	
		Preferred Stock (4,999,000 shares) ^{(F)(H)(K)}		4,999	
		Common Stock (2,000,000 shares) ^{(F)(H)}		370	
				38,289	22,090
Subtotal Affiliate Proprietary Investments				\$ 80,098	\$ 56,525

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Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
AFFILIATE INVESTMENTS ^(O) (Continued):					
Syndicated Investments:					
Targus Cayman HoldCo Limited	Textiles and leather	Secured First Lien Debt (15.0% PIK, Due 12/2019) ^{(D)(G)}	2,198	2,198	2,182
		Common Stock (526,141 shares) ^{(F)(H)}		2,343	1,988
				4,541	4,170
Total Affiliate Investments (represented 19.7% of total investments at fair value)				\$ 84,639	\$ 60,695
CONTROL INVESTMENTS ^(P) :					
Proprietary Investments:					
Defiance Integrated Technologies, Inc.	Automobile	Secured Second Lien Debt (11.0%, Due 2/2019) ^(F)	\$ 6,305	\$ 6,305	\$ 6,305
		Common Stock (33,321 shares) ^{(F)(H)}		580	2,817
			\$ 6,885	\$ 9,122	
Sunshine Media Holdings	Printing and publishing	Secured First Lien Line of Credit, \$672 available (8.0%, Due 5/2016) ^{(F)(G)(R)}	1,328	1,328	1,328
		Secured First Lien Debt (8.0%, Due 5/2016) ^{(F)(G)(R)}	5,000	5,000	1,614
		Secured First Lien Debt (4.8%, Due 5/2016) ^{(F)(I)(R)}	11,948	11,948	3,858
		Secured First Lien Debt (5.5%, Due 5/2016) ^{(C)(F)(I)(R)}	10,700	10,700	
		Preferred Stock (15,270 shares) ^{(F)(H)(K)}		5,275	
		Common Stock (1,867 shares) ^{(F)(H)}		740	
		Common Stock Warrants (72 shares) ^{(F)(H)}			
				34,991	6,800
				\$ 41,876	\$ 15,922

Total Control Proprietary Investments (represented 5.2% of total investments at fair value)

TOTAL INVESTMENTS	\$ 386,326	\$ 308,226
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- (A) Certain of the securities listed in this schedule are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling \$259.4 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5 *Borrowings*. Under the Investment Company Act of 1940, as amended, (the 1940 Act), we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of June 30, 2016, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 0.7% of total investments, at fair value, as of June 30, 2016.
- (B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate (LIBOR)) in effect at June 30, 2016, and due dates represent the contractual maturity date. If applicable, paid-in-kind (PIK) interest rates are noted separately from the cash interest rates and any unused line of credit fees are excluded. Secured first lien debt securities generally take the form of first priority liens on substantially all of the assets of the underlying portfolio company businesses.
- (C) Last out tranche (LOT) of secured first lien debt, meaning if the portfolio company is liquidated, the holder of the LOT is generally paid after the other secured first lien debt holders but before all other debt and equity holders.
- (D) Fair value was based on an internal yield analysis or on estimates of value submitted by Standard & Poor's Securities Evaluations, Inc. (SPSE).
- (E) Fair value was based on the indicative bid price on or near June 30, 2016, offered by the respective syndication agent's trading desk.
- (F) Fair value was based on the total enterprise value of the portfolio company, which was then allocated to the portfolio company's securities in order of their relative priority in the capital structure.
- (G) Debt security has a fixed interest rate.
- (H) Investment is non-income producing.
- (I) Investment is on non-accrual status.
- (J) New investment valued at cost, as it was determined that the price paid during the quarter ended June 30, 2016 best represents fair value as of June 30, 2016.
- (K) Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares.

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- (L) There are certain limitations on our ability to transfer our units owned, withdraw or resign prior to dissolution of the entity, which must occur no later than May 3, 2020.
- (M) There are certain limitations on our ability to withdraw our partnership interest prior to dissolution of the entity, which must occur no later than May 9, 2024 or two years after all outstanding leverage has matured.
- (N) Non-Control/Non-Affiliate investments, as defined by the 1940 Act, are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.
- (O) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.
- (P) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.
- (Q) This investment does not have a stated interest rate that is payable thereon.
- (R) Subsequent to June 30, 2016, the maturity dates of our loans to Sunshine Media Holdings were extended to May 2018.
- (S) Fair value was based on net asset value provided by the fund as a practical expedient.
- (T) One of our affiliated funds, Gladstone Investment Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.

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

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2015
(DOLLAR AMOUNTS IN THOUSANDS)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P) :					
Proprietary Investments:					
AG Transportation Holdings, LLC	Cargo transport	Secured Second Lien Debt (13.3%, Due 3/2018) ^(D)	\$ 13,000	\$ 12,980	\$ 12,870
		Member Profit Participation (18.0% ownership) ^{(F)(H)}		1,000	564
		Profit Participation Warrants (7.0% ownership) ^{(F)(H)}		244	
				14,224	13,434
Allison Publications, LLC	Printing and publishing	Secured First Lien Line of Credit, \$250 available (8.3%, Due 9/2016) ^(D)	350	350	347
		Secured First Lien Debt (8.3%, Due 9/2018) ^(D)	2,444	2,444	2,422
		Secured First Lien Debt (13.0%, Due 9/2018) ^{(C) (D)}	5,400	5,400	5,360
				8,194	8,129
Alloy Die Casting Corp. ^(T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018) ^(D)	5,235	5,235	4,947
		Preferred Stock (1,742 shares) ^{(F)(H)}		1,742	153
		Common Stock (270 shares) ^{(F)(H)}		18	

				6,995	5,100
Behrens Manufacturing, LLC ^(T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.0%, Due 12/2018) ^(D)	4,275	4,275	4,264
		Preferred Stock (1,253 shares) ^{(F)(H)(K)}		1,253	2,268
				5,528	6,532
B+T Group Acquisition Inc. ^(T)	Telecommunications	Secured First Lien Debt (13.0%, Due 12/2019) ^(D)	6,000	6,000	5,865
		Preferred Stock (5,503 shares) ^{(F)(H)(K)}		1,799	
				7,799	5,865
Chinese Yellow Pages Company	Printing and publishing	Secured First Lien Line of Credit, \$0 available (7.3%, Due 2/2015) ^(D)	108	108	32
Flight Fit N Fun LLC	Leisure, amusement, motion pictures, entertainment	Secured First Lien Debt (12.0%, Due 9/2020) ^(J)	7,800	7,800	7,800
		Preferred Stock (700,000 units) ^{(H)(J)}		700	700
				8,500	8,500
Francis Drilling Fluids, Ltd.	Oil and gas	Secured Second Lien Debt (11.4%, Due 4/2020) ^(D)	15,000	15,000	12,938
		Secured Second Lien Debt (10.3%, Due 4/2020) ^(D)	7,000	7,000	6,037
		Preferred Equity Units (999 units) ^{(F)(H)}		648	747
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P) (Continued):					
		Common Equity Units (999 units) ^{(F)(H)}		1	206
				22,649	19,928

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P) (Continued):					
Funko, LLC ^(T)	Personal and non-durable consumer products	Secured First Lien Debt (9.3%, Due 5/2019) ^{(F)(G)}	7,500	7,500	7,500
		Secured First Lien Debt (9.3%, Due 5/2019) ^{(F)(G)}	2,000	2,000	2,000
		Preferred Equity Units (1,305 units) ^{(L)(H)}		1,305	17,314
				10,805	26,814
GFRC Holdings, LLC	Buildings and real estate	Secured First Lien Line of Credit, \$840 available (9.0%, Due 9/2018) ^(J)	360	360	360
		Secured First Lien Debt (9.0%, Due 9/2018) ^(J)	1,000	1,000	1,000
		Preferred Stock (1,000 shares) ^{(H)(J)}		1,025	1,025
		Common Stock Warrant (45% ownership) ^{(H)(J)}			
				2,385	2,385
Heartland Communications Group	Broadcasting and entertainment	Secured First Lien Line of Credit, \$0 available (5.0%, Due 10/2015) ^{(F)(G)(I)}	91	82	31
		Secured First Lien Line of Credit, \$0 available (10.0%, Due 10/2015) ^{(F)(G)(I)}	91	74	31
		Secured First Lien Debt (5.0%, Due 10/2015) ^{(F)(G)(I)}	3,931	3,568	1,338
		Common Stock Warrants (8.8% ownership) ^{(F)(H)}		66	
				3,790	1,400
J.America, Inc.	Personal and non-durable consumer products	Secured Second Lien Debt (10.4%, 1.0% PIK, Due 12/2019) ^{(D)(G)}	\$ 7,538	\$ 7,538	\$ 7,331

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		Secured Second Lien Debt (11.5%, 1.0% PIK, Due 12/2019) ^{(D)(G)}	9,548	9,548	9,274
				17,086	16,605
Leeds Novamark Capital I, L.P.	Private equity fund healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, \$2,214 uncalled capital commitment) ^{(H)(M)(O)}	781	781	555
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Secured First Lien Debt (11.0%, Due 11/2014) ^(D)	6,699	6,699	3,816
Meridian Rack & Pinion, Inc. ^(T)	Automobile	Secured First Lien Debt (13.5%, Due 12/2018) ^(D)	4,140	4,140	4,036
		Preferred Stock (1,449 shares) ^{(F)(H)}		1,449	
				5,589	4,036
Mikawaya	Beverage, food and tobacco	Secured Second Lien Debt (11.5%, Due 1/2021) ^(J)	6,750	6,750	6,750
		Common Stock (450 units) ^{(H)(J)}		450	450
				7,200	7,200
Precision Acquisition Group Holdings, Inc.	Machinery	Secured First Lien Equipment Note (11.0%, Due 4/2016) ^(D)	1,000	1,000	1,104
		Secured First Lien Debt (11.0%, Due 4/2016) ^(D)	4,125	4,125	2,910
		Secured First Lien Debt (11.0%, Due 4/2016) ^{(C)(D)}	4,053	4,053	640
				9,178	4,654

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P) (Continued):					
Southern Petroleum Laboratories, Inc.	Oil and gas	Secured Second Lien Debt (11.5%, Due 1/2020) ^(D)	8,000	8,000	7,600
		Preferred Stock (4,054,054 shares) ^{(F)(H)}		750	1,274
				8,750	8,874
Triple H Food Processors	Beverage, food and tobacco	Secured First Lien Line of Credit, \$1,500 available (7.8%, Due 8/2018) ^(J)			
		Secured First Lien Debt (9.8%, Due 8/2020) ^(J)	8,000	8,000	8,000
		Common Stock (250,000 units) ^{(H)(J)}		250	250
				8,250	8,250
TWS Acquisition Corporation	Healthcare, education and childcare	Secured First Lien Line of Credit, \$1,500 available (10.0%, Due 7/2017) ^(J)			
		Secured First Lien Debt (10.0%, Due 7/2020) ^(J)	13,000	13,000	13,000
				13,000	13,000
United Flexible, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$4,000 available (7.0%, Due 2/2018) ^(D)			
		Secured First Lien Debt (9.3%, Due 2/2020) ^(D)	20,284	20,284	20,030
		Preferred Stock (245 shares) ^{(F)(H)}		245	261
		Common Stock (500 shares) ^{(F)(H)}		5	64
				20,534	20,355
Vision Government Solutions, Inc.	Diversified/conglomerate service	Secured First Lien Line of Credit, \$550	1,450	1,450	1,434

		available (7.5%, Due 12/2017) ^(D)			
		Secured First Lien Debt (9.75%, Due 12/2019) ^(D)	9,000	9,000	8,899
				10,450	10,333
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	2,388
		Secured First Lien Debt (8.0%, Due 3/2019) ^(D)	12,750	12,750	12,307
		Secured First Lien Debt (12.0%, Due 3/2019) ^(D)	7,000	7,000	6,748
		Preferred Stock (1,000 shares) ^{(F)(H)}		477	477
				22,702	21,920
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Debt (12.5%, Due 4/2016) ^(D)	\$ 4,000	\$ 4,000	\$ 4,013
		Common Stock (58,333 shares) ^{(F)(H)}		408	639
				4,408	4,652
Subtotal Non-Control/Non-Affiliate Proprietary Investments				\$ 225,604	\$ 222,369

**Syndicated
Investments:**

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P) (Continued):					
Americal Group, LLC	Beverage, food and tobacco	Secured First Lien Debt (9.0% and 1.3% PIK, Due 3/2016) ^(E)	\$ 7,367	\$ 7,352	\$ 7,367
Autoparts Holdings Limited	Automobile	Secured Second Lien Debt (11.0%, Due 1/2018) ^(E)	700	698	692
First American Payment Systems, L.P.	Finance	Secured Second Lien Debt (10.8%, Due 4/2019) ^(L)	4,195	4,172	4,006
GTCR Valor Companies, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021) ^(E)	3,000	2,984	2,940
New Trident Holdcorp, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.3%, Due 7/2020) ^(E)	4,000	3,989	3,720
PLATO Learning, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.0% PIK, Due 6/2020) ^{(D)(G)}	2,718	2,666	2,715
		Common Stock (21,429 shares) ^{(F)(H)}		2,637	
				5,303	2,715
PSC Industrial Holdings Corp.	Diversified/conglomerate service	Secured Second Lien Debt (9.3%, Due 12/2021) ^(E)	3,500	3,436	3,430
RP Crown Parent, LLC	Electronics	Secured Second Lien Debt (11.3%, Due 12/2019) ^(E)	2,000	1,971	1,720
SourceHOV LLC	Finance	Secured Second Lien Debt (11.5%, Due 4/2020) ^(E)	5,000	4,822	4,350
Targus Group International, Inc.	Textiles and leather	Secured First Lien Debt (13.8% and 1.0% PIK, Due 5/2016) ^(E)	8,976	8,950	6,911
The Active Network, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021) ^(E)	1,000	996	930
Vertellus Specialties Inc.	Chemicals, plastics and rubber	Secured First Lien Debt (10.5%, Due 10/2019) ^(E)	3,960	3,839	3,524

Vision Solutions, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 7/2017) ^(E)	8,000	7,968	7,960
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Secured Second Lien Debt (9.3%, Due 11/2021) ^(E)	4,500	4,476	4,388
W3 Co.	Oil and gas	Secured Second Lien Debt (9.3%, Due 9/2020) ^(E)	499	495	389

Subtotal Non-Control/Non-Affiliate Syndicated Investments **\$ 61,451 \$ 55,042**

Total Non-Control/Non-Affiliate Investments (represented 75.8% of total investments at fair value) **\$ 287,055 \$ 277,411**

AFFILIATE INVESTMENTS^(Q) :

Proprietary Investments:

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	7,017
		Preferred Equity Units (4,400 units) ^{(F)(H)}		440	574
		Common Equity Units (4,400 units) ^{(F)(H)}			238
				7,440	7,829

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P) (Continued):					
Edge Adhesives Holdings LLC ^(T)	Diversified/conglomerate manufacturing	Secured First Lien Debt (12.5%, Due 2/2019) ^(D)	\$ 6,200	\$ 6,200	\$ 6,123
		Secured First Lien Debt (13.8%, Due 2/2019) ^(D)	1,600	1,600	1,582
		Preferred Stock (2,516 units) ^{(F)(H)}		2,516	
				10,316	7,705
FedCap Partners, LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units) ^{(H)(M)(N)}		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	5,940
		Secured Second Lien Debt (12.0%, Due 2/2021) ^(D)	8,000	8,000	7,920
		Common Stock (152,603 shares) ^{(F)(H)}		1,855	2,211
				15,855	16,071
LWO Acquisitions Company LLC	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$1,950 available (6.5%, Due 12/2017) ^(D)	1,050	1,050	1,049
		Secured First Lien Debt (9.5%, Due 12/2019) ^(D)	10,579	10,579	10,566
		Common Units (921,000 units) ^{(F)(H)}		921	545
				12,550	12,160
RBC Acquisition Corp.	Healthcare, education and childcare	Secured First Lien Line of Credit, \$0 available (9.0%, Due 12/2015) ^(F)	4,000	4,000	4,000
		Secured First Lien Mortgage Note (9.5%, Due 12/2015) ^{(F)(G)}	6,871	6,871	6,871
		Secured First Lien Debt (12.0%, Due 12/2015) ^{(C)(F)}	11,392	11,392	9,746
		Secured First Lien Debt (12.5%, Due 12/2015) ^{(F)(G)}	6,000	6,000	
				4,999	

	Preferred Stock (4,999,000 shares) ^{(F)(H)(K)}		
	Common Stock (2,000,000 shares) ^{(F)(H)}	370	
		33,632	20,617
Total Affiliate Proprietary Investments (represented 18.1 % of total investments at fair value)		\$ 81,427	\$ 66,029

CONTROL INVESTMENTS^(R) :**Proprietary Investments:**

Defiance Integrated Technologies, Inc.	Automobile	Secured Second Lien Debt (11.0%, Due 2/2019) ^(F)	\$ 6,385	\$ 6,385	\$ 6,384
		Common Stock (15,500 shares) ^{(F)(H)}		1	6,586
				6,386	12,970
Lindmark Acquisition, LLC	Broadcasting and entertainment	Secured First Lien Debt, \$0 available (25.0%, Due Upon Demand) ^{(F)(G)}			
		Success Fee on Secured Second Lien Debt ^(F)			20
		Common Stock (100 shares) ^{(F)(H)}		317	
				317	20

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
CONTROL INVESTMENTS^(R) (Continued):					
Sunshine Media Holdings	Printing and publishing	Secured First Lien Line of Credit, \$604 available (8.0%, Due 5/2016) ^{(F)(G)}	\$ 1,396	\$ 1,396	\$ 1,396
		Secured First Lien Debt (8.0%, Due 5/2016) ^{(F)(G)}	5,000	5,000	2,379
		Secured First Lien Debt (4.8%, Due 5/2016) ^{(F)(I)}	11,948	11,948	5,686
		Secured First Lien Debt (5.5%, Due 5/2016) ^{(C)(F)(I)}	10,700	10,700	
		Preferred Stock (15,270 shares) ^{(F)(H)(K)}		5,275	
		Common Stock (1,867 shares) ^{(F)(H)}		740	
		Common Stock Warrants (72 shares) ^{(F)(H)}			
				35,059	9,461
Total Control Proprietary Investments (represented 6.1 % of total investments at fair value)				\$ 41,762	\$ 22,451
TOTAL INVESTMENTS^(S)				\$ 410,244	\$ 365,891

(A) Certain of the securities listed in the above schedule are issued by affiliate(s) of the indicated portfolio company. Additionally, the majority of the securities listed above, totaling \$312.0 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5 *Borrowings*. Under the Investment Company Act of 1940, as amended, (the "1940 Act"), we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2015, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 0.5% of total investments, at fair value, as of September 30, 2015.

(B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate ("LIBOR")) in effect at September 30, 2015, and due dates represent the contractual maturity date. If applicable, paid-in-kind ("PIK") interest rates are noted separately from the cash interest rates. Secured first lien debt securities generally take the form of first priority liens on substantially all of the assets of the underlying portfolio company businesses.

(C)

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

- (D) Fair value was based on an internal yield analysis or on estimates of value submitted by Standard & Poor's Securities Evaluations, Inc. (SPSE).
- (E) Fair value was based on the indicative bid price on or near September 30, 2015, offered by the respective syndication agent's trading desk.
- (F) Fair value was based on the total enterprise value of the portfolio company, which was then allocated to the portfolio company's securities in order of their relative priority in the capital structure.
- (G) Debt security has a fixed interest rate.
- (H) Investment is non-income producing.
- (I) Investment is on non-accrual status.
- (J) New or restructured proprietary investment valued at cost, as it was determined that the price paid during the quarter ended September 30, 2015 best represents fair value as of September 30, 2015.
- (K) Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares.
- (L) Subsequent to September 30, 2015, the investment was sold, and as such the fair value as of September 30, 2015 was based upon the sales amount.
- (M) Fair value was based on net asset value provided by the fund as a practical expedient.
- (N) There are certain limitations on our ability to transfer our units owned, withdraw or resign prior to dissolution of the entity, which must occur no later than May 3, 2020.
- (O) There are certain limitations on our ability to withdraw our partnership interest prior to dissolution of the entity, which must occur no later than May 9, 2024 or two years after all outstanding leverage has matured.
- (P) Non-Control/Non-Affiliate investments, as defined by the Investment Company Act of 1940, as amended, (the 1940 Act), are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.
- (Q) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

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- (R) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.
- (S) Cumulative gross unrealized depreciation for federal income tax purposes is \$70.4 million; cumulative gross unrealized appreciation for federal income tax purposes is \$25.7 million. Cumulative net unrealized depreciation is \$44.7 million, based on a tax cost of \$410.6 million.
- (T) One of our affiliated funds, Gladstone Investment Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.

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

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2016

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

NOTE 1. ORGANIZATION

Gladstone Capital Corporation was incorporated under the Maryland General Corporation Law on May 30, 2001 and completed an initial public offering on August 24, 2001. The terms the Company, we, our and us all refer to Gladstone Capital Corporation and its consolidated subsidiaries. We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act) and is applying the guidance of the Financial Accounting Standards Board (the FASB) Accounting Standards Codification Topic 946 *Financial Services-Investment Companies*. In addition, we have elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (U.S). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established small and medium-sized businesses in the U.S. that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

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

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of ours, was established on November 21, 2006, for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial acquired this license in February 2007. The license enables us to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies. As of June 30, 2016 and September 30, 2015, we held no investments in portfolio companies through Gladstone Financial.

The financial statements of Business Loan and Gladstone Financial are consolidated with ours. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by Gladstone Management Corporation (the Adviser), a Delaware corporation and a U.S. Securities and Exchange Commission (the SEC) registered investment adviser and an affiliate of ours, pursuant to an investment advisory and management agreement (the Advisory Agreement). Administrative services are provided by our affiliate, Gladstone Administration, LLC (the Administrator), a Delaware limited liability company, pursuant to an administration agreement (the Administration Agreement). Refer to Note 4 *Related Party Transactions* for additional information regarding these arrangements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of Regulation S-X. Accordingly, we have not included in this prospectus supplement all of

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the information and notes required by GAAP for annual financial statements. The accompanying *Consolidated Financial Statements* include our accounts and those of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X, we do not consolidate portfolio company investments. Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Investment Companies, codified in FASB Accounting Standards Codification 946 (ASC 946), Financial Services- Investment Companies, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended June 30, 2016, are not necessarily indicative of results that ultimately may be achieved for the fiscal year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, as filed with the SEC on November 23, 2015, as amended on December 29, 2015.

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

*Investment Valuation Policy***Accounting Recognition**

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

Board Responsibility

In accordance with the 1940 Act, our board of directors (our Board of Directors) has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our investment valuation policy, which has been approved by our Board of Directors (the Policy). Such review occurs in three phases. First, prior to its quarterly meetings, our Board of Directors receives written valuation recommendations and supporting materials provided by professionals of the Adviser and Administrator with oversight and direction from our chief valuation officer, who reports directly to our Board of Directors (the Valuation Team). Second, the Valuation Committee of our Board of Directors, comprised entirely of independent directors, meets to review the valuation recommendations and supporting materials. Third, after the Valuation Committee concludes its meeting, it and our chief valuation officer present the Valuation Committee's findings to the entire Board of Directors and, after discussion, the Board of Directors ultimately approves the value of our portfolio of investments.

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

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Use of Third Party Valuation Firms

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

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

We may engage other independent valuation firms to provide earnings multiple ranges, as well as other information, and evaluate such information for incorporation into the total enterprise value of certain of our investments. Generally, at least once per year, we engage an independent valuation firm to value or review our valuation of our significant equity investments, which includes providing the information noted above. The Valuation Team evaluates such information for incorporation into our total enterprise value, including review of all inputs provided by the independent valuation firm. The Valuation Team then makes a recommendation to our Valuation Committee and Board of Directors as to the fair value. Our Board of Directors reviews the recommended fair value, whether it is reasonable in light of the Policy, as well as other relevant facts and circumstances and then votes to accept or reject the Valuation Team's recommended fair value.

Valuation Techniques

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

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

TEV is primarily calculated using EBITDA or revenue multiples; however, TEV may also be calculated using a discounted cash flow (DCF) analysis whereby future expected cash flows of the portfolio company are discounted to determine a net present value using estimated risk-adjusted discount rates, which incorporate adjustments for

nonperformance and liquidity risks. Generally, the Valuation Team uses the DCF to calculate the TEV to corroborate estimates of value for our equity investments where we do not have the ability to effectuate a sale of a portfolio company or for debt of credit impaired portfolio companies.

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

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

Investments in Funds For equity investments in other funds, where we cannot effectuate a sale, the Valuation Team generally determines the fair value of our uninvested capital at par value and of our invested capital at the net asset value (NAV) provided by the fund. The Valuation Team may also determine fair value of our investments in other investment funds based on the capital accounts of the underlying entity.

In addition to the above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including, but not limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on proprietary debt and equity investments made during the current reporting quarter (the quarter ended June 30, 2016) are generally valued at original cost basis.

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

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

Revenue Recognition Policy

Interest Income Recognition

Interest income, including the amortization of premiums, acquisition costs, and amendment fees, the accretion of original issue discounts (**OID**), and paid-in-kind (**PIK**) interest, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if

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our qualitative assessment indicates that the borrower 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, 2016, two portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately \$26.5 million, or 7.5% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately \$6.5 million, or 2.3% of the fair value of all debt investments in our portfolio. As of September 30, 2015, two portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately \$26.4 million, or 7.1% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately \$7.1 million, or 2.2% of the fair value of all debt investments in our portfolio.

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

As of June 30, 2016 and September 30, 2015, we had 11 and 17 original OID loans, respectively, primarily from the syndicated investments in our portfolio. We recorded OID income of \$0.1 million during the three and nine months ended June 30, 2016, respectively, as compared to \$0.1 and \$0.2 million for the three and nine months ended June 30, 2015, respectively. The unamortized balance of OID investments as of June 30, 2016 and September 30, 2015, totaled \$0.5 million and \$0.6 million, respectively. As of June 30, 2016 and September 30, 2015, we had five and four investments, respectively, with PIK interest. We recorded PIK income totaling \$0.6 million and \$1.6 million during the three and nine months ended June 30, 2016, respectively and \$0.3 and \$0.5 million during the three and nine months ended June 30, 2015, respectively. We collected \$0 and \$0.1 million PIK interest in cash during the three and nine months ended June 30, 2016, respectively, and \$0 during the nine months ended June 30, 2015.

Other Income Recognition

We record success fees when earned, which often occurs upon receipt of cash. Success fees are generally contractually due upon a change of control in a portfolio company, typically from an exit or sale. During the nine months ended June 30, 2016 and 2015, we recorded success fee income of \$2.8 million and \$1.7 million, respectively.

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, 2016 and 2015, we recorded dividend income of \$0.3 million and \$0.6 million, respectively.

We generally record prepayment fees upon our receipt of cash. Prepayment fees are contractually due at the time of an investment's exit, based on the prepayment fee schedule. During the nine months ended June 30, 2016, we recorded \$0.2 million in prepayment fees. During the nine months ended June 30, 2015, we did not receive any prepayment fees.

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

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In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which changes how entities measure certain equity investments and how entities present changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk. We are currently assessing the impact of ASU 2016-01 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted for certain aspects of ASU 2016-01 relating to the recognition of changes in fair value of financial liabilities when the fair value option is elected.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU-2015-03), which simplifies the presentation of debt issuance costs. In August 2015, the FASB issued Accounting Standards Update 2015-15, *Interest Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15), which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line of credit arrangements as assets. We are currently assessing the impact of ASU 2015-03 and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted. ASU 2015-15 was effective immediately.

In February 2015, the FASB issued Accounting Standards Update 2015-02, *Amendments to the Consolidation Analysis* (ASU 2015-02), which amends or supersedes the scope and consolidation guidance under existing GAAP. We do not anticipate ASU-2015-02 to have a material impact on our financial position, results of operations or cash flows. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted.

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

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), as amended in March 2016 by FASB Accounting Standards Update 2016-08, *Principal versus Agent Considerations* (ASU 2016-08) and as amended in April 2016 by FASB Accounting Standards Update 2016-10, *Identifying Performance Obligations and Licensing* (ASU 2016-10), and in May 2016 by FASB Accounting Standards Update 2016-12, *Narrow-Scope Improvements and Practical Expedients* (ASU 2016-12), which supersede or replace nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. We are currently assessing the impact of the new guidance and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting these standards. In July 2015, the FASB issued Accounting Standards Update 2015-14, *Deferral of the Effective Date*,

which deferred the effective date of ASU 2014-09. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12, is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years, with early adoption permitted for annual reporting periods beginning after December 15, 2016 and interim periods within those years.

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NOTE 3. INVESTMENTS

Fair Value

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

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

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

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

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of June 30, 2016 and September 30, 2015, all of our investments were valued using Level 3 inputs and during the three and nine months ended June 30, 2016 and 2015, there were no investments transferred into or out of Levels 1, 2 or 3.

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The following table presents our investments carried at fair value as of June 30, 2016 and September 30, 2015, by caption on our accompanying *Consolidated Statements of Assets and Liabilities* and by security type, all of which are valued using Level 3 inputs:

	Total Recurring Fair Value Measurements Reported in Consolidated Statements of Assets and Liabilities Using Significant Unobservable Inputs (Level 3)	
	June 30, 2016	September 30, 2015
Non-Control/Non-Affiliate Investments		
Secured first lien debt	\$ 139,400	\$ 150,426
Secured second lien debt	77,253	100,039
Unsecured debt	2,924	
Preferred equity	9,335	23,741
Common equity/equivalents	2,697	3,205
Total Non-Control/Non-Affiliate Investments	\$ 231,609	\$ 277,411
Affiliate Investments		
Secured first lien debt	\$ 41,943	\$ 46,953
Secured second lien debt	13,860	13,860
Preferred equity		574
Common equity/equivalents	4,892	4,642
Total Affiliate Investments	\$ 60,695	\$ 66,029
Control Investments		
Secured first lien debt	\$ 6,800	\$ 9,461
Secured second lien debt	6,304	6,404
Common equity/equivalents	2,818	6,586
Total Control Investments	\$ 15,922	\$ 22,451
Total Investments, at Fair Value	\$ 308,226	\$ 365,891

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In accordance with the FASB's ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Reporting Standards (IFRS)*, (ASU 2011-04), the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2016 and September 30, 2015. The table below is not intended to be all-inclusive, but rather provides information on the significant unobservable Level 3 inputs as they relate to our fair value measurements.

Quantitative Information about Level 3 Fair Value Measurements

Quantitative Information about Leverage Ratios					Range / Weighted Average ^(D) as of			
	June 30, 2016	September 30, 2015	Valuation Technique/ Methodology	Unobservable Input	June 30, 2016	September 30, 2015		
Secured first lien debt ^(A)	\$142,652	\$130,900	Yield Analysis	Discount Rate	8.7% 12.0%	18.9% / 6.2x	6.6% 2.4x	30.0% / 7.4x
	42,851	58,138	TEV	EBITDA multiple	6.4x	6.3x		
				EBITDA	\$1,093 - \$4,394 / \$1,385	\$1,333 \$55,042 / \$7,895		
					0.4x	0.4x /	0.3x	0.8x /
				Revenue multiple	0.4x	0.7x		
					\$7,814	\$7,814 /		
				Revenue	\$7,814	\$1,838 \$6,387 / \$2,968		
				Discount Rate	13.8% 13.8%			
	2,640	17,802	Market Quote	IBP	67.0% 67.0%	67.0% /	77.0%	100.0% / 87.7%
Secured second lien debt ^(B)	72,746	72,624	Yield Analysis	Discount Rate	11.5% 16.4%	26.7% / 40.0%	10.2%	16.2% / 100.0% /
	18,366	34,525	Market Quote	IBP	79.2%	78.0% 99.5% / 94.9%		
					4.8x	4.8x /	5.0x	6.4x /
	6,305	13,154	TEV	EBITDA multiple	4.8x	5.7x		
				EBITDA	\$2,437	\$2,437 /	\$3,740	\$6,878 /
Unsecured debt	2,924		Yield Analysis	Discount Rate	10.1% 10.1%	10.1% /		
Preferred and common equity / equivalents ^(C)	17,719	36,547	TEV	EBITDA multiple	4.0x	8.2x /	2.4x	7.7x /
					6.3x	6.3x		

					\$1,093	\$79,086 /		
							\$249	\$55,042 /
				EBITDA	\$5,459		\$9,258	
			Investments in					
	2,023	2,201	Funds (E)					
Total								
Investments, at								
Fair Value	\$308,226	\$365,891						

- (A) Fair value as of June 30, 2016 includes one new proprietary debt investment for \$30.0 million that was valued at cost. Fair value as of September 30, 2015 includes three new proprietary debt investments totaling \$28.8 million and one restructured proprietary debt investment for \$2.4 million, which were all valued at cost, and two proprietary investments, which were valued at payoff amounts totaling \$28.2 million.
- (B) Fair value as of September 30, 2015 includes one new proprietary debt investment for \$6.8 million, which was valued at cost, and one syndicated investment which was valued at the payoff amount of \$4.0 million.
- (C) Fair value as of September 30, 2015 includes three new proprietary equity investments totaling \$1.4 million, which were all valued at cost.
- (D) The weighted average calculations are based on the principal balances for all debt related calculations and on the cost basis for all equity-related calculations for the particular input.
- (E) Fair value as of June 30, 2016 and September 30, 2015 is based on net asset value as a practical expedient and is not subject to leveling within the fair value hierarchy.

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in market yields, discounts rates, leverage, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in

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isolation, may change the fair value of certain of our investments. Generally, an increase or decrease in market yields, discount rates or leverage, or a decrease or increase in EBITDA or EBITDA multiples (or revenue or revenue multiples), may result in a corresponding decrease or increase, in the fair value of certain of our investments.

The following tables provide the changes in fair value, broken out by security type, during the three and nine months ended June 30, 2016 and 2015 for all investments for which we determine fair value using unobservable (Level 3) inputs.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

FISCAL YEAR 2016:	Secured First Lien Debt	Secured Second Lien Debt	Unsecured Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three Months Ended June 30, 2016						
Fair Value as of March 31, 2016	\$ 182,660	\$ 91,955	\$	\$ 7,263	\$ 11,550	\$ 293,428
Total gains (losses):						
Net realized loss ^(A)				(80)	(4)	(84)
Net unrealized (depreciation) appreciation ^(B)	(28)	454	4	1,962	(1,128)	1,264
Reversal of prior period net depreciation on realization ^(B)	(390)			(169)	(13)	(572)
New investments, repayments and settlements: ^(C)						
Issuances/originations	31,733	2,044	71	137	580	34,565
Settlements/repayments	(8,944)	(11,078)	3	(440)		(20,459)
Net proceeds from sales				80	4	84
Transfers	(16,888)	14,042	2,846	582	(582)	
Fair Value as of June 30, 2016	\$ 188,143	\$ 97,417	\$ 2,924	\$ 9,335	\$ 10,407	\$ 308,226

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Secured First Lien Debt	Secured Second Lien Debt	Unsecured Debt	Preferred Equity	Common Equity/ Equivalents	Total
Nine Months Ended June 30, 2016						
Fair Value as of September 30, 2015	\$ 206,840	\$ 120,303	\$	\$ 24,315	\$ 14,433	\$ 365,891
Total gains (losses):						
Net realized (loss) gain ^(A)	(6,568)	(167)		16,959	(387)	9,837
Net unrealized (depreciation) appreciation ^(B)	(12,405)	(6,979)	4	1,762	(6,677)	(24,295)
Reversal of prior period net depreciation (appreciation) on realization ^(B)	6,209	147		(16,178)	370	(9,452)
New investments, repayments and settlements: ^(C)						
Issuances/originations	62,157	2,280	71	339	3,246	68,093

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Settlements/repayments	(49,380)	(32,202)	3	(440)		(82,019)
Net proceeds from sales	(1,822)	(7)		(18,004)	4	(19,829)
Transfers	(16,888)	14,042	2,846	582	(582)	
Fair Value as of June 30, 2016	\$ 188,143	\$ 97,417	\$ 2,924	\$ 9,335	\$ 10,407	\$ 308,226

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FISCAL YEAR 2015:	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three Months Ended June 30, 2015					
Fair Value as of March 31, 2015	\$ 194,644	\$ 128,777	\$ 25,402	\$ 14,817	\$ 363,640
Total gains (losses):					
Net realized (loss) gain ^(A)	(1,334)	191			(1,143)
Net unrealized (depreciation) appreciation ^(B)	(4,700)	3,172	2,123	(3,898)	(3,303)
Reversal of prior period net depreciation (appreciation) on realization ^(B)	2,294	(138)			2,156
New investments, repayments and settlements: ^(C)					
Issuances/originations	1,045	289	200	125	1,659
Settlements/repayments	(1,953)	(2,933)	(79)		(4,965)
Net Proceeds from Sales	(4,692)	(6,136)			(10,828)
Transfers		(2,636)		2,636	
Fair Value as of June 30, 2015	\$ 185,304	\$ 120,586	\$ 27,646	\$ 13,680	\$ 347,216

	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Nine Months Ended June 30, 2015					
Fair Value as of September 30, 2014	\$ 118,414	\$ 135,887	\$ 13,684	\$ 13,301	\$ 281,286
Total gains (losses):					
Net realized (loss) gain ^(A)	(1,334)	(11,955)	(2,175)	1,440	(14,024)
Net unrealized (depreciation) appreciation ^(B)	(8,321)	(2,804)	12,131	(2,362)	(1,356)
Reversal of prior period net depreciation (appreciation) on realization ^(B)	2,294	12,489	2,175	(1,440)	15,518
New investments, repayments and settlements: ^(C)					
Issuances/originations	71,078	18,789	2,244	2,117	94,228
Settlements/repayments	(3,471)	(5,577)	(413)	(434)	(9,895)
Net proceeds from sales	(4,692)	(12,271)		(1,578)	(18,541)
Transfers		(2,636)		2,636	
Fair Value as of June 30, 2015	\$ 173,968	\$ 131,922	\$ 27,646	\$ 13,680	\$ 347,216

(A) Included in net realized gain (loss) on our accompanying *Consolidated Statements of Operations* for the three and nine months ended June 30, 2016 and 2015.

(B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Consolidated Statements of Operations* for the three and nine months ended June 30, 2016 and 2015.

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

Investment Activity

Proprietary Investments

As of June 30, 2016 and September 30, 2015, we held 31 and 33 proprietary investments with an aggregate fair value of \$280.1 million and \$310.9 million, or 90.9% and 85.0% of the total portfolio at fair value, respectively. The following significant proprietary investment transactions occurred during the nine months ended June 30, 2016:

In October 2015, Allison Publications, LLC paid off at par for proceeds of \$8.2 million.

In October 2015, we sold our investment in Funko, which resulted in dividend and prepayment fee income of \$0.3 million and a realized gain of \$16.9 million. In connection with the sale, we received

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net cash proceeds of \$15.3 million, full repayment of our debt investment of \$9.5 million, receivables of \$3.1 million, recorded within other assets, net on the accompanying *Consolidated Statement of Assets and Liabilities*, and a continuing preferred and common equity investment in Funko Acquisition Holdings, LLC, with a combined cost basis and fair value of \$0.3 million at the close of the transaction. Additionally, we recorded a tax liability for the net unrealized built-in gain of \$9.8 million that was realized upon the sale, of which \$6.3 million has been subsequently paid. The remaining tax liability of \$3.5 million is included within other liabilities on the accompanying *Consolidated Statement of Assets and Liabilities* as of June 30, 2016.

In November 2015, we restructured our investment in Legend Communications of Wyoming, LLC (Legend) resulting in a \$2.7 million pay down on the existing loan and a new \$3.8 million investment in Drumcree, LLC, which is listed separately on the accompanying *Consolidated Statement of Investments* as of December 31, 2015. In March 2016, Legend paid off at par for proceeds of \$4.0 million.

In December 2015, we sold our investment in Heartland Communications Group (Heartland) for net proceeds of \$1.5 million, which resulted in a realized loss of \$2.4 million. Heartland was on non-accrual status at the time of the sale.

In January 2016, we invested \$8.5 million in LCR Contractors, Inc. through secured first lien debt.

In March 2016, we invested \$10.0 million in Travel Sentry, Inc. through secured first lien debt.

In March 2016, J. America paid off at par for proceeds of \$5.1 million.

In April 2016, we received net proceeds of \$8.0 million related to the sale of Ashland Acquisition LLC, which resulted in a realized gain of approximately \$0.1 million.

In June 2016, we invested \$30.0 million in IA Tech, LLC through secured first lien debt.

Syndicated Investments

As of June 30, 2016 and September 30, 2015, we held 12 and 15 syndicated investments with an aggregate fair value of \$28.1 million and \$55.0 million, or 9.1% and 15.0% of the total portfolio at fair value, respectively. The following significant syndicated investment transactions occurred during the nine months ended June 30, 2016:

In October 2015, Ameriquel Group, LLC paid off at par for proceeds of \$7.4 million.

In October 2015, we sold our investment in First American Payment Systems, L.P. for net proceeds of \$4.0 million, which resulted in a net realized loss of \$0.2 million.

In February 2016, our investment in Targus Group International, Inc. (Targus) was restructured, which resulted in a realized loss of \$5.5 million and a new investment in Targus Cayman HoldCo Limited, which is listed on the accompanying *Consolidated Statement of Investments* as of June 30, 2016.

In May 2016, we invested \$2.0 million in Netsmart Technologies, Inc. through secured second lien debt.

In June 2016, Vision Solutions, Inc. paid off at par for proceeds of \$8.0 million.

In June 2016, GTCR Valor Companies, Inc. paid off at par for proceeds of \$3.0 million.

Investment Concentrations

As of June 30, 2016, our investment portfolio consisted of investments in 43 companies located in 20 states across 20 different industries, with an aggregate fair value of \$308.2 million. The five largest investments at fair value as of June 30, 2016, totaled \$104.5 million, or 33.9% of our total investment portfolio as of June 30, 2016,

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as compared to \$109.6 million, or 30.0% of our total investment portfolio as of September 30, 2015. Our average investment by obligor was \$9.0 million at cost as of June 30, 2016, compared to \$8.5 million at cost as of September 30, 2015. The following table outlines our investments by security type as of June 30, 2016 and September 30, 2015:

	June 30, 2016				September 30, 2015			
	Cost	Percentage of Total Investments	Fair Value	Percentage of Total Investments	Cost	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Secured first lien debt	\$ 235,548	61.0%	\$ 188,143	61.0%	\$ 248,050	60.5%	\$ 206,840	56.5%
Secured second lien debt	109,822	28.4	97,417	31.6	125,875	30.7	120,303	32.9
Unsecured debt	2,919	0.8	2,924	1.0				
Total Debt Investments	348,289	90.2	288,484	93.6	373,925	91.2	327,143	89.4
Preferred equity	23,581	6.1	9,335	3.0	24,145	5.8	24,315	6.6
Common equity/equivalents	14,456	3.7	10,407	3.4	12,174	3.0	14,433	4.0
Total Equity Investments	38,037	9.8	19,742	6.4	36,319	8.8	38,748	10.6
Total Investments	\$ 386,326	100%	\$ 308,226	100%	\$ 410,244	100.0%	\$ 365,891	100.0%

Investments at fair value consisted of the following industry classifications as of June 30, 2016 and September 30, 2015:

Industry Classification	June 30, 2016		September 30, 2015	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Diversified/conglomerate manufacturing	\$ 54,061	17.5%	\$ 56,504	15.4%
Diversified/conglomerate service	53,816	17.4	13,763	3.8
Healthcare, education, and childcare	44,947	14.6	44,994	12.3
Oil and gas	43,954	14.3	51,110	14.0
Diversified natural resources, precious metals and minerals	15,499	5.0	16,072	4.4
Beverage, food, and tobacco	15,318	5.0	22,817	6.2
Automobile	13,590	4.4	17,699	4.8
Cargo transportation	12,870	4.2	13,434	3.7
Buildings and real estate	11,235	3.6	2,385	0.6
Leisure, Amusement, Motion Pictures, Entertainment	8,730	2.8	8,500	2.3

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Printing and publishing	6,800	2.2	25,452	7.0
Telecommunications	5,670	1.8	5,865	1.6
Broadcast and entertainment	4,682	1.5	5,235	1.4
Textiles and leather	4,170	1.4	6,911	1.9
Machinery	3,373	1.1		
Finance	2,650	0.9	8,356	2.3
Electronics	2,630	0.9	13,550	3.7
Personal and non-durable consumer products	326	0.1	43,418	11.9
Other, < 1.0% ^(A)	3,905	1.3	9,826	2.7
Total Investments	\$ 308,226	100.0%	\$ 365,891	100.0%

^(A) No individual industry within this category exceeds 1.0% of the total fair value as of the respective periods.

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Investments at fair value were included in the following geographic regions of the U.S. as of June 30, 2016 and September 30, 2015:

Geographic Region	June 30, 2016		September 30, 2015	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	\$ 142,285	46.2%	\$ 117,367	32.1%
Midwest	80,864	26.2	124,924	34.1
West	64,064	20.8	112,575	30.8
Northeast	21,013	6.8	11,025	3.0
Total Investments	\$ 308,226	100.0%	\$ 365,891	100.0%

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

Investment Principal Repayments

The following table summarizes the contractual principal repayments and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2016:

	Amount ^(A)
For the remaining three months ending September 30:	
2016	\$ 38,702
For the fiscal year ending September 30:	
2017	43,464
2018	28,833
2019	45,661
2020	91,225
Thereafter	100,877
Total contractual repayments	\$ 348,762
Equity investments	38,036
Adjustments to cost basis on debt investments	(472)
Cost basis of investments held at June 30, 2016:	\$ 386,326

^(A) Subsequent to June 30, 2016, one debt investment with a principal balance of \$29.0 million which previously had a maturity date during the fiscal year ending September 30, 2016, was extended to mature during the fiscal year ended September 30, 2018.

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs that we have incurred on behalf of portfolio companies and are included in other assets, net on our accompanying *Consolidated Statements of Assets and Liabilities*. As of June 30, 2016 and September 30, 2015, we had gross receivables from portfolio companies of \$0.8 million and \$0.6 million, respectively. There was no allowance for uncollectible receivables from portfolio companies as of June 30, 2016 and September 30, 2015, respectively. In addition, as of September 30, 2015, we recorded an allowance for uncollectible interest receivables of \$1.2 million, which is reflected in interest receivable, net on our accompanying *Consolidated Statements of Assets and Liabilities*. There was no allowance for uncollectible interest receivables as of June 30, 2016. We generally maintain allowances for uncollectible interest or other receivables from portfolio companies when the receivable balance becomes 90 days or more past due or if it is determined based upon management's judgment that the portfolio company is unable to pay its obligations.

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We have been externally managed by the Adviser pursuant to the Advisory Agreement since October 1, 2004 pursuant to which we pay the Adviser a base management fee and an incentive fee for its services. The Advisory Agreement originally included administrative services; however, it was amended and restated on October 1, 2006 and at the same time we entered into the Administration Agreement with the Administrator (discussed further below) to provide those services. With the unanimous approval of our Board of Directors, the Advisory Agreement was later amended in October 2015 to reduce the base management fee payable under the agreement from 2.0% per annum to 1.75% per annum, effective July 1, 2015, with all other terms remaining unchanged. On July 12, 2016, our Board of Directors unanimously approved the annual renewal of the Advisory Agreement through August 31, 2017.

In addition to the base management fee and incentive fee paid pursuant to the Advisory Agreement, we pay the Adviser a loan servicing fee for its role of servicer pursuant to our revolving line of credit. The entire loan servicing fee paid to the Adviser by Business Loan is voluntarily, irrevocably and unconditionally credited against the base management fee otherwise payable to the Adviser, since Business Loan is a consolidated subsidiary of ours, and overall, the base management fee (including any loan servicing fee) cannot exceed 1.75% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement.

Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Brubaker (our vice chairman and chief operating officer) serve as directors and executive officers of the Adviser, which is 100% indirectly owned and controlled by Mr. Gladstone. Robert Marcotte (our president) also serves as an executive managing director of the Adviser.

The following table summarizes fees paid to the Adviser, including the base management fee, incentive fee, and loan servicing fee and associated voluntary, unconditional and irrevocable credits reflected in our accompanying *Consolidated Statements of Operations*:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Average total assets subject to base management fee ^(A)	\$ 312,914	\$ 371,800	\$ 324,419	\$ 350,450
Multiplied by prorated annual base management fee of 1.75%-2.0%	0.4375%	0.5%	1.3125%	1.5%
Base management fee^(B)	\$ 1,369	\$ 1,859	\$ 4,258	\$ 5,257
Portfolio company fee credit	(319)	(73)	(553)	(840)
Senior syndicated loan fee credit	(17)	(41)	(73)	(120)
Net Base Management Fee	\$ 1,033	\$ 1,745	\$ 3,632	\$ 4,297
Loan servicing fee^(B)	896	1,015	2,876	2,802
Credit to base management fee loan servicing fee ^(B)	(896)	(1,015)	(2,876)	(2,802)

Net Loan Servicing Fee	\$	\$	\$	\$
Incentive fee^(B)	1,187	1,021	3,369	2,866
Incentive fee credit	(160)	(754)	(1,110)	(754)
Net Incentive Fee	\$ 1,027	\$ 267	\$ 2,259	\$ 2,112
Portfolio company fee credit	(319)	(73)	(553)	(840)
Senior syndicated loan fee credit	(17)	(41)	(73)	(120)
Incentive fee credit	(160)	(754)	(1,110)	(754)
Credits to Fees From Adviser other^(B)	\$ (496)	\$ (868)	\$ (1,736)	\$ (1,714)

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- (A) Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.
- (B) Reflected, on a gross basis, as a line item on our accompanying *Consolidated Statements of Operations*.

Base Management Fee

On October 13, 2015, we amended our existing advisory agreement with the Adviser to reduce the base management fee under the agreement from 2.00% per annum (0.50% per quarter) of average total assets (excluding cash or equivalents) to 1.75% per annum (0.4375% per quarter) effective July 1, 2015. All other terms of the advisory agreement remained unchanged. The amendment was approved unanimously by our Board of Directors.

The base management fee is payable quarterly to the Adviser pursuant to our Advisory Agreement and is assessed at an annual rate of 1.75%, computed on the basis of the value of our average total assets at the end of the two most recently-completed quarters (inclusive of the current quarter), which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings and adjusted appropriately for any share issuances or repurchases during the period.

Additionally, pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include, 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. The Adviser voluntarily, unconditionally, and irrevocably credits 100% of these fees against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, totaling \$35 and \$0.1 million for the three and nine months ended June 30, 2016 and \$44 and \$93 for the three and nine months ended June 30, 2015, respectively, is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser primarily for the valuation of portfolio companies.

Our Board of Directors accepted an unconditional, non-contractual and irrevocable voluntary credit from the Adviser to reduce the annual base management fee on senior syndicated loan participations to 0.50%, to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations, for each of the nine months ended June 30, 2016 and 2015.

Incentive Fee

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

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

100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% of our

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net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized); and

20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20.0% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the entire portfolio's aggregate unrealized capital depreciation, if any and excluding any unrealized capital appreciation, as of the date of the calculation. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since inception. The entire portfolio's aggregate unrealized capital depreciation, if any, equals the sum of the difference, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable fiscal year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less the entire portfolio's aggregate unrealized capital depreciation, if any. If this number is positive at the end of such fiscal year, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded or paid since our inception through June 30, 2016, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such period. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded or paid since our inception through June 30, 2016.

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 during the nine months ended June 30, 2016 and 2015.

Loan Servicing Fee

The Adviser also services the loans held by Business Loan (the borrower pursuant to our line of credit), in return for which the Adviser receives a 1.5% annual fee payable monthly based on the aggregate outstanding balance of loans pledged under our line of credit. As discussed above, we treat payment of the loan servicing fee pursuant to our line of credit as a pre-payment of the base management fee otherwise due to the Adviser under the Advisory Agreement.

These loan servicing fees are 100% voluntarily, irrevocably and unconditionally credited back to us (against the base management fee) by the Adviser.

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We pay the Administrator pursuant to the Administration Agreement for the portion of expenses the Administrator incurs while performing services for us. The Administrator's expenses are primarily rent and the salaries, benefits and expenses of the Administrator's employees, including, but not limited to, our chief financial officer and treasurer, chief compliance officer, chief valuation officer, and general counsel and secretary (who also serves as the Administrator's president) and their respective staffs.

Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Brubaker (our vice chairman and chief operating officer) serve as members of the board of managers and executive officers of the Administrator, which is 100% indirectly owned and controlled by Mr. Gladstone.

Our portion of the Administrator's expenses are generally derived by multiplying the Administrator's total expenses by the approximate percentage of time during the current quarter the Administrator's employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator. These administrative fees are accrued at the end of the quarter when the services are performed and recorded on our accompanying *Consolidated Statements of Operations* and generally paid the following quarter to the Administrator. On July 12, 2016, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2017.

Other Transactions

Gladstone Securities, LLC (Gladstone Securities), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee. Any such fees paid by portfolio companies to Gladstone Securities do not impact the fees we pay to the Adviser or the voluntary, unconditional, and irrevocable credits against the base management fee. Gladstone Securities received fees from portfolio companies totaling \$0.3 million and \$0.4 million during the three and nine months ended June 30, 2016, respectively, and \$0.3 million and \$0.7 million during the three and nine months ended June 30, 2015, respectively.

Related Party Fees Due

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

	June 30, 2016	September 30, 2015
Base management fee	\$ 137	\$ 60
Loan servicing fee	200	241
Net incentive fee	1,027	603
Total fees due to Adviser	1,364	904
Fee due to Administrator	287	250
Total Related Party Fees Due	\$ 1,651	\$ 1,154

In addition to the above fees, other operating expenses due to the Adviser as of June 30, 2016 and September 30, 2015, totaled \$3 and \$7, respectively. In addition, other net co-investment expenses (for reimbursement purposes) receivable from or payable to Gladstone Investment Corporation, one of our affiliated funds, totaled a receivable of \$0.1 million and a payable of \$0.1 million as of June 30, 2016 and September 30, 2015, respectively. These amounts were received or paid in full in the quarter subsequent to being incurred and have been included in other assets, net and other liabilities, as appropriate, on the *Consolidated Statements of Assets and Liabilities* as of June 30, 2016 and September 30, 2015, respectively .

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Table of Contents**NOTE 5. BORROWINGS***Revolving Credit Facility*

On May 1, 2015, we, through Business Loan, entered into a Fifth Amended and Restated Credit Facility (our 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 London Interbank Offered Rate (LIBOR) from 3.75% to 3.25% per annum, set the unused commitment fee at 0.50% on all undrawn amounts, expanded the scope of eligible collateral, and amended certain other 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 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, through Business Loan, we entered into certain joinder and assignment agreements with three new lenders to increase borrowing capacity under 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.

The following tables summarize noteworthy information related to our Credit Facility (at cost) as of June 30, 2016 and September 30, 2015 and during the three and nine months ended June 30, 2016 and 2015:

	June 30, 2016	September 30, 2015
Commitment amount	\$ 170,000	\$ 170,000
Borrowings outstanding, at cost	73,300	127,300
Availability ^(A)	19,397	22,360

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
Weighted average borrowings outstanding, at cost	\$ 52,481	\$ 109,792	\$ 59,824	\$ 84,748
Weighted average interest rate ^(B)	4.9%	3.8%	4.6%	4.3%
Commitment (unused) fees incurred	\$ 147	\$ 42	\$ 417	\$ 314

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

(B) Includes unused commitment fees and excludes the impact of deferred financing fees.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders' consent. Our Credit Facility also

generally limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts deemed to have been paid during the prior year in accordance with Section 855(a) of the Code. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, portfolio company leverage and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 25 obligors required in the borrowing base.

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Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of \$205.0 million plus 50.0% of all equity and subordinated debt raised after May 1, 2015 less 50% of any equity and subordinated debt retired or redeemed after May 1, 2015, which equates to \$214.5 million as of June 30, 2016, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Sections 18 and 61 of the 1940 Act, and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code.

As of June 30, 2016, and as defined in the performance guaranty of our Credit Facility, we had a net worth of \$244.8 million, asset coverage on our senior securities representing indebtedness of 430.9%, calculated in compliance with the requirements of Sections 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. In addition, we had 31 obligors in our Credit Facility's borrowing base as of June 30, 2016. As of June 30, 2016, we were in compliance with all of our Credit Facility covenants.

Fair Value

We elected to apply the fair value option of ASC 825, *Financial Instruments*, specifically for our Credit Facility, which was consistent with our application of ASC 820 to our investments. Generally, the fair value of our Credit Facility is determined using a yield analysis which includes a DCF calculation and also takes into account the Valuation Team's own assumptions, including, but not limited to, the estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. At each of June 30, 2016 and September 30, 2015, the discount rate used to determine the fair value of our Credit Facility was 30-day LIBOR, plus 3.25% per annum, plus a 0.50% unused fee. Generally, an increase or decrease in the discount rate used in the DCF calculation may result in a corresponding decrease or increase, respectively, in the fair value of our Credit Facility. At each of June 30, 2016 and September 30, 2015, our Credit Facility was valued using Level 3 inputs and any changes in our credit facility's fair value is recorded in net unrealized appreciation (depreciation) of other on our accompanying *Consolidated Statements of Operations*.

The following tables present our Credit Facility carried at fair value as of June 30, 2016 and September 30, 2015, on our accompanying *Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and the changes in fair value of our Credit Facility during the three and nine months ended June 30, 2016 and 2015:

Total Recurring Fair Value Measurement Reported in <i>Consolidated Statements of Assets and Liabilities</i> Using Significant Unobservable Inputs (Level 3)		
	June 30, 2016	September 30, 2015
Credit Facility	\$ 73,300	\$ 127,300

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

	Three Months Ended June 30,	
	2016	2015
Fair value as of March 31, 2016 and 2015, respectively	\$ 57,300	\$ 114,793
Borrowings	41,000	15,500
Repayments	(25,000)	(25,000)
Net unrealized depreciation ^(A)		(693)
Fair Value as of June 30, 2016 and 2015, respectively	\$ 73,300	\$ 104,600

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	Nine Months Ended June 30,	
	2016	2015
Fair value as of September 30, 2015 and 2014, respectively	\$ 127,300	\$ 38,013
Borrowings	77,000	109,000
Repayments	(131,000)	(41,100)
Net unrealized depreciation ^(A)		(1,313)
Fair Value as of June 30, 2016 and 2015, respectively	\$ 73,300	\$ 104,600

^(A) Included in net unrealized appreciation (depreciation) of other on our accompanying *Consolidated Statements of Operations* for the three and nine months ended June 30, 2016 and 2015.

The fair value of the collateral under our Credit Facility totaled approximately \$259.4 million and \$312.0 million as of June 30, 2016 and September 30, 2015, respectively.

NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK

Pursuant to our prior registration statement, in May 2014, we completed a public offering of approximately 2.4 million shares of 6.75% Series 2021 Term Preferred Stock, par value \$0.001 per share (Series 2021 Term Preferred Stock), at a public offering price of \$25.00 per share. Gross proceeds totaled \$61.0 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were approximately \$58.5 million, a portion of which was used to voluntarily redeem all 1.5 million outstanding shares of our then existing 7.125% Series 2016 Term Preferred Stock, par value \$0.001 per share and the remainder was used to repay a portion of outstanding borrowings under our Credit Facility. 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 *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 have a mandatory redemption date of June 30, 2021, and are traded under the ticker symbol GLADO on the NASDAQ Global Select Market. Our Series 2021 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.75% per year, payable monthly (which equates in total to approximately \$4.1 million per year). We are required to redeem all of the outstanding Series 2021 Term Preferred Stock on June 30, 2021 for cash at a redemption price equal to \$25.00 per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date of redemption (the Redemption Price). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2021 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control, and (2) if we fail to maintain an asset coverage ratio of at least 200% on our senior securities that are stock (which is currently only our Series 2021 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report. We may also voluntarily redeem all or a portion of the Series 2021 Term Preferred Stock at our option at the Redemption Price at any time on or after June 30, 2017.

The asset coverage on our senior securities that are stock as of June 30, 2016 was 235.4%, calculated in accordance with Sections 18 and 61 of the 1940 Act. If we fail to redeem our Series 2021 Term Preferred Stock pursuant to the mandatory redemption required on June 30, 2021, or in any other circumstance in which we are required to mandatorily redeem our Series 2021 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of June 30, 2016, we have not redeemed, nor have we been required to redeem, any

shares of our outstanding Series 2021 Term Preferred Stock.

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We paid the following monthly dividends on our Series 2021 Term Preferred Stock for the nine months ended June 30, 2015:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Series 2021 Term Preferred Share
2015	October 7, 2014	October 22, 2014	October 31, 2014	\$ 0.1406250
	October 7, 2014	November 17, 2014	November 26, 2014	0.1406250
	October 7, 2014	December 19, 2014	December 31, 2014	0.1406250
	January 13, 2015	January 23, 2015	February 3, 2015	0.1406250
	January 13, 2015	February 18, 2015	February 27, 2015	0.1406250
	January 13, 2015	March 20, 2015	March 31, 2015	0.1406250
	April 14, 2015	April 24, 2015	May 5, 2015	0.1406250
	April 14, 2015	May 19, 2015	May 29, 2015	0.1406250
	April 14, 2015	June 19, 2015	June 30, 2015	0.1406250
Nine Months Ended June 30, 2015:				\$ 1.2656250

We paid the following monthly dividends on our Series 2021 Term Preferred Stock for the nine months ended June 30, 2016:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Series 2021 Term Preferred Share
2016	October 13, 2015	October 26, 2015	November 4, 2015	\$ 0.1406250
	October 13, 2015	November 17, 2015	November 30, 2015	0.1406250
	October 13, 2015	December 18, 2015	December 31, 2015	0.1406250
	January 12, 2016	January 22, 2016	February 2, 2016	0.1406250
	January 12, 2016	February 18, 2016	February 29, 2016	0.1406250
	January 12, 2016	March 21, 2016	March 31, 2016	0.1406250
	April 12, 2016	April 22, 2016	May 2, 2016	0.1406250
	April 12, 2016	May 19, 2016	May 31, 2016	0.1406250
	April 12, 2016	June 17, 2016	June 30, 2016	0.1406250
Nine Months Ended June 30, 2016:				\$ 1.2656250

In accordance with ASC 480, *Distinguishing Liabilities from Equity*, mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet and we have recorded our mandatorily redeemable preferred stock at cost as of June 30, 2016 and September 30, 2015. The related distribution payments to preferred stockholders are treated as dividend expense on our statement of operations as of the ex-dividend date. For disclosure purposes, the fair value, based on the last quoted closing price for our Series 2021 Term Preferred Stock, as of June 30, 2016 and September 30, 2015, was approximately \$61.4 million and \$62.4 million, respectively. We consider our mandatorily redeemable preferred stock to be a Level 1 liability within the ASC 820 hierarchy.

Aggregate preferred stockholder dividends declared and paid on our Series 2021 Term Preferred Stock for the nine months ended June 30, 2016 and 2015, was \$3.1 million. For federal income tax purposes, dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

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NOTE 7. REGISTRATION STATEMENT, COMMON EQUITY OFFERINGS AND SHARE REPURCHASES

Registration Statement

We filed a universal shelf registration statement (our Registration Statement) on Form N-2 (File No. 333-208637) with the SEC on December 18, 2015, and subsequently filed Pre-Effective Amendment No. 1 on March 17, 2016 and Pre-Effective Amendment No. 2 on March 29, 2016, which the SEC declared effective on March 29, 2016. Our Registration Statement permits us to issue, through one or more transactions, up to an aggregate of \$300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, preferred stock or debt securities.

Common Stock Offerings

Pursuant to our prior registration statement, on February 27, 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or the Sales Agreements) with KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., each a Sales Agent, under which we 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 year ended September 30, 2015, we sold an aggregate of 131,462 shares of our common stock under the Sales Agreements, for net proceeds, after deducting underwriting discounts and offering costs borne by us, of approximately \$1.0 million. We did not sell any shares under the Sales Agreements during the nine months ended June 30, 2016.

Pursuant to our prior registration statement, on October 27, 2015, we completed a public offering of 2.0 million shares of our common stock at a public offering price of \$8.55 per share, which was below our then current NAV per share. Gross proceeds totaled \$17.1 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately \$16.0 million. In connection with the offering, in November 2015, the underwriters exercised their option to purchase an additional 300,000 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of \$2.6 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately \$2.4 million.

Share Repurchases

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of the Company's common stock. The repurchases are intended to be implemented through open market transactions on U.S. exchanges or in privately negotiated transactions, in accordance with applicable securities laws, and any market purchases will be made during open trading window periods or pursuant to any applicable Rule 10b5-1 trading plans. The timing, prices, and amounts of repurchases will depend upon prevailing market prices, general economic and market conditions and other considerations. The repurchase program does not obligate us to acquire any particular number of shares of common stock. The termination date is the earlier of repurchasing the total authorized amount of \$7.5 million or January 31, 2017. During the nine months ended June 30, 2016, we repurchased 87,200 shares of our common stock at an average share price of \$6.53, resulting in gross purchases of \$0.6 million.

Table of Contents**NOTE 8. NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE**

The following table sets forth the computation of basic and diluted net increase (decrease) in net assets resulting from operations per weighted average common share for the three and nine months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Numerator for basic and diluted net increase (decrease) in net assets resulting from operations per common share	\$ 5,516	\$ 3,307	\$ (9,328)	\$ 13,180
Denominator for basic and diluted weighted average common shares	23,363,952	21,123,202	23,145,842	21,045,014
Basic and diluted net increase (decrease) in net assets resulting from operations per common share	\$ 0.24	\$ 0.16	\$ (0.40)	\$ 0.63

NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS

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

The federal income tax characterization of all distributions is reported to our stockholders on the Internal Revenue Service Form 1099 at the end of each calendar year. For each of the twelve months ended December 31, 2015, 100.0% of our common distributions were deemed to be paid from ordinary income for Form 1099 reporting purposes. For each of the nine months ended September 30, 2014, 100.0% of our common distributions were deemed to be paid from a return of capital and for each of the three months ended December 31, 2014, 100.0% of our common distributions were deemed to be paid from ordinary income for Form 1099 reporting purposes. In determining the characterization of distributions, the Internal Revenue Code Section 316(b)(4) allows RICs to apply current earnings and profits first to distributions made during the portion of the tax year prior to January 1, which in our case would be the three months ended December 31. The return of capital in the 2014 calendar year for Form 1099 reporting purposes resulted primarily from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.

We paid the following monthly distributions to common stockholders for the nine months ended June 30, 2016 and 2015:

Fiscal Year	Declaration Date	Record Date	Payment Date
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				Distribution per Common Share
2016	October 13, 2015	October 26, 2015	November 4, 2015	\$ 0.07
	October 13, 2015	November 17, 2015	November 30, 2015	0.07
	October 13, 2015	December 18, 2015	December 31, 2015	0.07
	January 12, 2016	January 22, 2016	February 2, 2016	0.07
	January 12, 2016	February 18, 2016	February 29, 2016	0.07
	January 12, 2016	March 21, 2016	March 31, 2016	0.07
	April 12, 2016	April 22, 2016	May 2, 2016	0.07
	April 12, 2016	May 19, 2016	May 31, 2016	0.07
	April 12, 2016	June 17, 2016	June 30, 2016	0.07
Nine Months Ended June 30, 2016:				\$ 0.63

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Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Common Share
2015	October 7, 2014	October 22, 2014	October 31, 2014	\$ 0.07
	October 7, 2014	November 17, 2014	November 26, 2014	0.07
	October 7, 2014	December 19, 2014	December 31, 2014	0.07
	January 13, 2015	January 23, 2015	February 3, 2015	0.07
	January 13, 2015	February 18, 2015	February 27, 2015	0.07
	January 13, 2015	March 20, 2015	March 31, 2015	0.07
	April 14, 2015	April 24, 2015	May 5, 2015	0.07
	April 14, 2015	May 19, 2015	May 29, 2015	0.07
	April 14, 2015	June 19, 2015	June 30, 2015	0.07
Nine Months Ended June 30, 2015:				\$ 0.63

Aggregate distributions declared and paid to our common stockholders for the nine months ended June 30, 2016 and 2015, were each approximately \$14.6 million and \$13.3 million, respectively, and were declared based on estimates of investment company taxable income for the respective periods. For our federal income tax reporting purposes, we determine the tax characterization of our common stockholder distributions at fiscal year-end based upon our investment company taxable income for the full fiscal year and distributions paid during the full fiscal year. Such a characterization made on a quarterly basis may not be representative of the actual full fiscal year characterization. For the fiscal year ended September 30, 2015, our current and accumulated earnings and profits (after taking into account our mandatorily redeemable preferred stock distributions), exceeded common stock distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$1.7 million of the first common distributions paid in fiscal year 2016 as having been paid in the respective prior year.

For the nine months ended June 30, 2016 and the fiscal year ended September 30, 2015, we recorded the following adjustments for book-tax differences to reflect tax character.

	Nine Months Ended June 30, 2016	Year Ended September 30, 2015
Under distributed net investment income	\$ 6,140	\$ 387
Accumulated net realized losses	(7,995)	(387)
Capital in excess of par value	1,855	

NOTE 10. COMMITMENTS AND CONTINGENCIES*Legal Proceedings*

We are party to certain legal proceedings incidental to the normal course of our business. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our financial condition, results of operations or cash flows. Additionally, based on our current knowledge, we do not believe such loss contingencies are both probable and

estimable and therefore, as of June 30, 2016 and September 30, 2015, we have not established reserves for such loss contingencies.

Financial Commitments and Obligations

We have lines of credit, a delayed draw term loan, and an uncalled capital commitment with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit, the unused delayed draw term loan and the uncalled capital commitment as of June 30, 2016 and September 30, 2015 to be immaterial.

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The following table summarizes the amounts of our unused lines of credit and delayed draw term loan and uncalled capital commitment, at cost, as of June 30, 2016 and September 30, 2015, which are not reflected as liabilities in the accompanying *Consolidated Statements of Assets and Liabilities* :

	June 30, 2016	September 30, 2015
Unused line of credit commitments and delayed draw term loan	\$ 6,392	\$ 14,655
Uncalled capital commitment	1,979	2,214
Total	\$ 8,371	\$ 16,869

NOTE 11. FINANCIAL HIGHLIGHTS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Per Common Share Data^(A) :				
Net asset value at beginning of period ^(A)	\$ 7.92	\$ 9.55	\$ 9.06	\$ 9.51
Net investment income ^(B)	0.21	0.23	0.63	0.58
Net realized (loss) gain on investments ^(B)		(0.05)	0.42	(0.69)
Net unrealized appreciation (depreciation) of investments ^(B)	0.03	(0.06)	(1.46)	0.67
Net unrealized appreciation of other ^(B)		0.04		0.07
Distributions to common stockholders from net investment income ^{(A)(C)}	(0.21)	(0.21)	(0.49)	(0.63)
Distributions to common stockholders from realized gains ^{(A)(C)}			(0.14)	
Issuance of common stock		0.03		0.06
Repurchase of common stock	0.01		0.02	
Offering costs for issuance of common stock			(0.05)	(0.01)
Dilutive effect of common stock issuance ^(D)		(0.03)	(0.05)	(0.06)
Other, net (E)	(0.01)	(0.01)	0.01	(0.01)
Net asset value at end of period ^(A)	\$ 7.95	\$ 9.49	\$ 7.95	\$ 9.49
Market value at beginning of period	\$ 7.45	\$ 8.27	\$ 8.13	\$ 8.77
Market value at end of period	7.24	7.90	7.24	7.90
Total return ^(F)	(0.01)%	(8.01)%	(3.04)%	(5.40)%
Common shares outstanding at end of period	23,344,422	21,131,622	23,344,422	21,131,622

Statement of Assets and Liabilities**Data:**

Net assets at end of period	\$ 185,514	\$ 200,643	\$ 185,514	\$ 200,643
Average net assets ^(G)	185,959	201,891	194,030	199,206

Senior Securities Data:

Borrowings under Credit Facility, at cost	73,300	104,600	73,300	104,600
Mandatorily redeemable preferred stock	61,000	61,000	61,000	61,000

Ratios/Supplemental Data:

Ratio of net expenses to average net assets-annualized ^{(H)(I)}	10.62%	10.10%	10.16%	10.49%
Ratio of net investment income to average net assets-annualized ^(J)	10.55	9.58	10.02	8.18

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

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

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- (C) The tax character of distributions is determined based on investment company taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.
- (D) During the fiscal quarter ended December 31, 2015, the dilution was a result of issuing 2.3 million shares of common stock in an overnight offering at a public offering price of \$8.55 per share, which was below the then current NAV of \$9.06 per share.
- (E) Represents the impact of the different share amounts (weighted average basic common shares outstanding for the corresponding period and actual common shares outstanding at the end of the corresponding period) in the Per Common Share Data calculations and rounding impacts.
- (F) Total return equals the change in the ending market value of our common stock from the beginning of the period, taking into account common stockholder distributions reinvested in accordance with the terms of the dividend reinvestment plan. Total return does not take into account common stockholder distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders* . Total return is not annualized.
- (G) Average net assets are computed using the average of the balance of net assets at the end of each month of the reporting period.
- (H) Ratio of net expenses to average net assets is computed using total expenses, net of credits from the Adviser, to the base management, loan servicing and incentive fees.
- (I) Had we not received any credits to the incentive fee due to the Adviser, the ratio of net expenses to average net assets would have been 10.97% and 10.92% for the three and nine months ended June 30, 2016, respectively and 11.59% and 10.99% for the three and nine months ended June 30, 2015, respectively.
- (J) Had we not received any credits to the incentive fee due to the Adviser, the ratio of net investment income to average net assets would have been 10.21% and 9.26% for the three and nine months ended June 30, 2016, respectively and 8.09% and 7.67% for the three and nine months ended June 30, 2015, respectively.

NOTE 12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

In accordance with the SEC's Regulation S-X, we do not consolidate portfolio company investments. Under ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

We had two unconsolidated subsidiaries, Defiance Integrated Technologies, Inc. (*Defiance*) and Sunshine Media Holdings, that met at least one of the significance conditions under Rule 1-02(w) of the SEC's Regulation S-X as of June 30, 2016 or September 30, 2015 or during at least one of the nine month periods ended June 30, 2016 and 2015. Accordingly, summarized, comparative financial information, in aggregate, is presented below for the nine months ended June 30, 2016 and 2015 for our unconsolidated significant subsidiaries.

Income Statement	Nine Months Ended June 30,	
	2016	2015
Net sales	\$ 29,253	\$ 33,770
Gross profit	7,545	9,623
Net loss	(830)	(1,017)

NOTE 13. SUBSEQUENT EVENTS*Portfolio Activity*

On August 2, 2016, we invested \$10.0 million in Merlin International, Inc. through secured second lien debt.

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Table of Contents*Distributions to Stockholders*

In July 2016, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

Record Date	Payment Date	Distribution per Common Share	Distribution per Series 2021 Term Preferred Share
July 22, 2016	August 2, 2016	\$ 0.07	\$ 0.140625
August 22, 2016	August 31, 2016	0.07	0.140625
September 21, 2016	September 30, 2016	0.07	0.140625
Total for the Quarter:		\$ 0.21	\$ 0.421875

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PROSPECTUS

\$300,000,000

COMMON STOCK

PREFERRED STOCK

SUBSCRIPTION RIGHTS

WARRANTS

DEBT SECURITIES

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

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

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, to or through underwriters or dealers, at the market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission

or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See *Plan of Distribution*. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market (NASDAQ) under the symbol GLAD. As of March 16, 2016, the last reported sales price for our common stock was \$7.56. Our 6.75% Series 2021 Term Preferred Stock, or our Series 2021 Term Preferred Stock, is also traded on the NASDAQ under the symbol GLADO. As of March 16, 2016, the last reported sales price for our Series 2021 Term Preferred Stock was \$24.69.

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

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

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

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

The date of this prospectus is March 29, 2016

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

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

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PROSPECTUS SUMMARY

The following summary highlights some of the information in this prospectus. It is not complete and may not contain all the information that you may want to consider. You should read the entire prospectus and any prospectus supplement carefully, including the section entitled Risk Factors. Except where the context suggests otherwise, the terms we, us, our, the Company and Gladstone Capital refer to Gladstone Capital Corporation;

Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; Gladstone Commercial refers to Gladstone Commercial Corporation; Gladstone Investment refers to Gladstone Investment Corporation; Gladstone Land refers to Gladstone Land Corporation; Gladstone Securities refers to Gladstone Securities, LLC; and Gladstone Companies refers to the Adviser and its affiliated companies.

General

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001 and completed our initial public offering on August 24, 2001. We are externally managed and operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). For federal income tax purposes, we have elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). We intend to continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment by meeting certain requirements, including minimum distribution requirements. We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (U.S.).

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of ours, was established on November 21, 2006, for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial (previously known as Gladstone SSBIC Corporation) acquired this license in February 2007. The license enables us, through this subsidiary, to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies. As of December 31, 2015, we have not made any investments in portfolio companies through Gladstone Financial.

Our Investment Objectives and Strategy

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the U.S. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from \$8 million to \$30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We lend to borrowers that need funds for growth capital, to finance acquisitions, or to recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We expect that our investment portfolio over time will consist of approximately 90.0% in debt investments and 10.0% in equity investments, at cost. As of December 31, 2015, our investment portfolio was made up of approximately 90.62% in debt investments and 9.4% in equity investments, at cost.

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

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

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

As of December 31, 2015, our investment portfolio consisted of investments in 44 companies located in 20 states in 20 different industries with an aggregate fair value of \$299.7 million. Since our initial public offering in 2001 through December 31, 2015, we have made 399 different loans to, or investments in, 197 companies for a total of approximately \$1.4 billion, before giving effect to principal repayments on investments and divestitures. We have made 155 consecutive monthly or quarterly cash distributions to common stockholders totaling approximately \$261.6 million or \$15.49 per share. We expect that our investment portfolio will primarily include the following four categories of investments in private U.S. companies:

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

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

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

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

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

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

Our Investment Adviser and Administrator

The Adviser is our affiliate, 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, the Administrator, employs, among others, our chief financial officer and treasurer, chief accounting officer, chief compliance officer, chief valuation officer, general counsel and secretary (who also serves as our Administrator's president) and their respective staffs. Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Brubaker (our vice chairman and chief operating officer) serve as directors and executive officers of the following of our affiliates: Gladstone Commercial, a publicly traded real estate investment trust; Gladstone Investment, a publicly traded BDC and RIC; Gladstone Land, a publicly traded real estate investment trust that invests in farmland and farm related property; the Adviser; and the Administrator. Our chief financial officer and treasurer is also the chief accounting officer of the Adviser and acting principal financial officer of Gladstone Investment through December 2015. Our president is also an executive managing director of the Adviser. David Gladstone also serves on the board of managers of our affiliate, Gladstone Securities, a privately-held broker-dealer registered with the Financial Industry Regulatory Authority (FINRA) and insured by the Securities Investor Protection Corporation.

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

We have been externally managed by the Adviser pursuant to an investment advisory and management agreement since October 1, 2004. The investment advisory and management agreement originally included administrative services; however, it was amended and restated on October 1, 2006 and at that time we entered into an administration agreement with the Administrator to provide such services. The investment advisory and

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management agreement was further amended in October 2015 to reduce the base management fee payable under the agreement from 2.0% per annum to 1.75% per annum, effective July 1, 2015, with all other terms remaining unchanged. 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.

Table of Contents**THE OFFERING**

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

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

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

Common Stock Trading Symbol (NASDAQ)	GLAD
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6.75% Series 2021 Term Preferred Stock Trading Symbol (NASDAQ)	GLADO
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Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our Securities first to pay down existing short-term debt, then to make investments in small and mid-sized companies in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. See <i>Use of Proceeds</i> .
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Dividends and Distributions	We have paid monthly distributions to the holders of our common stock since October 2003 (and prior to that quarterly distributions since January 2002) and generally intend to continue to do so. In May 2014 we issued, and in June 2014 we made our first distribution on our Series 2021 Term Preferred Stock and have paid monthly distributions
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thereafter. The amount of monthly distributions on our capital stock is generally determined by our Board of Directors on a quarterly basis and is based on management's estimate of the fiscal year's taxable income. See

Price Range of Common Stock and Distributions. Because our distributions to common stockholders are based on estimates of taxable income that may differ from actual

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results, future distributions payable to our common stockholders may also include, and past distributions have included, a return of capital. Such return of capital distributions may increase an investor's tax liability for capital gains upon the sale of our shares by reducing the investor's tax basis for such shares. See *Risk Factors Risks Related to an Investment in Our Securities Distributions to our stockholders have included and may in the future include a return of capital.* Certain additional amounts may be deemed as distributed to common stockholders for income tax purposes and may also constitute a return of capital. Other types of securities we might offer will likely pay distributions in accordance with their terms.

Taxation

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

Trading at a Discount

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

Certain Anti-Takeover Provisions

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

Dividend Reinvestment Plan

Our transfer agent, Computershare, Inc., offers a dividend reinvestment plan for our common stockholders. This is an opt in dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our

common stock. Stockholders who do not so elect will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive

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their distributions in cash. See *Dividend Reinvestment Plan*. There is no dividend reinvestment plan for our Series 2021 Term Preferred Stock.

Management Arrangements

Gladstone Management Corporation serves as the investment adviser, and Gladstone Administration, LLC serves as the Administrator. For a description of the Adviser, the Administrator, the Gladstone Companies and the contractual arrangements with these companies, see *Management Certain Transactions*.

Table of Contents**FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Capital, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital. The following percentages are annualized and have been calculated based on actual expenses incurred in the quarter ended December 31, 2015 and average net assets attributable to common stockholders for the quarter ended December 31, 2015.

Stockholder Transaction Expenses:

Sales load (as a percentage of offering price) ⁽¹⁾	%
Offering expenses (as a percentage of offering price) ⁽¹⁾	%
Dividend reinvestment plan expenses ⁽²⁾	None
Total stockholder transaction expenses ⁽¹⁾	%
Annual expenses (as a percentage of net assets attributable to common stock)⁽³⁾:	
Base management fee ⁽⁴⁾	2.98%
Loan servicing fee ⁽⁵⁾	1.97%
Incentive fee (20% of realized capital gains and 20% of pre-incentive fee net investment income) ⁽⁶⁾	2.18%
Interest payments on borrowed funds ⁽⁷⁾	1.86%
Dividend expense on mandatorily redeemable preferred stock ⁽⁸⁾	2.18%
Other expenses ⁽⁹⁾	1.90%
Total annual expenses	13.07%

- (1) The amounts set forth in this table do not reflect the impact of any sales load, sales commission or other offering expenses borne by Gladstone Capital and its stockholders. The prospectus supplement relating to an offering of securities pursuant to this prospectus will disclose the estimated offering price and the estimated offering expenses and total stockholder transaction expenses borne by Gladstone Capital and its stockholders as a percentage of the offering price. In the event that securities to which this prospectus relates are sold to or through underwriters, the prospectus supplement will also disclose the applicable sales load.
- (2) The expenses of the reinvestment plan are included in stock record expenses, a component of other expenses. The participants in the dividend reinvestment plan will bear a pro rata share of brokerage commissions incurred with respect to open market purchases, if any. See *Dividend Reinvestment Plan* for information on the dividend reinvestment plan.
- (3) The percentages presented in this table are gross of credits to any fees.
- (4) In accordance with the investment advisory and management agreement (the *Advisory Agreement*), our annual base management fee is 1.75% (0.4375% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. In accordance with the requirements of the SEC, the table above shows Gladstone Capital's base management fee as a percentage of average net assets attributable to common shareholders. For purposes of the table, the gross base management fee has been converted to 2.98% of the average net assets as of December 31, 2015 by dividing the total dollar amount of the management fee by Gladstone Capital's average net assets.

Under the Advisory Agreement, the Adviser has provided and continues to provide managerial assistance to our portfolio companies. It may also provide services other than managerial assistance to our portfolio companies and receive fees therefor. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding

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restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. Generally, at the end of each quarter, 100.0% of these fees are voluntarily, irrevocably and unconditionally credited against the base management fee that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser. For the quarter ended December 31, 2015, the base management fee credit was \$0.1 million. Total annualized expenses, based on actual amounts incurred for the quarter ended December 31, 2015, would be \$26.8 million. See *Management Certain Transactions*.

- (5) In addition, the Adviser services, administers and collects on the loans held by Gladstone Business Loan, LLC (*Business Loan*), in return for which the Adviser receives a 1.5% annual loan servicing fee payable monthly by Business Loan based on the monthly aggregate balance of loans held by Business Loan in accordance with our fifth amended and restated credit agreement for our revolving line of credit (the *Credit Facility*). For the three months ended December 31, 2015, the total loan servicing fee was \$1.0 million. The entire loan servicing fee paid to the Adviser by Business Loan is generally voluntarily, irrevocably and unconditionally credited against the base management fee otherwise payable to the Adviser since Business Loan is a consolidated subsidiary of the Company, and overall, the base management fee (including any loan servicing fee) cannot exceed 1.75% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement. See *Management Certain Transactions Investment Advisory and Management Agreement* and footnote 6 below.
- (6) In accordance with our Advisory Agreement, the incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20.0% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a *catch-up* provision measured as of the end of each calendar quarter. The *catch-up* provision requires us to pay 100.0% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125.0% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide the Adviser with 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125.0% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 1.75% base management fee (see footnote 4 above). The capital gains-based incentive fee equals 20.0% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year. We have not recorded any capital gains-based incentive fee from our inception through December 31, 2015.

From time to time, the Adviser has voluntarily, irrevocably and unconditionally agreed to waive a portion of the incentive fees, to the extent net investment income did not cover 100.0% of the distributions to common stockholders during the period. For the quarter ended December 31, 2015, the incentive fee credit was \$0.3 million. There can be no guarantee that the Adviser will continue to credit any portion of the fees under the Advisory Agreement in the future.

After all voluntary credits described in this footnote, footnote 4 above, and footnote 5 above are applied to the base management fee, the loan servicing fee and the incentive fee, the total expenses after fee credits as a percentage of net assets would be 10.34% for the quarter ended December 31, 2015. Total annualized expenses after fee credits, based on actual amounts incurred for the quarter ended December 31, 2015, would be \$21.2 million.

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

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

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

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

$$= 0.25\%$$

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

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

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

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

$$= 0.46\%$$

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

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

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

$$= 1\%$$

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

- (7) Includes amortization of deferred financing costs. As of December 31, 2015, we had \$57.5 million in borrowings outstanding on our Credit Facility.
- (8) Includes amortization of deferred financing costs related to our Series 2021 Term Preferred Stock, as well as amounts paid to preferred stockholders during the three months ended December 31, 2015. See *Description of Our Securities Preferred Stock Series 2021 Term Preferred Stock* for additional information.
- (9) Includes our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations

under the administration agreement. See *Management Certain Transactions Administration Agreement*.

Examples

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Securities. In calculating the following expense amounts, we have assumed that our quarterly operating expenses would remain at the levels set forth in the table above and are gross of credits to any fees. The amounts set forth below do not reflect the impact of sales load or offering expenses to be borne by Gladstone Capital or its stockholders. In the prospectus supplement relating to an offering of securities pursuant to this prospectus, the examples below will be restated to reflect the impact of the estimated offering expenses borne by Gladstone Capital and its stockholders and, in the event that securities to which this prospectus relates are sold to or through underwriters, the impact of the applicable sales load. **The examples below and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, incentive fees, if**

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any, and other expenses) may be greater or less than those shown. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment:				
assuming a 5% annual return consisting entirely of ordinary income ⁽¹⁾⁽²⁾	\$ 137	\$ 377	\$ 576	\$ 941
assuming a 5% annual return consisting entirely of capital gains ⁽²⁾⁽³⁾	\$ 146	\$ 397	\$ 602	\$ 966

- (1) While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Additionally, we have assumed that the entire amount of such 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments.
- (2) While the example assumes reinvestment of all dividends and distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the average cost of shares of our common stock purchased in the open market in the period beginning on or before the payment date of the distribution and ending when the plan agent has expended for such purchases all of the cash that would have been otherwise payable to participants. See *Dividend Reinvestment Plan* for additional information regarding our dividend reinvestment plan.
- (3) For purposes of this example, we have assumed that the entire amount of such 5% annual return would constitute capital gains and that no accumulated capital losses or unrealized depreciation exist that would have to be overcome first before a capital gains based incentive fee is payable.

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ADDITIONAL INFORMATION

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

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

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

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

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RISK FACTORS

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

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

Risks Related to the Economy

Capital markets may experience periods of disruption and instability. Such market conditions may materially and adversely affect debt and equity capital markets in the United States and abroad, which may have a negative impact on our business and operations.

From time to time, capital markets may experience periods of disruption and instability. For example, between 2007 and 2009, the global capital markets experienced an extended period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While the adverse effects of these conditions have abated to a degree, global financial markets experienced significant volatility following the downgrade by Standard & Poor's on August 5, 2011 of the long-term credit rating of U.S. Treasury debt from AAA to AA+. These market conditions have historically and could again have a material adverse effect on debt and equity capital markets in the United States and Europe, which could have a materially negative impact on our business, financial condition and results of operations. We and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital. In such circumstances, equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without general approval by our stockholders, which we currently have, and subsequent approval of the specific issuance by our Board of Directors. In addition, our ability to incur additional indebtedness or issue additional preferred stock is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness under our revolving line of credit or issue additional preferred stock. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

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

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

liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

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Rising interest rates may adversely affect the value of our portfolio investments which could have an adverse effect on our business, financial condition and results of operations.

Our debt investments may be based on floating rates. General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates, including subordinated loans, and senior and junior secured debt securities and loans, and also could increase our interest expense, thereby decreasing our net income. Also, 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 and preferred stock to decrease.

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

Although U.S. lawmakers passed legislation to raise the federal debt ceiling and Standard & Poor's Ratings Services affirmed its AA+ long-term sovereign credit rating on the United States and revised the outlook on the long-term rating from negative to stable in June of 2013, U.S. debt ceiling and budget deficit concerns together with signs of deteriorating sovereign debt conditions in Europe continue to present the possibility of a credit-rating downgrade, economic slowdowns, or a recession for the United States. The impact of any further downgrades to the U.S. government's sovereign credit rating or downgraded sovereign credit ratings of European countries or the Russian Federation, or their perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. These developments, along with any further European sovereign debt issues, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Our portfolio includes a high concentration of oil and gas companies with the fair value of our investments in the oil and gas industry representing approximately \$47.6 million, or 15.9% of our total portfolio at fair value as of December 31, 2015. These businesses are heavily dependent upon the prices of, and demand for, oil and natural gas, which have recently declined significantly and such volatility could continue or increase in the future. A substantial or extended decline in oil and natural gas demand or prices may adversely affect the business, financial condition, cash flow, liquidity or results of operations of these portfolio companies and might impair their ability to meet capital

expenditure obligations and financial commitments. A prolonged or continued decline in oil prices could therefore have a material adverse effect on our business, financial condition and results of operations.

Table of Contents***Risks Related to Our Investments***

We operate in a highly competitive market for investment opportunities.

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

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

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

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

Small and medium-sized businesses may have limited financial resources and may not be able to repay the loans we make to them. Our strategy includes providing financing to portfolio companies that typically do not have readily available access to financing. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower's ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry, or negative economic conditions. Deterioration in a borrower's financial condition and prospects usually will be accompanied by deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guaranties we may have obtained from the borrower's management. As of December 31, 2015, one portfolio company was partially on non-accrual status with an aggregate debt cost basis of approximately \$22.6 million, or 6.7% of the cost

basis of all debt investments in our portfolio. While we are working with the portfolio company to improve its profitability and cash flows, there can be no assurance that our efforts will prove successful. Although we will sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender's security interest.

Small and medium-sized businesses typically have narrower product lines and smaller market shares than large businesses. Because our target portfolio companies are smaller businesses, they will tend to

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be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and other capabilities and a larger number of qualified managerial, and technical personnel.

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

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

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

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

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

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

NAV.

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments, based on the Policy. Our Board of Directors reviews valuation recommendations that are provided by the Valuation Team. In valuing our investment portfolio, several techniques are used, including, a total enterprise value approach, a yield analysis, market quotes, and independent third party assessments. Currently, Standard & Poor's Securities Evaluation, Inc. provides estimates of fair value on our

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proprietary debt investments and we use another independent valuation firm to provide valuation inputs for our significant equity investments, including earnings multiple ranges, as well as other information. In addition to these techniques, other factors are considered when determining fair value of our investments, including but limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on proprietary debt and equity investments made during the current three month reporting period ended December 31, 2015 are generally valued at original cost basis. For additional information on our valuation policies, procedures and processes, refer to Note 2 *Summary of Significant Accounting Policies* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this prospectus.

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

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

Our most recent NAV was calculated on December 31, 2015 and our NAV when calculated effective March 31, 2016 and thereafter may be higher or lower.

As of December 31, 2015, our NAV per share was \$8.38, which was based on the fair value our investments that were reviewed and approved by the Valuation Committee and Board of Directors in connection with financial statements that were audited by our independent registered public accounting firm. NAV per share as of March 31, 2016 may be higher or lower than \$8.38 based on potential changes in valuations, or distributions paid and earnings for the quarter then ended. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis and if our March 31, 2016 fair value is less than the December 31, 2015 fair value, we will record an unrealized loss on our investment portfolio. If the fair value is greater, we will record an unrealized gain on our investment portfolio. Upon publication of our next quarterly NAV per share determination (generally in our next Quarterly Report on Form 10-Q), the market price of our common stock may fluctuate materially.

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

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

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

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and

will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to quickly obtain cash equal to the value

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at which we record our investments if the need arises. This could cause us to miss important investment opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, the Adviser, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

Due to the uncertainty inherent in valuing these securities, the Adviser's determinations of fair value may differ materially from the values that could be obtained if a ready market for these securities existed. Our NAV could be materially affected if the Adviser's determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities.

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

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

In addition, we will generally not be in a position to control any portfolio company by investing in its debt securities. This is particularly true when we invest in syndicated loans, which are loans made by a larger group of investors whose investment objectives may not be completely aligned with ours. As of December 31, 2015, syndicated loans made up approximately 13.4% of our portfolio at cost, or \$50.1 million. We therefore are subject to the risk that other lenders in these investments may make decisions that could decrease the value of our portfolio holdings.

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

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

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

We invest primarily in debt securities issued by our portfolio companies. In some cases portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders thereof are entitled to receive payment of interest and principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such

senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we

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would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company.

We may be unable to invest a significant portion of the net proceeds from an offering or from exiting an investment or other capital on acceptable terms, which could harm our financial condition and operating results.

Delays in investing the net proceeds raised in an offering or from exiting an investment or other capital may cause our performance to be worse than that of other fully invested BDCs or other lenders or investors pursuing comparable investment strategies. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds of any offering or from exiting an investment or other capital on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

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

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. For the quarter ended December 31, 2015, we received principal payments of a combined \$41.3 million, of which \$15.6 million resulted from two portfolio companies that paid off early at par. We will first use any proceeds from prepayments to repay any borrowings outstanding on our revolving line of credit. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

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

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

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

As of December 31, 2015, we had investments in 44 portfolio companies, of which there were five investments that comprised approximately \$96.1 million or 32.1% of our total investment portfolio, at fair value. A consequence of a concentration in a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such investments or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25.0% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25.0% of the value of our total assets. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a materially

adverse effect on us. As of December 31, 2015, our largest industry concentrations of our total investments at fair value were in diversified/conglomerate manufacturing companies, representing 18.8%; oil and gas companies, representing 15.9%; and healthcare, education and childcare

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companies, representing 14.4%. Therefore, we are susceptible to the economic circumstances in these industries, and a downturn in one or more of these industries could have a material adverse effect on our results of operations, financial condition, or cash flows.

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

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

The disposition of our investments may result in contingent liabilities.

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

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

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

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

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

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

When we make a subordinated loan, we may receive warrants to purchase stock issued by the borrower or other yield enhancements, such as success fees. Our goal is to ultimately dispose of these equity interests and realize gains upon our disposition of such interests. We expect that, over time, the gains we realize on these warrants and other yield enhancements will offset any losses we experience on loan defaults. However, any warrants we receive may not

appreciate in value and, in fact, may decline in value and any other yield enhancements, such as success fees, may not be realized. Accordingly, we may not be able to realize gains from our equity interests or other yield enhancements and any gains we do recognize may not be sufficient to offset losses we experience on our loan portfolio.

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

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

Risks Related to Our External Financing

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

We will have a continuing need for capital to finance our investments. As of December 31, 2015, we had \$57.5 million in borrowings outstanding under our Credit Facility, which provides for maximum borrowings of \$170.0 million, with a revolving period end date of January 19, 2019. Our Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. Our Credit Facility contains covenants that require our wholly-owned subsidiary Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies without lenders' consent. The Credit Facility also limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts deemed to have been paid during the prior year in accordance with Section 855(a) of the Code. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, interest rate type, payment frequency and status, average life and lien property. Our Credit Facility further requires us to comply with other financial and operational covenants, which obligate us to, among other things, maintain certain financial ratios, including asset and interest coverage, and a minimum number of 20 obligors in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of \$205.0 million plus 50.0% of all equity and subordinated debt raised after May 1, 2015, which equates to \$214.8 million as of December 31, 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 December 31, 2015, and as defined in the performance guaranty of our Credit Facility, we were in compliance with all of our Credit Facility covenants; however, our continued compliance depends on many factors, some of which are beyond our control.

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

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

The revolving period end date of our Credit Facility is January 19, 2019 (the Revolving Period End Date) and if our Credit Facility is not renewed or extended by the Revolving Period End Date, all principal and interest will

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be due and payable on or before May 1, 2020. Subject to certain terms and conditions, our Credit Facility may be expanded to a total of \$250.0 million through the addition of other lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our Credit Facility. There can be no guarantee that we will be able to renew, extend or replace our Credit Facility upon its Revolving Period End Date on terms that are favorable to us, if at all. Our ability to expand our Credit Facility, and to obtain replacement financing at or before the Revolving Period End Date, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand our Credit Facility, or to renew, extend or refinance our Credit Facility by the Revolving Period End Date, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

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

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

The last equity offering we completed was on October 27, 2015 and November 5, 2015 for a total of 2.3 million shares of common stock at a public offering price of \$8.55 per share, and there can be no assurance that we will be able to raise capital through issuing equity in the near future. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

Senior securities. We may issue senior securities representing indebtedness (including borrowings under our Credit Facility) and senior securities that are stock, such as our Series 2021 Term Preferred Stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue such senior securities in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200.0% on such senior security immediately after each issuance of such senior security. As a result of incurring indebtedness (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue senior securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our senior securities is not at least 200.0%. If the aggregate value of our assets declines, we might be unable to satisfy that 200.0% requirement. To satisfy the 200.0% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when

we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to stockholders. Furthermore, if we have to issue common stock at below NAV per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a)(2)

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of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that is stock.

Common and Convertible Preferred Stock. Because we are constrained in our ability to issue debt or senior securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our existing common stockholder may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. At our most recent annual meeting of stockholders of February 11, 2016, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current NAV per share of our common stock in one or more offerings for a period of one year, subject to certain conditions (including, but not limited to, that the number of common shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale). If we were to sell shares of our common stock below our then current NAV per common share, such sales would result in an immediate dilution to the NAV per common share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or \$5 per \$1,000 of NAV. This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has for the last several years. As noted above, the 1940 Act prohibits the issuance of multiple classes of senior securities that are stock. As a result, we would be prohibited from issuing convertible preferred stock to the extent that such a security was deemed to be a separate class of stock from our outstanding Series 2021 Term Preferred Stock. However, pending legislation in the U.S House of Representatives, if passed, would modify this section of the 1940 Act and allow the issuance of multiple classes of senior securities that are stock, which may lessen our dependence on the issuance of common stock as a financing source.

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

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns on our portfolio, net of expenses. The calculations in the table below are hypothetical, and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10.0)%	(5.0)%	0.0%	5.0%	10.0%
Corresponding return to common stockholder ^(A)	(18.0)%	(9.7)%	(1.3)%	7.0%	15.4%

(A)

The hypothetical return to common stockholders is calculated by multiplying our total assets as of December 31, 2015 by the assumed rates of return and subtracting all interest accrued on our debt for the year ended December 31, 2015, adjusted for the dividends on our Series 2021 Term Preferred Stock; and then dividing the resulting difference by our total assets attributable to common stock. Based on \$328.3 million in total assets, \$57.5 million drawn on our Credit Facility (at cost), \$61.0 million in aggregate liquidation preference of our Series 2021 Term Preferred Stock, and \$196.5 million in net assets, each as of December 31, 2015.

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Based on the outstanding balance on our Credit Facility of \$57.5 million at cost, as of December 31, 2015, the effective annual interest rate of 4.2% as of that date, and aggregate liquidation preference of our Series 2021 Term Preferred Stock of \$61.0 million, our investment portfolio at fair value would have had to produce an annual return of at least 2.4% to cover annual interest payments on the outstanding debt and dividends on our Series 2021 Term Preferred Stock.

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

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

Ultimately, we expect approximately 90.0% of the loans in our portfolio to be at variable rates determined on the basis of the LIBOR and approximately 10.0% to be at fixed rates. As of December 31, 2015, based on the total principal balance of debt outstanding, our portfolio consisted of approximately 83.7% of loans at variable rates with floors, approximately 16.3% at fixed rates.

We currently hold one interest rate cap agreement. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to an interest rate cap agreement is linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement. For additional information on market interest rate fluctuations, see *Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk*.

Risks Related to Our Regulation and Structure

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

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

Such a failure would have a material adverse effect on us and our shares. For additional information regarding asset coverage ratio and RIC requirements, see *Business Material U.S. Federal Income Tax Considerations Regulated Investment Company Status*.

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

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

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

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

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the 1940 Act, which would significantly decrease our operating flexibility.

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

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

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

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

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

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

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

an affiliate of an interested stockholder.

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

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

Risks Related to Our External Management

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

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

discontinuation of its operations or the loss of its key management personnel could have a material adverse effect on our ability to achieve our investment objectives.

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

The Adviser experiences competition in attracting and retaining qualified personnel, particularly investment professionals and senior executives, and we may be unable to maintain or grow our business if we cannot attract and retain such personnel. The Adviser's ability to attract and retain personnel with the requisite credentials, experience and skills depends on several factors including, but not limited to, its ability to offer competitive

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wages, benefits and professional growth opportunities. The Adviser competes with investment funds (such as private equity funds and mezzanine funds) and traditional financial services companies for qualified personnel, many of which have greater resources than us. Searches for qualified personnel may divert management's time from the operation of our business. Strain on the existing personnel resources of the Adviser, in the event that it is unable to attract experienced investment professionals and senior executives, could have a material adverse effect on our business.

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

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

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

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

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

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

The Advisory Agreement entitles the Adviser to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. When calculating our incentive compensation, our pre-incentive fee net investment income excludes realized and unrealized capital losses that we

may incur in the fiscal quarter, even if such capital losses result in a net loss on

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our statement of operations for that quarter. Thus, we may be required to pay the Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter. For additional information on incentive compensation under the Advisory Agreement with the Adviser, see

Business Transactions with Related Parties.

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

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as debt instruments with PIK interest or OID. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser. As of December 31, 2015, we had 14 OID loans, primarily all syndicated investments. For the quarter ended December 31, 2015, we recorded \$0.1 million of OID income and the unamortized balance of OID investments as of December 31, 2015 totaled \$0.5 million. As of December 31, 2015, we had five investments which had a PIK interest component and we recorded PIK interest income of \$0.1 million during the three months ended December 31, 2015. We collected no PIK interest in cash for the quarter ended December 31, 2015.

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

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

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

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

may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser.
Our Board of

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

More specifically, in certain circumstances we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of December 31, 2015, our Board of Directors has approved the following types of co-investment transactions:

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

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

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

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

In the course of our investing activities, we will pay management and incentive fees to the Adviser and will reimburse the Administrator for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through our investors themselves making direct investments. As a result of this arrangement, there may be times when the management team of the Adviser has interests that differ from those of our stockholders, giving rise to a conflict. In addition, as a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. While, neither we nor the Adviser currently receives fees in connection with managerial assistance, the Adviser and Gladstone Securities have, at various times, including in the three months ended December 31, 2015, provided other services to certain of our portfolio companies and received fees from the portfolio companies for these other services. Specifically, Gladstone Securities may be paid an investment banking fee in an amount not greater than 1% of our investment in a portfolio company at the closing of such investment. The investment banking fee is not credited against the base management fee. See

Management Certain Transactions Investment Banking Services.

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

The Advisory Agreement provides for a base management fee based on our gross assets. Since our 2007 fiscal year, our Board of Directors has accepted on a quarterly basis voluntary, unconditional and irrevocable credits to reduce the annual base management fee, which was previously 2.0%, but following an amendment to the

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Advisory Agreement, effective July 1, 2015 is now 1.75%, on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, and any waived fees may not be recouped by the Adviser in the future. However, the Adviser is not required to issue these or other credits of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these fees will increase. If the Adviser does not issue these credits in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

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

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

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

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

Risks Related to an Investment in Our Securities

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

Shares of closed-end investment companies frequently trade at a discount from NAV per common share. Since our inception, our common stock has at times traded above NAV, and at times below NAV per share. Subsequent to December 31, 2015, our common stock has traded at discounts of up to 43.8% of our NAV per share, which was \$8.38 as of December 31, 2015. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our NAV.

Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our common stockholders and our independent directors. Additionally, when our common stock is trading below its NAV per share, our dividend yield may exceed the weighted average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional shares in such circumstances. Thus, for as long as our common stock may trade below NAV, we will be subject to significant constraints on our ability to raise capital through the issuance of

common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

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The market price of our shares may fluctuate significantly.

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

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

general economic trends and other external factors;

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

significant volatility in the market price and trading volume of shares of RICs, BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;

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

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

loss of BDC or RIC status;

changes in our earnings or variations in our operating results;

changes in prevailing interest rates;

changes in the value of our portfolio of investments;

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

departure of key personnel;

operating performance of companies comparable to us;

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

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

loss of a major funding source.

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

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

We may experience fluctuations in our quarterly and annual operating results due to a number of factors, including, among others, variations in our investment income, the interest rates payable on the debt securities we acquire, the default rates on such securities, variations in and the timing of the recognition of realized and unrealized gains or losses, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions, including the impacts of inflation. The majority of our portfolio companies are in industries that are directly impacted by inflation, such as manufacturing and consumer goods and services. Our portfolio companies may not be able to pass on to customers increases in their costs of production which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies' operating results due to inflation could

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adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future realized and unrealized losses and therefore reduce our net assets resulting from operations. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

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

We intend to distribute at least 90.0% of our investment company taxable income to our stockholders on a quarterly basis by paying monthly distributions. We expect to retain some or all net realized long-term capital gains by first offsetting them with realized capital losses, and secondly through a deemed distribution to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine in certain cases to distribute these gains to our common stockholders. In addition, our Credit Facility restricts the amount of distributions we are permitted to make. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions. Further, the terms of our outstanding preferred stock may restrict our ability to pay distributions on our common stock or require us to redeem shares of preferred stock if we do not meet the required asset coverage ratio for senior securities that are stock and fail to cure such required asset coverage ratio within the applicable cure period. See *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.

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

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

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

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

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

There are significant capital raising constraints applicable to us under the 1940 Act when our common stock is trading below its NAV per share. In the event that we issue subscription rights to our existing stockholders to subscribe for and purchase additional shares of our common stock, there is a significant possibility that the rights offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their subscription rights should expect that they will, upon completion of the

rights offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their subscription rights. In addition, because the subscription price of the rights offering is

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likely to be less than our most recently determined NAV per common share, our common stockholders are likely to experience an immediate dilution of the per share NAV of their shares as a result of the offer. As a result of these factors, any future rights offerings of our common stock, or our announcement of our intention to conduct a rights offering, could have a material adverse impact on the trading price of our common stock.

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

At our most recent annual meeting of stockholders on February 11, 2016, our stockholders approved a proposal designed to allow us to sell shares of our common stock below the then current NAV per share of our common stock in one or more offerings for a period of one year from the date of such approval, subject to certain conditions (including, but not limited to, that the number of common shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale). Absent such stockholder approval, we would not be able to access the capital markets in an offering at below the then current NAV per share due to restrictions applicable to BDCs under the 1940 Act. During the past year, our common stock has traded consistently below NAV. Any decision to sell shares of our common stock below the then current NAV per share of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders' best interests.

Pursuant to stockholder approval of a similar proposal at our 2015 Annual Meeting of Stockholders, with our Board of Directors' approval, we sold an aggregate of 131,462 shares of our common stock under our at-the-market program for gross proceeds of a combined \$1.2 million at an average price of \$8.89 per share, which was below our then current NAV of an average \$9.41 per share during March and April 2015. We again with our Board of Directors' approval, completed a public offering of an aggregate of 2.3 million shares of our common stock in October and November 2015, inclusive of the overallotment for gross proceeds totaling \$19.7 million, at a public offering price of \$8.55 per share, which was below our then current NAV of \$9.06 per share.

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

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 representing indebtedness, including borrowing money

from banks or other financial institutions or senior securities that are stock, such as

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our mandatorily redeemable preferred stock, only in amounts such that our asset coverage on each senior security, as defined in the 1940 Act, equals at least 200% after each such incurrence or issuance. Further, we may not be permitted to declare a dividend or make any distribution to our outstanding stockholders or repurchase shares until such time as we satisfy these tests. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder dilution. We have incurred leverage to generate capital to make additional investments. If the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which could prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous.

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

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

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. For more detail regarding senior rights of preferred stockholders, see *Description of Our Securities Preferred Stock*.

Though we may repurchase shares pursuant to our common stock share repurchase program, we are not obligated to do so and if we do, we may purchase only a limited number of shares of common stock.

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of our common stock. The share repurchase program will terminate at the earlier of the purchase of up for an aggregate of \$7.5 million of our common stock or January 31, 2017. We intend to purchase through open market transactions on U.S. exchanges or in privately negotiated transactions, in accordance with applicable securities laws, and any market purchases will be made during applicable trading window periods or pursuant to any applicable Rule 10b5-1 trading plans. The timing, prices, and sizes of repurchases will depend upon prevailing market prices, general economic and market conditions and other considerations. Through the date of this filing, we have purchased 45,786

shares of our common stock at an average share price of \$6.14, resulting in gross purchases of \$0.3 million.

We will disclose relevant information to our stockholders in current or periodic reports under the Exchange Act or other methods that comply with applicable federal law. Although we have announced a share repurchase

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program, we are not obligated to acquire any amount of stock, and holders of our common stock should not rely on the share repurchase program to increase their liquidity.

Other Risks

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

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

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

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

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

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided to us by third-party service providers. We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber-incident, do not guarantee that a cyber-incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident.

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

Our business is dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a

number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

sudden electrical or telecommunications outages;

natural disasters such as earthquakes, tornadoes and hurricanes;

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disease pandemics;

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

cyber-attacks.

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future 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, grow, expect, should, would, if, seek, possible, potential, likely or the negative of such terms or comparable terms. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) the recurrence of adverse events in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker and Robert L. Marcotte; (4) changes in our investment objectives and strategy; (5) availability, terms (including the possibility of interest rate volatility) and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; (8) our ability to maintain our qualification as a RIC and as a Business Development Company; and (9) those factors described in the Risk Factors section of this prospectus and any accompanying prospectus supplement. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus. The forward-looking statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act.

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we expect to use the net proceeds from the sale of the Securities first to pay down existing short-term debt, then to make investments in small and mid-sized businesses in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. For the quarter ended December 31, 2015, indebtedness under our Credit Facility had a weighted average interest rate of approximately 4.2%, excluding effects of amortization on our deferred financing costs, and the revolving period ends on January 19, 2019. We anticipate that substantially all of the net proceeds of any offering of Securities will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of any offering of Securities primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash dividends, for each taxable year, a minimum of 90% of our annual ordinary income and short-term capital gains, if any, to our stockholders in the form of monthly dividends. We intend to retain long-term capital gains and treat them as deemed distributions for tax purposes. We report the estimated tax characterization of each dividend when declared while the actual tax characterization of dividends for each calendar year are reported to each stockholder on IRS Form 1099-DIV. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of record of common stock, all cash distributions paid with respect to our common stock can be reinvested automatically under our dividend reinvestment plan in

additional whole and fractional shares of our common stock. A stockholder whose

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shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in a dividend reinvestment plan. See *Risk Factors Risks Related to Our Regulation and Structure We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations.*

Our common stock is quoted on the NASDAQ under the symbol GLAD. Our common stock has historically traded at prices both above and below its NAV. There can be no assurance that any premium to NAV will be attained or maintained. As of March 16, 2016 there were 41 stockholders of record, meaning individuals or entities that we carry in our records as the registered holder (although not necessarily the beneficial owner) of our common stock.

The following table sets forth the range of high and low intraday sale prices of our common stock as reported on the NASDAQ and the distributions declared by us for the last two completed fiscal years and the current fiscal year through March 16, 2016.

COMMON SHARE PRICE DATA

	NAV ⁽¹⁾	High	Low	Distribution Declared	(Discount) or Premium of High Sales Price to NAV ⁽²⁾	(Discount) or Premium of Low Sales Price to NAV ⁽²⁾
Fiscal Year ending September 30, 2014⁽³⁾						
First Quarter	10.10	9.92	8.60	0.21	(1.8)	(14.9)
Second Quarter	9.79	10.37	9.27	0.21	5.9	(5.3)
Third Quarter	8.62	10.21	9.41	0.21	18.4	9.2
Fourth Quarter	9.51	10.27	8.06	0.21	8.0	(15.2)
Fiscal Year ending September 30, 2015⁽⁴⁾						
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	9.06	9.25	7.58	0.21	2.1	(16.3)
Fiscal Year ending September 30, 2016⁽⁵⁾						
First Quarter	8.38	9.09	6.39	0.21	8.5	(23.75)
Second Quarter (through March 16, 2016)	*	7.59	4.71	0.21	*	*

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low intraday sale prices. The NAV per shares shown are based on outstanding shares at the end of each period.
- (2) The (discounts) premiums to NAV per share set forth in these columns represent the high or low, as applicable, intraday sale price per share for the relevant quarter minus the NAV per share as of the end of such quarter, and therefore may not reflect the (discount) premium to NAV per share on the date of the high and low intraday sale

prices.

- (3) For the fiscal year ended September 30, 2014, common stockholder distributions declared and paid exceeded our accumulated earnings and profits (after taking into account term preferred stock dividends), which resulted in a partial return of capital of approximately \$15.2 million, or approximately \$0.72 per share. The return of capital for the year ended September 30, 2014, primarily resulted from GAAP realized losses being recognized as ordinary losses for federal income tax purposes.
- (4) For the fiscal year ended September 30, 2015, our current and accumulated earnings and profits (after taking into account mandatorily redeemable preferred stock dividends) exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$1.7 million of the first common distributions paid in fiscal year 2016 as having been paid in the respective prior year.

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- (5) 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 year and distributions paid during the full year.

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

Share Repurchases

The Company has repurchased 45,786 shares of its common stock at a cost of \$0.3 million pursuant to a share repurchase program authorized by our Board of Directors in January 2016. The total authorized amount of the share repurchase program is \$7.5 million shares of common stock. See *Share Repurchase*.

The following are our outstanding classes of securities as of March 16, 2016.

Title of Class	Amount Authorized	Amount Held by us or for Our Account	Amount Outstanding
Common Stock	46,000,000		23,385,836
6.75% Series 2021 Term Preferred Stock	4,000,000		2,440,000

RATIOS OF EARNINGS TO FIXED CHARGES

For the three months ended December 31, 2015 and the years ended September 30, 2015, 2014, 2013, 2012 and 2011, the ratios of three income metrics to fixed charges of the Company, computed as set forth below, were as follows:

	Quarter Ended December 31, 2015	Year Ended September 30,				
		2015	2014	2013	2012	2011
Net investment income plus fixed charges to fixed charges	3.3x	3.0x	3.5x	3.6x	3.3x	5.5x
Net investment income plus net realized losses plus fixed charges to fixed charges ^(A)	10.7x	(0.8x)	1.9x	2.8x	1.8x	5.2x
Net increase (decrease) in net assets resulting from operations plus fixed charges to fixed charges ^(B)	(3.2x)	1.9x	2.6x	5.5x	0.0x	(4.2x)

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

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

(B) Due to unrealized depreciation of certain investments during each of the quarter ended December 31, 2015 and the years ended September 30, 2012 and 2011, the ratios of net increase (decrease) in net assets resulting from

operations plus fixed charges to fixed charges were less than 1:1. We would have needed to generate additional earnings of approximately \$9.0 million, \$8.5 million and \$21.5 million, respectively, to achieve a coverage ratio of 1:1.

Table of Contents**CONSOLIDATED SELECTED FINANCIAL DATA**

The following consolidated selected financial data for the fiscal years ended September 30, 2015, 2014, 2013, 2012, and 2011 are derived from our audited consolidated financial statements. The consolidated financial data for the three months ended December 31, 2015 and 2014 is derived from our unaudited condensed consolidated financial statements included in this prospectus. The other data included in the second table below is also unaudited. The data should be read in conjunction with our accompanying consolidated financial statements and notes thereto and *Management's Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this prospectus.

(dollar amounts in thousands, except per share and per unit data)

	Quarter Ended December 31,		Year Ended September 30,					
	2015	2014	2015	2014	2013	2012	2011	
<u>Statement of Operations Data:</u>								
Total Investment Income	\$ 10,060	\$ 8,726	\$ 38,058	\$ 36,585	\$ 36,154	\$ 40,322	\$ 35,211	
Total Expenses, Net of Credits from Adviser	5,301	5,035	20,358	18,217	17,768	21,278	16,799	
Net Investment Income	4,759	3,691	17,700	18,368	18,386	19,044	18,412	
Net Realized and Unrealized (Loss) Gain on Investments, Borrowings and Other	(13,463)	3,360	(9,216)	(7,135)	13,833	(27,052)	(39,511)	
Net (Decrease) Increase in Net Assets Resulting from Operations	\$ (8,704)	\$ 331	\$ 8,484	\$ 11,233	\$ 32,219	\$ (8,008)	\$ (21,099)	
<u>Per Share Data:</u>								
Net Investment Income per Common Share Basic and Diluted ^(A)	\$ 0.21	\$ 0.18	\$ 0.84	\$ 0.87	\$ 0.88	\$ 0.91	\$ 0.88	
Net (Decrease) Increase in Net	(0.38)	0.02	0.40	0.53	1.53)	(0.38)	(1.00)	

Assets Resulting from Operations per Common Share Basic and Diluted ^(A)							
Distributions Declared and Paid Per Common Share ^(B)							
From ordinary income	0.21	0.21	0.84	0.12	0.78	0.77	0.84
From return of capital				0.72	0.06	0.07	
Statement of Assets and Liabilities Data:							
Total Assets	\$ 328,283	\$ 343,981	\$ 382,482	\$ 301,429	\$ 295,091	\$ 293,402	\$ 317,624
Net Assets	196,470	195,470	191,444	199,660	205,992	188,564	213,721
Net Asset Value Per Common Share							
	8.38	9.31	9.06	9.81	9.81	8.98	10.16
Common Shares Outstanding							
	23,431,622	21,000,160	21,131,622	21,000,160	21,000,160	21,000,160	21,039,242
Weighted Common Shares Outstanding Basic and Diluted							
	22,687,057	21,000,160	21,066,844	21,000,160	21,000,160	21,011,123	21,039,242
Senior Securities Data:							
Borrowings under Credit Facility, at cost ^(c)							
	\$ 57,500	\$ 83,500	\$ 127,300	\$ 36,700	\$ 46,900	\$ 58,800	\$ 99,400
Mandatorily redeemable preferred stock ^(c)							
	61,000	61,000	61,000	61,000	38,497	38,497	

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

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- (B) The tax character of our distributions paid per common share is an estimate for periods that are not full tax years and is assessed based on full year distributions made as well as full year investment company taxable income.
- (C) See *Management's Discussion and Analysis of Financial Condition and Results of Operations* for more information regarding our level of indebtedness.

	Quarter Ended December 31,			Year Ended September 30,			
	2015	2014	2015	2014	2013	2012	2011
Other Unaudited Data:							
Number of Portfolio Companies at Period End	44	49	48	45	47	50	59
Average Size of Portfolio Company Investment at Cost	\$ 8,475	\$ 7,875	\$ 8,547	\$ 7,762	\$ 7,069	\$ 7,300	\$ 6,488
Principal Amount of New Investments	3,800	44,099	102,299	81,731	80,418	45,050	110,903
Proceeds from Loan Repayments, Investments Sold and Exits	61,207	12,210	40,273	72,560	117,048	73,857	50,002
Weighted Average Yield on Investments ^(D)	11.27%	10.81%	10.93%	11.47%	11.63%	11.25%	11.21%
Total Return ^(E)	(7.76)	(3.45)	2.40	9.62	9.90	41.39	(33.77)

- (D) Weighted average yield on investments equals interest income on investments divided by the weighted average interest-bearing principal balance throughout the period.
- (E) Total return equals the change in the ending market value of our common stock from the beginning of the period, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders* elsewhere in this prospectus.

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	Year Ended September 30, 2016			
	Quarter Ended December 31, 2015	Quarter Ended March 31, 2016	Quarter Ended June 30, 2016	Quarter Ended September 30, 2016
Total investment income	\$ 10,060	\$ *	\$ *	\$ *
Net investment income	4,759	*	*	*
Net decrease in net assets resulting from operations	(8,704)	*	*	*
Net Decrease in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted)	\$ (0.38)	\$ *	\$ *	\$ *

* Not yet available

	Year Ended September 30, 2015			
	Quarter Ended December 31, 2014	Quarter Ended March 31, 2015	Quarter Ended June 30, 2015	Quarter Ended September 30, 2015
Total investment income	\$ 8,726	\$ 9,223	\$ 9,935	\$ 10,174
Net investment income	3,691	3,693	4,836	5,480
Net increase (decrease) in net assets resulting from operations	331	9,542	3,307	(4,696)
Net Increase (Decrease) in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted)	\$ 0.02	\$ 0.45	\$ (0.16)	\$ (0.22)

	Year Ended September 30, 2014			
	Quarter Ended December 31, 2013	Quarter Ended March 31, 2014	Quarter Ended June 30, 2014	Quarter Ended September 30, 2014
Total investment income	\$ 8,392	\$ 9,331	\$ 10,180	\$ 8,682
Net investment income	4,410	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
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 Share (Basic and Diluted)	\$ 0.40	\$ (0.13)	\$ (0.10)	\$ 1.36

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

The following analysis of our financial condition and results of operations should be read in conjunction with our accompanying *Consolidated Financial Statements* and the notes thereto contained elsewhere in this prospectus. Historical financial condition and results of operations and percentage relationships among any amounts in the financial statements are not necessarily indicative of financial condition, results of operations or percentage relationships for any future periods. Except per share amounts, dollar amounts in the tables included herein are in thousands unless otherwise indicated.

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 \$8 million to \$30 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 December 31, 2015, our investment portfolio was made up of approximately 90.6% debt investments and 9.4% 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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Additionally, since February 2011, Gladstone Securities, LLC (*Gladstone Securities*), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee.

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

Business

Portfolio Activity

During the three months ended December 31, 2015, we invested \$3.8 million in one new proprietary investment and exited five portfolio companies, resulting in a net reduction in our overall portfolio of four portfolio companies. Our focus going into 2016 will be to rebuild our investment portfolio by making new investments and to exit 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.

Capital Raising

We issued shares of our common stock in an overnight offering in October 2015 with the overallotment closing in November 2015 at a public offering price of \$8.55 per share, which was below the then current net asset value (*NAV*) of \$9.06 per share. The resulting proceeds, in part, allowed us to grow the portfolio by making new investments, generate additional income through new investments, and provide us additional equity capital to help ensure continued compliance with regulatory tests. Refer to *Liquidity and Capital Resources Equity Common Stock* for further discussion of our common stock offerings.

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of the Company's common stock. The repurchase program does not obligate the Company to acquire any particular number of shares of common stock. Refer to *Recent Developments* for further discussion of our common stock share repurchase program.

Although we were able to access the capital markets over the last year, and most recently, this quarter, uncertain market conditions continue to affect the trading price of our capital stock and thus may inhibit our ability to finance new investments through the issuance of equity. The volatile nature of the energy markets and the current prolonged period of depressed oil and natural gas sales prices that we are now experiencing, is not expected to have a material adverse effect on our results of operations and financial condition; however the economy as a whole and particularly companies that own oil and natural gas investments, like ours, are experiencing the impact of lower trading prices in their capital stock. In addition, the current volatility in the credit market and the uncertainty surrounding the U.S. economy have led to significant stock market fluctuations, particularly with respect to the stock of financial services companies like ours. During times of increased price volatility, our common stock may be more likely to trade at a price below our NAV per share, which is not uncommon for BDCs like us.

On February 5, 2016, the closing market price of our common stock was \$6.06, a 27.7% discount to our December 31, 2015, NAV per share of \$8.38. When our stock trades below NAV per common share, as it has consistently traded over the last several years, our ability to issue equity is constrained by provisions of the 1940

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Act, which generally prohibits the issuance and sale of our common stock below NAV per common share without stockholder approval, other than through sales to our then-existing stockholders pursuant to a rights offering. At our annual meeting of stockholders held on February 11, 2016, 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 \$170.0 million revolving line of credit, our Credit Facility. Additionally, our Credit Facility contains covenants regarding the maintenance of certain minimum loan concentrations and net worth, which are affected by the decrease in the aggregate value of our portfolio. Failure to meet these requirements would result in a default which, if we are unable to obtain a waiver from our lenders, would cause an acceleration of our repayment obligations under our Credit Facility. As of December 31, 2015, we were in compliance with all of our Credit Facility's covenants. Refer to *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of our Credit Facility.

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 on an annual basis 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 of the 1940 Act) of at least 200.0% on our senior securities representing indebtedness and our senior securities that are stock.

We expect that, given these regulatory and contractual constraints in combination with current market conditions, the debt and equity capital available to us may be limited in the near term. However, we believe that the recent amendments to our Credit Facility to decrease the interest rate on advances and extend its revolving period end date until 2019, our syndication and expansion of our Credit Facility in June 2015 and our ability to co-invest with Gladstone Investment 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 December 31, 2015, while we did not close any new originations, we did invest in one new portfolio company through a restructure and have focused on seeking prospective 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