GLADSTONE CAPITAL CORP
Form 497
October 27, 2016
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Filed pursuant to Rule 497
File No. 333-208637

PROSPECTUS SUPPLEMENT

(to Prospectus dated March 29, 2016)

2,000,000 Shares

Common Stock

We are offering 2,000,000 shares of our common stock. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our common stock is traded on the NASDAQ Global Select Market (NASDAQ) under the symbol GLAD. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

These shares 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 25, 2016 was $8.19 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	$ 7.98	$ 15,960,000
Underwriting discounts and commissions (sales load)	$ 0.3192	$ 638,400
Proceeds to Gladstone Capital Corporation, before expenses[(1)]	$ 7.6608	$ 15,321,600

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

(2) We have granted the underwriters a 30-day option to purchase an additional 300,000 shares of common stock 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 $734,160, and the total proceeds, before expenses, to us would be $17,619,840. See *Underwriting* on page S-66 of this prospectus supplement.

The underwriters are expected to deliver the shares on or about October 31, 2016.

Joint Book-Running Managers

Janney Montgomery Scott **D.A. Davidson & Co.**
Ladenburg Thalmann **Wunderlich**

Co-Managers

Maxim Group LLC **National Securities Corporation** **J.J.B. Hilliard, W.L. Lyons, LLC**

Prospectus Supplement dated October 26, 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 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.

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

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 distributer 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	2,000,000 shares (or 2,300,000 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	25,344,422 shares (or 25,644,422 shares if the underwriters exercise their overallotment option in full).
Use of proceeds	We estimate that the net proceeds from this offering will be approximately $15.1 million (or approximately $17.4 million, if the underwriters exercise their overallotment option in full), after deducting underwriting discounts and commissions and expenses of this offering of approximately $240,000 payable by us.
	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 *Use of Proceeds* beginning on page S-16 of this prospectus supplement for more information.
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.

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 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)	1.50%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses	5.50%
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, is based on a public offering price of $7.98 per share. 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 1.31%. 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% × (2.00% - 1.75%)

= 0.25%

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

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

= (100% × 0.4375%) + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

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

= 20% × (6% - 1%)

= 20% × 5%

= 1%

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

Example

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed 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 mate