GLADSTONE CAPITAL CORP
Form 497
May 17, 2010

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PROSPECTUS SUPPLEMENT **TO PROSPECTUS DATED JANUARY 28, 2010**

Up to 2,000,000 Shares of Common Stock

Gladstone Capital Corporation is a specialty finance company that provides capital to small and medium sized U.S. businesses. We operate as a closed-end, non-diversified management investment company, and have elected to be treated as a business development company under the Investment Company Act of 1940, as amended, or the "1940 Act." In addition, for tax purposes we have elected to be treated as a regulated investment company, or "RIC," under the Internal Revenue Code of 1986, as amended.

We have entered into an equity distribution agreement with BB&T Capital Markets, a division of Scott & Stringfellow, LLC, which we refer to as the "Sales Manager," relating to the shares of our common stock, par value $0.001 per share, offered by this prospectus supplement and the accompanying prospectus. In accordance with the terms of the equity distribution agreement, we may offer and sell up to 2,000,000 of our shares of common stock from time to time through the Sales Manager as our agent for the offer and sale of the shares of common stock.

Our common stock is traded on the Nasdaq Global Select Market under the symbol "GLAD." As of May 13, 2010, the last reported sale price for shares of our common stock was $12.13.

Sales of shares our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be "at the market" as defined in Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), including sales made directly on the Nasdaq Global Select Market or sales made to or through a market maker other than on an exchange.

The Sales Manager will receive from us a commission equal to 2.0% of the gross sales price of all shares of common stock sold through it as Sales Manager under the equity distribution agreement. In connection with the sale of the common stock on our behalf, the Sales Manager may be deemed to be an "underwriter" within the meaning of the Securities Act, and the compensation of a Sales Manager may be deemed to be underwriting commissions or discounts.

The Sales Manager is not required to sell any specific number or dollar amount of common stock, but upon receiving written instructions from us will use its commercially reasonable efforts to sell the common stock offered by this prospectus supplement and the accompanying prospectus. See "Plan of Distribution" on page S-34 of this prospectus supplement.

Investing in our securities involves certain risks. You could lose some or all of your investment. See "Risk Factors" beginning on page S-7 of this prospectus supplement and page 9 of the accompanying prospectus. You should consider carefully these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our securities.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

BB&T Capital Markets

A division of Scott & Stringfellow, LLC

The date of this prospectus supplement is May 17, 2010

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Prospectus Supplement

Prospectus

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement

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and the accompanying prospectus 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 supplement and the accompanying prospectus 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.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary contains basic information about this offering. It likely does not contain all the information that is important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred in this prospectus supplement and the accompanying prospectus. You should carefully read the section titled "Risk Factors" on page S-7 of this prospectus supplement and page 9 of the accompanying prospectus before deciding to invest in shares of our common stock. 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; and "Gladstone Companies" refers to our Adviser and its affiliated companies.

Gladstone Capital Corporation

General

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. Our investment objective is to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are substantially owned by leveraged buyout funds or individual investors or are family-owned businesses, with a particular focus on senior notes. In addition, we may acquire from others existing loans that meet this profile. We also seek to provide our stockholders with long-term capital growth through appreciation in the value of warrants or other equity instruments that we may receive when we make loans. We operate as a closed-end, non-diversified management investment company, and we have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, which we refer to as the 1940 Act. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, which we refer to as the Code.

We seek to invest in small and medium-sized private U.S. businesses that meet certain criteria, including some, but not necessarily all, of the following: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower's cash flow, reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds) and the potential to realize appreciation and gain liquidity in our equity positions, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering of the borrower's stock or by exercising our right to require the borrower to repurchase our warrants, though there can be no assurance that we will always have these rights. We seek to lend to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control. Our loans typically range from $5 million to $20 million, although this investment size may vary proportionately as the size of our capital base changes, generally mature in no more than seven years and accrue interest at a fixed or variable rate that exceeds the prime rate.

Our Investment Adviser and Administrator

Our Adviser is our affiliate and investment adviser and is led by a management team which has extensive experience in our lines of business. Excluding our chief financial officer, all of our executive officers serve as either directors or executive officers, or both, of Gladstone Commercial, a publicly traded real estate investment trust; Gladstone Investment, a publicly traded business development company; our Adviser; and our Administrator. Our Administrator employs our chief financial officer, chief compliance officer, internal counsel, controller, treasurer and their respective staffs.

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Our Adviser and our Administrator also provide investment advisory and administrative services, respectively, to our affiliates Gladstone Commercial, Gladstone Investment and Gladstone Land Corporation, an agricultural real estate company owned by our chairman and chief executive officer, David Gladstone. In the future, our Adviser may provide investment advisory and administrative services to other funds, both public and private, of which it is the sponsor.

We have been externally managed by our Adviser pursuant to a contractual investment advisory arrangement since October 1, 2004 (the "Advisory Agreement"). Our 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. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington D.C., and our Adviser also has offices in New York, Connecticut, New Jersey, Illinois, Texas and Georgia.

Our Investment Strategy

We seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are substantially owned by leveraged buyout funds or individual investors or are family-owned businesses, with a particular focus on senior notes and senior subordinated notes. In addition, we may acquire from others existing loans that meet this profile. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans. We seek to invest primarily in three categories of debt of private companies:

Senior Notes. We seek to invest a portion of our assets in senior notes of borrowers. Using its assets and cash flow as collateral, a borrower typically uses senior notes to cover a substantial portion of the funding needed to operate. Senior lenders are exposed to the least risk of all providers of debt because they command a senior position with respect to scheduled interest and principal payments. However, unlike senior subordinated and junior subordinated lenders, these senior lenders typically do not receive any stock, warrants to purchase stock of the borrowers or other yield enhancements. As such, they generally do not participate in the equity appreciation of the value of the business. Senior notes may include revolving lines of credit, senior term loans, senior syndicated loans and senior last-out tranche loans. Currently, we make investments in senior notes only in combination with senior subordinated notes.

Senior Subordinated Notes. We seek to invest a portion of our assets in senior subordinated notes, which include second lien notes. Holders of senior subordinated notes are subordinated to the rights of holders of senior debt in their right to receive principal and interest payments or, in the case of last out tranches of senior debt, liquidation proceeds from the borrower. As a result, senior subordinated notes are riskier than senior notes. Although such loans are sometimes secured by significant collateral, the lender is largely dependent on the borrower's cash flow for repayment. Additionally, lenders may receive warrants to acquire shares of stock in borrowers or other yield enhancements in connection with these loans. Senior subordinated notes include second lien notes and syndicated second lien notes.

Junior Subordinated Notes. We also seek to invest a small portion of our assets in junior subordinated notes, which include mezzanine notes. Holders of junior subordinated notes are subordinated to the rights of the holders of senior debt and senior subordinated debt in their rights to receive principal and interest payments from the borrower. The risk profile of junior subordinated notes is high, which permits the junior subordinated lender to obtain higher interest rates and more equity and equity-like compensation.

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Recent Developments

Portfolio Matters

Subsequent to March 31, 2010, through May 4, 2010, we extended approximately $1.2 million of revolver draws and additional investments to existing portfolio companies. In addition, we extended $0.4 million in a new investment, FedCap Partners, LLC, which is a fund that invests in government contractors. Our investment commitment in FedCap Partners is the lesser of $2.0 million or 10% of the fund's aggregate investor commitments. We also received approximately $15.0 million from scheduled and unscheduled loan repayments and a loan payoff. This included a $13.6 million payoff from VantaCore.

The Offering

Common Stock offered by us	Up to 2,000,000 shares
Common Stock outstanding as of the date of this Prospectus Supplement	21,039,242 shares
Use of proceeds	We intend to use the net proceeds from the sale of our common stock to first pay down existing short-term borrowings on our line of credit, then to draw down on that line of credit to make investments in small and mid-sized businesses in accordance with our investment objective, with any remaining proceeds to be used for other general corporate purposes. See "Use of Proceeds" in this prospectus supplement.
Nasdaq Global Select Market Symbol	GLAD
Risk Factors	See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest 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

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or expenses as investors in Gladstone Capital. The following percentages were calculated based on actual expenses incurred in the quarter ended March 31, 2010 and net assets as of March 31, 2010.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)	2.00%
Offering expenses borne by us (as a percentage of offering price)	1.44%
Dividend reinvestment plan expenses(1)	None
Total stockholder transaction expenses (as a percentage of offering price)	3.44%
Estimated annual expenses (as a percentage of net assets attributable to common stock):	
Management fees(2)	2.50%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(3)	1.68%
Interest payments on borrowed funds(4)	2.49%
Other expenses(5)	1.73%
Total annual expenses (estimated)(2)(3)(5)	8.40%

(1) The expenses of the reinvestment plan are included in stock record expenses, a component of "Other expenses." We do not have a cash purchase plan. 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.

(2) Our annual base management fee is 2.0% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. For the three months ended March 31, 2010, our Adviser voluntarily agreed to waive the annual base management fee of 2.0% to 0.5% for those senior syndicated loan participations that we purchase using borrowings from our credit facility. Although there can be no guarantee that our Adviser will continue to waive any portion of the fees due under the Advisory Agreement, on an annual basis after giving effect to this waiver, the estimated management fees as a percentage of net assets attributable to common stock were 2.49% and the total estimated annual expenses as a percentage of net assets attributable to common stock were 8.39%. See "Management Certain Transactions Investment Advisory and Management Agreement" in the accompanying prospectus and footnote 3 below.

(3) 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% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate of our net assets, subject to a "catch-up" provision measured as of the end of each calendar quarter. The "catch-up" provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The "catch-up" provision is meant to provide our Adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 2 above). The capital gains-based incentive fee equals 20% of our net realized capital gains since our inception, if any,

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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.

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

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

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

= 100% × (2.00% - 1.75%)

= 0.25%

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

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

= (100% × 0.4375%) + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

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

= 20% × (6% - 1%)

= 20% × 5%

= 1%

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

(4) We entered into a revolving credit facility, effective March 15, 2010, under which our borrowing capacity is $127 million. We have drawn down on this credit facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of our senior securities. Assuming that we borrowed $127 million at an interest rate of 2.0% plus an additional fee related to borrowings of 4.5%, for an aggregate rate of 6.5%, interest payments on borrowed funds would have been 3.24% of our net assets as of March 31, 2010.

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

Example

The following example demonstrates 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.

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In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 99	$ 224	$ 345	$ 630

While the example assumes, as required by the Securities and Exchange Commission, which we refer to as 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 the above example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments. Additionally, because the capital gains-based incentive fee is calculated on a cumulative basis (computed net of all realized capital losses and unrealized capital depreciation) and because of the significant capital losses realized to date, we have assumed that we will not trigger the payment of any capital gains-based incentive fee in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors after such expenses, would be higher than reflected in the example. The expenses you would pay, based on a $1,000 investment, and assuming a 5% annual return resulting entirely from net realized capital gains (disregarding for purposes of this example all net historical realized losses and aggregate unrealized depreciation) (and therefore subject to the capital gains-based incentive fee), and otherwise making the same assumptions in the example above, would be: 1 year, $109; 3 years, $233; 5 years, $354; and 10 years, $638. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, 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 market price per share of our common stock at the close of trading on the valuation date for the dividend. See "Dividend Reinvestment Plan" in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

This example 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.

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RISK FACTORS

You should carefully consider the risks described below and in the accompanying prospectus and all other information provided in this prospectus supplement and the accompanying prospectus before making a decision to purchase our common stock. 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 common stock could decline, and you may lose all or part of your investment.

Risks Related to the Economy

The current state of the economy and the capital markets increases the possibility of adverse effects on our financial position and results of operations. Continued economic adversity could impair our portfolio companies' financial positions and operating results and affect the industries in which we invest, which could, in turn, harm our operating results. Continued adversity in the capital markets could impact our ability to raise capital and reduce our volume of new investments.

The United States has recently been in a recession. The recession generally, and the disruptions in the capital markets in particular, have decreased liquidity and increased our cost of debt and equity capital, where available. The longer these conditions persist, the greater the probability that these factors could continue to increase our costs of, and significantly limit our access to, debt and equity capital and, thus, have an adverse effect on our operations and financial results. Many of the companies in which we have made or will make investments are also susceptible to the recession, which may affect the ability of one or more of our portfolio companies to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering. The recession could also disproportionately impact some of the industries in which we invest, causing us to be more vulnerable to losses in our portfolio, which could cause the number of our non-performing assets to increase and the fair market value of our portfolio to decrease. The recession may also decrease the value of collateral securing some of our loans as well as the value of our equity investments which would decrease our ability to borrow under our credit facility or raise equity capital, thereby further reducing our ability to make new investments.

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

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.

Risks Related to Our External Management

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

We have no employees. Our chief executive officer, president and chief investment officer, chief operating officer and chief financial officer, and the employees of our Adviser, do not spend all of their time managing our activities and our investment portfolio. We are particularly dependent upon David Gladstone, George Stelljes III and Terry Lee Brubaker in this regard. Our executive officers and the employees of our 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 our 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 our Adviser's operations or termination of our existing advisory agreement with our Adviser, which we refer to as 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 our Adviser and that discontinuation of its operations could have a material adverse effect on our ability to achieve our investment objective.

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

The management compensation structure that has been implemented under the Advisory Agreement may cause our Adviser to invest in high risk investments or take other risks. In addition to its management fee, our 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 our 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 our Adviser incentive compensation even if we incur a loss.

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

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

Our ability to achieve our investment objective will depend on our ability to grow, which in turn will depend on our 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 our 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 our Adviser has substantial responsibilities under the Advisory Agreement. In order to grow, our Adviser will need to hire, train, supervise and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

There are significant potential conflicts of interest which could impact our investment returns.

Our executive officers and directors, and the officers and directors of our Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman of the board and chief executive officer of our Adviser, Gladstone Investment and Gladstone Commercial. In addition, Mr. Brubaker, our vice chairman, chief operating officer and secretary is the vice chairman, chief operating officer and secretary of our Adviser, Gladstone Investment and Gladstone Commercial. Mr. Stelljes, our president and chief investment officer, is also the president and chief investment officer of our Adviser and Gladstone Commercial and vice chairman and chief investment officer of Gladstone Investment. Moreover, our Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with those of ours and accordingly may invest in, whether principally or secondarily, asset classes similar to those we target. While our Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, our 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 our Adviser may face conflicts in the allocation of investment opportunities to other entities managed by our Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other members of the Gladstone Companies or investment funds managed by investment managers affiliated with our Adviser.

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 March 31, 2010, our Board of Directors has approved the following types of co-investment transactions:

- Our affiliate, Gladstone Commercial, may lease property to portfolio companies that we do not control under certain circumstances. 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.

Certain of our officers, who are also officers of our 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 all 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 our Adviser and will reimburse our 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 our Adviser has interests that differ from those of our stockholders, giving rise to a conflict.

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

The Advisory Agreement provides for a base management fee based on our gross assets. Since our 2008 fiscal year, our Board of Directors has accepted on a quarterly basis voluntary, unconditional and irrevocable waivers to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, and any waived fees may not be recouped by our Adviser in the future. However, our Adviser is not required to issue these or other waivers of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these fees will increase. If our Adviser does not issue these waivers in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

Our business model is dependent upon developing and sustaining strong referral relationships with investment bankers, business brokers and other intermediaries.

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 loans and fully execute our business plan.

Risks Related to Our External Financing

In recent years, creditors have significantly curtailed their lending to business development companies, including us. Because of the limited amount of committed funding under our Credit Facility, we will have limited ability to fund new investments if we are unable to expand the facility.

In recent years, creditors have significantly curtailed their lending to many business development companies, including us. In March 2010 we entered into a fourth amended and restated credit agreement providing for a revolving line of credit, which we refer to as the Credit Facility. Committed funding under the Credit Facility is $127.0 million. The Credit Facility may be expanded up to $202.0 million through the addition of other committed 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 line of credit. The Credit Facility matures on March 15, 2012, and, if the facility is not renewed or extended by this date, all principal and interest will be due and payable on March 15, 2013. As of May 4, 2010, we had $28.4 million drawn and outstanding under the Credit Facility.

There can be no guarantee that we will be able to renew, extend or replace the Credit Facility upon its maturity on terms that are favorable to us, if at all. Our ability to expand the Credit Facility, and to obtain replacement financing at the time of maturity, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand the Credit Facility, or to renew, extend or refinance the Credit Facility at the time of its maturity, 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.

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

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 debt securities, other evidences of indebtedness (including borrowings under our line of credit) and possibly senior common stock and preferred stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a business development company, to issue debt securities, senior common stock and preferred stock, which we refer to collectively as senior securities, in amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of senior securities. As a result of issuing senior securities, 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 or incur additional indebtedness would be restricted if asset coverage is not at least twice our indebtedness. If the value of our assets declines, we might be unable to satisfy that test. If this happens, we may be required to liquidate a portion of our loan portfolio and repay a portion of our indebtedness at a time when a sale, to the extent possible given the limited market for many of our investments, may be disadvantageous. Furthermore, any amounts that we use to service our indebtedness will not be available for distributions to our stockholders.

Common Stock. Because we are constrained in our ability to issue debt 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 or senior securities convertible into or exchangeable for our common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our common stock may experience dilution. In addition, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below net asset value per share to purchasers, other than to our existing stockholders, through a rights offering without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then-current net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then-current net asset value 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. For example, if we sell an additional 10% of our common stock at a 5% discount from net asset value, a stockholder who does not participate in that offering for its proportionate interest will suffer net asset value dilution of up to 0.5% or $5 per $1,000 of net asset value. This imposes constraints on our ability to raise capital when our common stock is trading at below net asset value, as it has for most of the last year.

A change in interest rates may adversely affect our profitability.

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.

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Ultimately, we expect approximately 80% of the loans in our portfolio to be at variable rates determined on the basis of a London Interbank Offer Rate, or LIBOR, and approximately 20% to be at fixed rates. As of March 31, 2010, our portfolio had approximately 9% of the total loan cost value at variable rates without a floor or ceiling, approximately 85% of the total loan cost value at variable rates with floors, approximately 2% of the total loan cost value at variable rates with a floor and ceiling and approximately 4% of the total loan cost value at fixed rates.

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

We will have a continuing need for capital to finance our loans. In order to maintain RIC status, we are required to distribute to our stockholders at least 90% of our ordinary income and short-term capital gains on an annual basis. Accordingly, such earnings will not be available to fund additional loans. Therefore, we are party to the Credit Facility, which provides us with a $127 million revolving credit line facility of which $28.4 million was drawn and outstanding as of May 4, 2010. The Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set out in the credit agreement. Current market conditions have forced us to write down the value of a portion of our assets as required by the 1940 Act and fair value accounting rules. While we have not yet sold these assets, and accordingly such amounts are reflected as unrealized losses on the accompanying financial statements, these losses constitute adjustment in asset values for purposes of financial reporting and for collateral value for the Credit Facility. As assets are marked down in value, the amount we can borrow on the Credit Facility decreases.

As a result of the Credit Facility, we are subject to certain limitations on the type of loan investments we make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, and average life. The credit agreement also requires us to comply with other financial and operational covenants, which require us to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum net worth. As of March 31, 2010, we were in compliance with these covenants, however, our continued compliance with these covenants depends on many factors, some of which are beyond our control. In particular, depreciation in the valuation of our assets, which valuation is subject to changing market conditions that remain very volatile, affects our ability to comply with these covenants. During the year ended September 30, 2009, net unrealized appreciation on our investments was approximately $9.5 million, compared to $47.0 million unrealized depreciation during the prior fiscal year. During the six months ended March 31, 2010, net unrealized appreciation on our investments was approximately $5.1 million, compared to $6.5 million unrealized depreciation during the corresponding prior year period. Given the continued deterioration in the capital markets, the cumulative unrealized depreciation in our portfolio may increase in future periods and threaten our ability to comply with the covenants under the Credit Facility. Accordingly, there are no assurances that we will continue to comply with these covenants. Under the Credit Facility, we are also required to maintain our status as a BDC under the 1940 Act and as a RIC under the Code. 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.

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Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us and make the types of investments that we seek to make in small and mid-sized companies. We compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent 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 business development company. 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 the recent recession, and any further 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. Moreover, in light of our current near-term strategy of preserving capital, our inability to make additional investments in our portfolio companies at a time when they need capital may increase their exposure to the risks of the recent recession and future economic downturns.

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 is not readily available to them. 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. A 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 guarantees we may have obtained from the borrower's management. 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. During the fiscal year ended September 30, 2009, we converted three non-performing Non-Control/Non-Affiliate investments to Control investments (Clinton,

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Defiance and Lindmark) and as of March 31, 2010, six investments were on non-accrual. While we are working with the portfolio companies to improve their profitability and cash flows, there can be no assurance that our efforts will prove successful.

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

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

Because a large percentage of 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 net asset value.

A large percentage of our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has established an investment valuation policy and consistently applies valuation procedures used to determine the fair value of these securities quarterly. These procedures for the determination of value of many of our debt securities rely on the opinions of value submitted to us by Standard & Poor's Loan Evaluation Service, Inc., or SPSE, the use of internally developed discounted cash flow, or DCF, methodologies, or internal methodologies based on the total enterprise value, or TEV, of the issuer used for certain of our equity investments. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and SPSE may decline to make requested evaluations for any reason in its sole discretion. However, to date, SPSE has accepted each of our requests for evaluation.

Our use of these fair value methods is inherently subjective and is based on estimates and assumptions of each security. In the event that we are required to sell a security, we may ultimately sell for an amount materially less than the estimated fair value calculated by SPSE, TEV or the DCF methodology. We sold 13 of the 24 syndicated loans that were held in our portfolio of investments at March 31, 2009 to various investors in the syndicated loan market for an aggregate of $22.5 million in net proceeds. The loans had an aggregate cost value of approximately $30.4 million, or 7% of the cost value of our total investments, and an aggregate fair market value of approximately $22.5 million, or 6% of the fair market value of our total investments, at March 31, 2009.

Our procedures also include provisions whereby our Adviser will establish the fair value of any equity securities we may hold where SPSE or third-party agent banks are unable to provide evaluations. The types of factors that may be considered in determining the fair value of our debt and equity securities include some or all of the following:

- the nature and realizable value of any collateral;
- the portfolio company's earnings and cash flows and its ability to make payments on its obligations;
- the markets in which the portfolio company does business;
- the comparison to publicly traded companies; and
- discounted cash flow and other relevant factors.

Because such valuations, particularly valuations of private securities and private companies, are not susceptible to precise determination, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ from the values that might have actually resulted had a readily available market for these securities been available.

A portion of our assets are, and will continue to be, comprised of equity securities that are valued based on internal assessment using our own valuation methods approved by our Board of Directors, without the input of SPSE or any other third-party evaluator. We believe that our equity valuation methods reflect those regularly used as standards by other professionals in our industry who value equity securities. However, determination of fair value for securities that are not publicly traded, whether or not we use the recommendations of an independent third-party evaluator, necessarily involves the exercise of subjective judgment. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to quickly obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important investment opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. For example, as a result of the economic downturn, the availability of credit in the market

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became scarce, and we were forced to sell 13 of the 24 syndicated loans that were held in our portfolio of investments at March 31, 2009 in order to repay amounts outstanding under our prior credit facility. These loans, in aggregate, had a cost value of approximately $30.4 million, or 7% of the cost value of our total investments, and an aggregate fair market value of approximately $22.5 million, or 6% of the fair market value of our total investments, at March 31, 2009. Since then, we have sold additional syndicated loans and incurred a net realized loss of $26.4 million for the fiscal year ended September 30, 2009 and $1.1 million for the six months ended March 31, 2010. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, our 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, our determinations of fair value may differ materially from the values that could be obtained if a ready market for these securities existed. Our net asset value could be materially affected if our determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies.

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 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.

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

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

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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 that we make in our portfolio companies may be repaid prior to maturity. For the year ended September 30, 2009 and the six months ended March 31, 2010, we received principal payments prior to maturity of $25.2 million and $32.0 million, respectively. We will first use any proceeds from prepayments to repay any borrowings outstanding on our credit facility. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

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

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

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

As of March 31, 2010 we had loans outstanding to 41 portfolio companies. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such loans 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% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25% of the value of our total assets. As of March 31, 2010, 14.3% of our total assets were invested in healthcare, education and childcare companies, 14.9% were invested in broadcast companies, and 13.3% were invested in printing and publishing companies. 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.

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.

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

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

As a business development company 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. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Since our inception, we have at times incurred a cumulative net unrealized depreciation of our portfolio. Any unrealized depreciation in our investment portfolio could result in realized losses in the future and ultimately in reductions of our income available for distribution to stockholders in future periods.

Risks Related to Our Regulation and Structure

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

To maintain our qualification as a RIC, we must meet income source, asset diversification and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create "original issue discount," which we must recognize as ordinary income, increasing the amounts we are required to distribute to maintain RIC status. Because such warrants will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, 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 Competitive Advantages Leverage" and "Material U.S. Federal Income Tax Considerations Regulated Investment Company Status" in the accompanying prospectus.

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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 "Material U.S. Federal Income Tax Considerations Regulated Investment Company Status" and "Regulation as a Business Development Company" in the accompanying prospectus.

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

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

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

- any person who beneficially owns 10% 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% 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 50,000,000 shares of capital stock. In addition, our Board of Directors, without any action by our stockholders, may amend our articles of incorporation from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series of stock that we have authority to issue. 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 senior common stock or 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. Senior Common Stock or Preferred stock could also have the effect of

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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. See the "Description of Our Securities Senior Common and Preferred Stock" in the accompanying prospectus.

Risks Related to an Investment in Our Common Stock

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

There is a risk that you may not receive distributions.

Our current intention is to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on a quarterly basis by paying monthly distributions. We expect to retain net realized long-term capital gains 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. 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.

Distributions by us have and may in the future continue to include a return of capital.

Our Board of Directors declares monthly distributions based on estimates of net investment 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 net investment income that may differ from actual results, future distributions payable to our stockholders may also include a return of capital. Moreover, to the extent that we distribute amounts that exceed our accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a stockholder's original investment in shares of our stock and should not be confused with a distribution from earnings and profits. Although return of capital distributions may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the 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 a material adverse impact on our ability to make new investments.

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The market price of our shares may fluctuate significantly.

The trading price of our common stock may fluctuate substantially. The extreme volatility and disruption that have affected the capital and credit markets for over a year have reached unprecedented levels in recent months. We have 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, business development companies or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of business development company status;
- loss of RIC status;
- changes in our earnings or variations in our operating results;
- 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 business development companies 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.

Shares of closed-end investment companies frequently trade at a discount from net asset value.

Shares of closed-end investment companies frequently trade at a discount from net asset value. Since our inception, our common stock has at times traded above net asset value, and at times traded below net asset value. Until recently, during the past year, our common stock has traded consistently, and at times significantly, below net asset value. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our net asset value 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 net asset value, 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,

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general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our net asset value.

Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below net asset value per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our stockholders and our independent directors. Additionally, at times when our stock is trading below its net asset value 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 trades below net asset value, 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.

The issuance of subscription rights to our existing stockholders may dilute the ownership and voting powers by existing stockholders in our common stock, dilute the net asset value 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 stock is trading below its net asset value per share. In the event that we issue subscription rights to our existing stockholders, 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 a rights offering, own a smaller proportional interest in our company than would otherwise be the case if they fully exercised their subscription rights. In addition, because the subscription price of a rights offering is likely to be less than our most recently determined net asset value per share, our stockholders are likely to experience an immediate dilution of the per share net asset value 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.

Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then-current net asset value per share of our common stock.

At our most recent annual meeting, our stockholders approved a proposal designed to allow us to access the capital markets in a way that we were previously unable to as a result of restrictions that, absent stockholder approval, apply to business development companies under the 1940 Act. Specifically, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then-current net asset value per share of our common stock in one or more offerings for a period of one year. Until recently, during the past year, our common stock has traded consistently, and at times significantly, below net asset value. Any decision to sell shares of our common stock below the then-current net asset value per share of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders' best interests.

If we were to sell shares of our common stock below net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then-current net asset value 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 net asset value per share at the time of the offering, the more significant the dilutive impact would be. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect, if any, cannot be currently predicted. However, if, for example, we sold an additional 10% of our common stock at a 5% discount from net asset value, a stockholder who did not participate in that offering for its proportionate interest would suffer net asset value dilution of up to 0.5% or $5 per $1,000 of net asset value.

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.

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FORWARD-LOOKING STATEMENTS

All statements contained herein, 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.

These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) adverse changes in interest rates; (2) our failure or inability to establish or maintain referral arrangements with leveraged buyout funds and venture capital funds to generate loan opportunities; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, or George Stelljes III; (4) our inability to extend, refinance or maintain our credit facilities on terms reasonably acceptable to us, if at all, in future equity capital resources; (5) our inability to successfully securitize our loan portfolio on terms reasonably acceptable to us, if at all; (6) the decision of our competitors to aggressively seek to make senior and subordinated loans to small and medium-sized businesses on terms more favorable than we intend to provide; and (7) those factors listed under the caption "Risk Factors" in 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.

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USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be "at the market" as defined in Rule 415 under the Securities Act, including sales made directly on the Nasdaq Global Select Market or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale, and may be for prices below our most recently determined net asset value per share. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all of our common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of $12.13 per share for our common stock on the Nasdaq Global Select Market as of May 13, 2010, we estimate that the net proceeds of this offering will be approximately $23.4 million after deducting the estimated Sales Manager commissions and estimated offering expenses payable by us.

We expect the net proceeds of this offering to be used first to pay down existing short-term debt under our credit facility, then to make investments in small and mid-sized businesses in accordance with our investment objective, with any remaining proceeds to be used for other general corporate purposes. Indebtedness under our credit facility currently accrues interest at the rate of approximately 6.5% and matures on March 15, 2012. Pending 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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CAPITALIZATION

We may offer and sell up to 2,000,000 shares of our common stock from time to time through the Sales Manager as our agent for the offer and sale of such common stock. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. The table below assumes that we will sell 2,000,000 shares of our common stock, at a price of $12.13 per share (the last reported sale price per share of our common stock on the Nasdaq Global Select Market on May 13, 2010). Actual sales, if any, of our common stock to be issued under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $12.13, depending on the market price of our common stock at the time of any such sale and whether such sale is made at a discount to our most recently determined net asset value per share.

The following table sets forth our actual capitalization at March 31, 2010:

on an actual basis;

on an as adjusted basis giving effect to net repayments on our line of credit subsequent to March 31, 2010; and

on an as further adjusted basis to give effect to the transactions noted above and the assumed sale of 2,000,000 shares of our common stock at a price of $12.13 per share (the last reported sale price per share of our common stock on the Nasdaq Global Select Market on May 13, 2010), less estimated Sales Manager commissions and estimated offering expenses payable by us, and our use of the net proceeds of the offering to repay outstanding borrowings under our line of credit.

This table should be read in conjunction with "Use of Proceeds," our "Interim Management's Discussion and Analysis of Financial Condition and Results of Operations" and our interim financial statements and notes thereto included in this prospectus supplement, and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto included in the accompanying prospectus.

	Actual (unaudited)	As Adjusted for Net Repayments After March 31, 2010 (unaudited)	As Further Adjusted for this Offering (unaudited)
	(in thousands, except share and per share amounts)		
Assets			
Cash	$ 4,261	$ 4,261	$ 4,261
Borrowings			
Borrowings under line of credit	53,000	28,400	4,975
Net Assets			
Common stock, $0.001 par value; 50,000,000 shares authorized; 21,039,242 shares issued and outstanding, actual and as adjusted; 23,039,242 shares issued and outstanding as further adjusted	$ 21	$ 21	$ 23
Capital in excess of par value	327,709	327,709	351,132
Notes receivable-officers	(8,503)	(8,503)	(8,503)
Net unrealized depreciation on investments	(38,343)	(38,343)	(38,343)
Accumulated net realized losses	(26,335)	(26,335)	(26,335)

Total Net Assets	$	254,549	$	254,549	$	277,974
Total Capitalization(1)	$	307,549	$	282,949	$	282,949

(1) Total capitalization does not include the balance of cash.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash dividends, a minimum of 90% of our ordinary income and short-term capital gains, if any, on a quarterly basis 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 characteristics of each dividend when declared while the actual tax characteristics of dividends are reported annually to each stockholder on 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 can be reinvested automatically under our dividend 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 dividend reinvestment plan on the stockholder's behalf. See "Risk Factors We will be subject to corporate level tax if we are unable to satisfy Internal Revenue Code requirements for RIC qualification," "Dividend Reinvestment Plan" and "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus.

Our common stock is quoted on The Nasdaq Global Select Market under the symbol "GLAD." Our common stock has historically traded at prices both above and below its net asset value. There can be no assurance, however, that any premium to net asset value will be attained or maintained. As of May 12, 2010, we had 74 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 closing sales prices of our common stock as reported on The Nasdaq Global Select Market and the dividends declared by us for the last two completed fiscal years and the current fiscal year through May 13, 2010.

	Net Asset Value per Share(1)	High	Low	Dividend Declared	Premium (Discount) of High Sales Price to Net Asset Value(2)	Premium (Discount) of Low Sales Price to Net Asset Value(2)
FY 2008						
First Quarter	$ 15.08	$ 20.62	$ 17.01	$ 0.420	37%	13%
Second Quarter	$ 14.27	$ 19.22	$ 16.25	$ 0.420	35%	14%
Third Quarter	$ 13.97	$ 19.31	$ 15.24	$ 0.420	38%	9%
Fourth Quarter	$ 12.89	$ 18.65	$ 12.91	$ 0.420	45%	0.2%
FY 2009						
First Quarter	$ 12.04	$ 15.38	$ 5.50	$ 0.420	28%	(54)%
Second Quarter	$ 12.10	$ 10.28	$ 5.01	$ 0.420	(14)%	(59)%
Third Quarter	$ 11.86	$ 7.80	$ 5.49	$ 0.210	(34)%	(54)%
Fourth Quarter	$ 11.81	$ 10.40	$ 7.17	$ 0.210	(12)%	(39)%
FY 2010						
First Quarter	$ 11.92	$ 9.49	$ 7.50	$ 0.210	(20)%	(37)%
Second Quarter	$ 12.10	$ 12.19	$ 7.19	$ 0.210	1%	(41)%
Third Quarter (through May 13, 2010)	$ *	$ 13.94	$ 11.00	$ 0.210	*%	*%

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

(2) The premiums (discounts) set forth in these columns represent the high or low, as applicable, closing price per share for the relevant quarter minus the net asset value per share as of the end

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of such quarter, and therefore may not reflect the premium (discount) to net asset value per share on the date of the high and low closing prices.

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

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2010 annual stockholders meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below the then-current net asset value, or NAV, per share during a one year period, which we refer to as the Stockholder Approval, beginning on February 18, 2010, and expiring on the first anniversary of the date of the 2010 annual stockholders meeting. In order to sell shares of common stock pursuant to this authorization, no further authorization from our stockholders will be solicited but a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (i) find that the sale is in our best interests and in the best interests of our stockholders and (ii) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares of common stock, or immediately prior to the issuance of such common stock, that the price at which such shares of common stock are to be sold is not less than a price which closely approximates the market value of those shares of common stock, less any distributing commission or discount.

As of the date of this prospectus supplement, our common stock is trading at a price above our most recently determined NAV per share. However, in the future, our common stock may trade at a price below our most recently determined NAV per share and, as such, the offering being made pursuant to this prospectus supplement may be at a price below our most recently determined NAV per share.

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

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

- the effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- the amount per share by which the offering price per share and the net proceeds per share are less than our most recently determined NAV per share;
- the relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- whether the estimated offering price would closely approximate the market value of shares of our common stock;
- the potential market impact of being able to raise capital during the current financial market difficulties;
- the nature of any new investors anticipated to acquire shares of our common stock in the offering;
- the anticipated rate of return on and quality, type and availability of investments; and
- the leverage available to us.

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

We will not sell shares of our common stock under this prospectus supplement pursuant to the Stockholder Approval without first filing a post-effective amendment to the registration statement if the cumulative dilution to our NAV per share from offerings under the registration statement exceeds 15%. This would be measured separately for each offering pursuant to the registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV per share at the time of the first offering is $10.00 and we have 140 million shares outstanding, the sale of 35 million shares at net proceeds to us of $5.00 per share (a 50% discount) would produce dilution of 10%. If we subsequently determined that our NAV per share increased to $11.00 on the then 175 million shares outstanding and then made an additional offering, we could, for example, sell approximately an additional 43.75 million shares at net proceeds to us of $8.25 per share, which would produce dilution of 5%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

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 the offering, as well as for new investors who participate in the offering. Any sale of common stock at a price below NAV per share would result 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 Risks Related to an Investment in Our Common Stock."

The following three headings and accompanying tables explain and provide hypothetical examples of the impact of an 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 an Offering

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares they hold and their NAV per share. 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 will experience in our assets, potential earning power and voting interests due to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increase. Further, if current stockholders do not purchase sufficient shares to maintain their percentage interest, regardless of whether such offering is above or below the then-current NAV, their voting power will be diluted.

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The following table illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that we have 1,000,000 common shares outstanding, $15,000,000 in total assets and $5,000,000 in total liabilities. The current NAV and NAV per share are thus $10,000,000 and $10.00, respectively. The table illustrates the dilutive effect on a nonparticipating stockholder of (1) an offering of 50,000 shares (5% of the outstanding shares) at $9.50 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 100,000 shares (10% of the outstanding shares) at $9.00 per share after offering expenses and commissions (a 10% discount from NAV) and (3) an offering of 200,000 shares (20% of the outstanding shares) at $8.00 per share after offering expenses and commissions (a 20% discount from NAV).

		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Prior to Sale Below NAV	**Following Sale**	**% Change**	**Following Sale**	**% Change**	**Following Sale**	**% Change**
Offering Price							
Price per Share to Public		$ 10.00		$ 9.47		$ 8.42	
Net Proceeds per Share to Issuer		$ 9.50		$ 9.00		$ 8.00	
Decrease to NAV per Share							
Total Shares Outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per Share	$ 10.00	$ 9.98	(0.20)%	$ 9.91	(0.90)%	$ 9.67	(3.33)%
Dilution to Stockholder							
Shares Held by Stockholder	10,000	10,000		10,000		10,000	
Percentage Held by Stockholder	1.0%	0.95%	(4.76)%	0.91%	(9.09)%	0.83%	(16.67)%
Total Asset Values							
Total NAV Held by Stockholder	$ 100,000	$ 99,800	(0.20)%	$ 99,100	(0.90)%	$ 96,700	(3.33)%
Total Investment by Stockholder (Assumed to be $10.00 per Share)	$ 100,000	$ 100,000		$ 100,000		$ 100,000	
Total Dilution to Stockholder (Total NAV Less Total Investment)		$ (200)		$ (900)		$ (3,300)	
Per Share Amounts							
NAV Per Share Held by Stockholder		$ 9.98		$ 9.91		$ 9.67	
Investment per Share Held by Stockholder (Assumed to be $10.00 per Share on Shares Held prior to Sale)	$ 10.00	$ 10.00		$ 10.00		$ 10.00	
Dilution per Share Held by Stockholder (NAV per Share Less Investment per Share)		$ (0.02)		$ (0.09)		$ (0.33)	
Percentage Dilution to Stockholder (Dilution per Share Divided by Investment per Share)			(0.20)%		(0.90)%		(3.33)%

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Impact on Existing Stockholders who do Participate in an Offering

Our existing stockholders who participate in an offering below NAV per share 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 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 shares immediately prior to the offering. The level of NAV dilution will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per 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 the offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential 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 chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 1,000 shares, which is 0.50% of the offering 200,000 shares

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rather than its 1% proportionate share) and (2) 150% of such percentage (i.e., 3,000 shares, which is 1.50% of an offering of 200,000 shares rather than its 1% proportionate share).

	Prior to Sale Below NAV	50% Participation Following Sale	50% Participation % Change	150% Participation Following Sale	150% Participation % Change
Offering Price					
Price per Share to Public		$ 8.42		$ 8.42	
Net Proceeds per Share to Issuer		$ 8.00		$ 8.00	
Increases in Shares and Decrease to NAV per Share					
Total Shares Outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
NAV per Share	$ 10.00	$ 9.67	(3.33)%	$ 9.67	(3.33)%
Dilution/Accretion to Stockholder					
Shares Held by Stockholder	10,000	11,000	10.00%	13,000	30.00%
Percentage Held by Stockholder	1.0%	0.92%	(8.33)%	1.08%	8.33%
Total Asset Values					
Total NAV Held by Stockholder	$ 100,000	$ 106,333	6.33%	$ 125,667	25.67%
Total Investment by Stockholder (Assumed to be $10.00 per Share on Shares Held prior to Sale)	$ 100,000	$ 108,420		$ 125,260	
Total Dilution/Accretion to Stockholder (Total NAV Less Total Investment)		(2,087)		$ 407	
Per Share Amounts					
NAV Per Share Held by Stockholder		$ 9.67		$ 9.67	
Investment per Share Held by Stockholder (Assumed to be $10.00 per Share on Shares Held prior to Sale)	$ 10.00	$ 9.86	(1.44)%	$ 9.64	(3.65)%
Dilution/Accretion per Share Held by Stockholder (NAV per Share Less Investment per Share)		$ (0.19)		$ 0.03	
Percentage Dilution/Accretion to Stockholder (Dilution/Accretion per Share Divided by Investment per Share)			(1.92)%		0.32%

Impact on New Investors

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

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in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same 5%, 10% and 20% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (1%) of the shares in the offering as the stockholder in the prior examples held immediately prior to the offering.

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	Example 1 % Change	Example 2 10% Offering at 10% Discount Following Sale	Example 2 % Change	Example 3 20% Offering at 20% Discount Following Sale	Example 3 % Change
Offering Price							
Price per Share to Public		$ 10.00		$ 9.47		$ 8.42	
Net Proceeds per Share to Issuer		$ 9.50		$ 9.00		$ 8.00	
Decrease to NAV per Share							
Total Shares Outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per Share	$ 10.00	$ 9.98	(0.20)%	$ 9.91	(0.90)%	$ 9.67	(3.33)%
Dilution/Accretion to Stockholder							
Shares Held by Stockholder		500		1,000		2,000	
Percentage Held by Stockholder	0.0%	0.05%		0.09%		0.17%	
Total Asset Values							
Total NAV Held by Stockholder		$ 4,990		$ 9,910		$ 19,340	
Total Investment by Stockholder		$ 5,000		$ 9,470		$ 16,840	
Total Dilution/Accretion to Stockholder (Total NAV Less Total Investment)		$ (10)		$ 440		$ 2,500	
Per Share Amounts							
NAV Per Share Held by Stockholder		$ 9.98		$ 9.91		$ 9.67	
Investment per Share Held by Stockholder		$ 10.00		$ 9.47		$ 8.42	
Dilution/Accretion per Share Held by Stockholder (NAV per Share Less Investment per Share)		$ (0.02)		$ 0.44		$ 1.25	
Percentage Dilution/Accretion to Stockholder (Dilution/Accretion per Share Divided by Investment per Share)			(0.20)%		4.65%		14.85%

PLAN OF DISTRIBUTION

Upon written instructions from the Company, BB&T Capital Markets, a division of Scott & Stringfellow, LLC, will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, common stock under the terms and subject to the conditions set forth in the equity distribution agreement. We will instruct the Sales Manager as to the amount of common stock to be sold by it. We may instruct the Sales Manager not to sell common stock if the sales cannot be effected at or above the price designated by the Company in any instruction. We or the Sales Manager may suspend the offering of common stock upon proper notice and subject to other conditions.

The Sales Manager will provide written confirmation of a sale to us no later than the opening of the trading day on the Nasdaq Global Select Market following each trading day in which shares of our common stock are sold under the equity distribution agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to the Sales Manager in connection with the sales.

The Sales Manager will receive from us a commission equal to 2.0% of the gross sales price of all shares of common stock sold through it as Sales Manager under the equity distribution agreement. There is no guarantee that there will be any sales of our shares of common stock under this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our shares of common stock under this prospectus supplement and accompanying prospectus may be less than as set forth on the cover of this prospectus supplement. In addition, the price per share of any such sale may be greater or less than $12.13, the last reported sale price for shares of our common stock on May 13, 2010 as traded on the Nasdaq Global Select Market, depending on the market price of our shares of common stock at the time of any such sale. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Manager under the terms of the equity distribution agreement, will be approximately $0.8 million. We have agreed to reimburse the Sales Manager for certain of its expenses.

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

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

The offering of our shares of common stock pursuant to the equity distribution agreement will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreement or (ii) the termination of the equity distribution agreement. The equity distribution agreement may be terminated by the Company in our sole discretion under the circumstances specified in the equity distribution agreement by giving notice to the Sales Manager. In addition, the Sales Manager may terminate the equity distribution agreement under the circumstances specified in the equity distribution agreement by giving notice to the Company.

The Sales Manager may perform investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The Sales Manager and their respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business.

The principal business address of BB&T Capital Markets, a division of Scott & Stringfellow, LLC, is 909 East Main Street, Richmond, VA 23219.

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LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Cooley LLP, Reston, Virginia. Certain legal matters will be passed on for the Sales Manager by Troutman Sanders LLP.

EXPERTS

The financial statements as of September 30, 2009 and September 30, 2008 and for each of the three years in the period ended September 30, 2009 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of September 30, 2009 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.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2 under the Securities Act, with respect to our common stock offered by this prospectus supplement and the accompanying prospectus. This prospectus supplement, 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 common stock, 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 1-202-551-8090. 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 Global Select Market and our corporate website is located at *http://www.gladstonecapital.com*. The information contained on, or accessible through, our website is not a part of this prospectus supplement.

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" in the accompanying prospectus.

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INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(dollar amounts in thousands, except per share data or unless otherwise indicated)

All statements contained herein, 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 "estimate," "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "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 or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. We caution readers not to place undue reliance on any such forward-looking statements. 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.

The following analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the notes thereto contained elsewhere in this prospectus supplement and in the accompanying prospectus.

OVERVIEW

General

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. Our investment objective is to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are substantially owned by leveraged buyout funds, individual investors or are family-owned businesses, with a particular focus on senior notes. In addition, we may acquire from others existing loans that meet this profile. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans. 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 (the "1940 Act"). In addition, for 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").

We seek to invest in small and medium-sized private U.S. businesses that meet certain criteria, including some but not all of the following: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower's cash flow, reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds) and the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering of the borrower's stock or by exercising our right to require the borrower to repurchase our warrants, though there can be no assurance that we will always have these rights. We lend to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control.

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Business Environment

While economic conditions generally appear to be improving somewhat, we remain cautious about a long-term economic recovery. The recent recession generally, and the disruptions in the capital markets in particular, have decreased liquidity and increased our cost of debt and equity capital, where available. The longer these conditions persist, the greater the probability that these factors could continue to increase our costs of, and significantly limit our access to, debt and equity capital and, thus, have an adverse effect on our operations and financial results. Many of the companies in which we have made or will make investments are still susceptible to the economic conditions, which may affect the ability of one or more of our portfolio companies to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering. The economic conditions could also disproportionately impact some of the industries in which we invest, causing us to be more vulnerable to losses in our portfolio, which could cause the number of our non-performing assets to increase and the fair market value of our portfolio to decrease. We do not know when market conditions will stabilize, if adverse conditions will intensify or the full extent to which the disruptions will affect us. If market instability persists or intensifies, we may experience difficulty in raising capital.

Challenges in the current market are intensified for us by certain regulatory limitations under the Code and the 1940 Act, as well as contractual restrictions under the agreement governing our credit facility that further constrain our ability to access the capital markets. To maintain our qualification as a RIC, we must satisfy, among other requirements, an annual distribution requirement to pay out at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. Because we are required to distribute our income in this manner, 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 include the issuance of equity securities, debt securities or other leverage such as borrowings under our line of credit. Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have at least a 200% asset coverage ratio, meaning generally that for every dollar of debt, we must have two dollars of assets.

Market conditions have also affected the trading price of our common stock and thus our ability to finance new investments through the issuance of equity. When our stock is trading below net asset value ("NAV"), as it has consistently traded for most of the last 18 months, our ability to issue equity is constrained by provisions of the 1940 Act which generally prohibit the issuance and sale of our common stock below NAV per 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 18, 2010, stockholders approved a proposal which authorizes us to sell shares of our common stock at a price below our then current NAV per share for a period of one year from the date of approval, provided that our Board of Directors makes certain determinations prior to any such sale. On May 3, 2010, the closing market price of our common stock was $13.87, which price represented a 15% premium to our March 31, 2010 NAV per share.

Current economic conditions may also decrease the value of collateral securing some of our loans, as well as the value of our equity investments, which has impacted and may continue to impact our ability to borrow under our credit facility. For the six months ended March 31, 2010, we recorded net unrealized appreciation on our portfolio of investments of $5,082. We may see decreases in the value of our portfolio, which will further limit our ability to borrow under our current credit facility. Additionally, our credit facility contains covenants regarding the maintenance of certain minimum net worth requirements which are affected by the decrease in 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 result in the acceleration of our repayment obligations under our credit facility. As of March 31, 2010, we were in compliance with all of the facility covenants.

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We expect that, given these regulatory and contractual constraints in combination with current market conditions, debt and equity capital may be costly or difficult for us to access. However, we believe that our entry into a new $127,000 credit facility with a two-year term (discussed in detail further below) increases our ability to make new investments consistent with our strategy of making conservative investments in businesses that we believe will weather the current economy and that are likely to produce attractive long-term returns for our stockholders.

Syndicated Loan Valuations

In monitoring the market activity during the quarter ended March 31, 2010, we noted market conditions indicating continued liquidity and a better functioning secondary market for syndicated loans. Therefore, in accordance with Accounting Standards Codification ("ASC") 820, and following our valuation procedures which specify the use of third-party indicative bid quotes for valuing syndicated loans where there is a liquid public market for those loans and market pricing quotes are readily available, third-party bid quotes were used to value the remaining syndicated loans not sold during the quarter ended March 31, 2010. As we noted some illiquidity in the public market, we do not believe that the third-party bid quotes are representative of Level 2 inputs.

Investment Highlights

Purchases: During the six months ended March 31, 2010, we extended $180 of investments to a new portfolio company and $7,140 of investments to existing portfolio companies through revolver draws or the additions of new term notes, for total investments of $7,320.

Repayments: During the six months ended March 31, 2010, five borrowers made unscheduled full payoffs of $31,006, one borrower made an unscheduled partial payoff of $950 and we experienced contractual amortization, revolver repayments and some principal payments received ahead of schedule for an aggregate of $6,513, for total principal repayments of $38,469.

Sales: During the six months ended March 31, 2010, we sold three syndicated loans (which resulted in our exit from three portfolio companies) for an aggregate of $3,119 in net proceeds.

Since our initial public offering in August 2001, we have made 263 different loans to, or investments in, 127 companies for a total of approximately $958,933, before giving effect to principal repayments on investments and divestitures.

Financing Highlights

On March 15, 2010, through our wholly-owned subsidiary, Gladstone Business Loan, LLC ("Business Loan"), we entered into a fourth amended and restated credit agreement which provides for a $127,000 revolving line of credit arranged by Key Equipment Finance Inc. as administrative agent (the "Credit Facility"). Branch Banking and Trust Company ("BB&T") and ING Capital LLC ("ING") also joined the Credit Facility as committed lenders. Subject to certain terms and conditions, the Credit Facility may be expanded up to $202 million through the addition of other committed lenders to the facility. The Credit Facility matures in two years on March 15, 2012, and, if the facility is not renewed or extended by this date, all principal and interest will be due and payable on March 15, 2013. Advances under the Credit Facility will generally bear interest at the 30-day LIBOR (subject to a minimum rate of 2%), plus 4.5% per annum, with a commitment fee of 0.5% per annum on undrawn amounts.

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During the six months ended March 31, 2010, we applied Financial Accounting Standards Board ("FASB") ASC 825, "Financial Instruments," specifically to our Credit Facility, which requires us to apply a fair value methodology to the Credit Facility as of March 31, 2010. Since the Credit Facility was entered into during the three months ended March 31, 2010, the cost basis of the Credit Facility of $53,000 was determined to be the best approximation of fair value as of March 31, 2010.

Registration Statement

On October 20, 2009, we filed a registration statement on Form N-2 with the Securities and Exchange Commission (the "SEC") that was amended on December 9, 2009. The SEC declared the registration statement effective on January 28, 2010 and such registration statement will permit us to issue, through one or more transactions, up to an aggregate of $300,000 in securities, consisting of common stock, senior common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, or a combination of these securities.

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RESULTS OF OPERATIONS

Comparison of the Three Months Ended March 31, 2010 to the Three Months Ended March 31, 2009

A comparison of our operating results for the three months ended March 31, 2010 and March 31, 2009 is shown below:

	For the three months ended March 31,			
	2010	2009	$ Change	% Change
INVESTMENT INCOME				
Interest income non control/non affiliate investments	$ 8,523	$ 10,329	$ (1,806)	(17.5)%
Interest income control investments	709	482	227	47.1%
Interest income cash		1	(1)	(100.0)%
Interest income notes receivable from employees	108	117	(9)	(7.7)%
Prepayment fees and other income	474		474	
Total investment income	9,814	10,929	(1,115)	(10.2)%
EXPENSES				
Interest expense	1,136	2,016	(880)	(43.7)%
Loan servicing fee	852	1,526	(674)	(44.2)%
Base management fee	739	484	255	52.7%
Incentive fee	1,072	1,089	(17)	(1.6)%
Administration fee	176	211	(35)	(16.6)%
Professional fees	219	205	14	6.8%
Amortization of deferred financing fees	449	726	(277)	(38.2)%
Stockholder related costs	144	196	(52)	(26.5)%
Directors' fees	48	48		0.0%
Insurance expense	79	65	14	21.5%
Compensation expense	245		245	
Other expenses	187	74	113	152.7%
Expenses before credit from Adviser	5,346	6,640	(1,294)	(19.5)%
Credit to base management and incentive fees from Adviser	(6)	(1,266)	1,260	(99.5)%
Total expenses net of credit to base management and incentive fees	5,340	5,374	(34)	(0.6)%
NET INVESTMENT INCOME	4,474	5,555	(1,081)	(19.5)%
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, DERIVATIVE AND BORROWINGS UNDER LINE OF CREDIT:				
Net realized gain (loss) on investments	892	(2,000)	2,892	(144.6)%
Realized loss on settlement of derivative		(304)	304	(100.0)%
Net unrealized appreciation on derivative		304	(304)	(100.0)%
Net unrealized appreciation on investments	2,483	6,725	(4,242)	(63.1)%
Net unrealized depreciation on borrowings under line of credit	131		131	
Net gain on investments, derivative and borrowings under line of credit	3,506	4,725	(1,219)	(25.8)%
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 7,980	$ 10,280	$ (2,300)	(22.4)%

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Investment Income

Investment income for the three months ended March 31, 2010 was $9,814, as compared to $10,929 for the three months ended March 31, 2009. Interest income from our aggregate investment portfolio decreased for the three months ended March 31, 2010, as compared to the prior year period. The level of interest income from investments is directly related to the balance, at cost, of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average yield varies from period to period based on the current stated interest rate on interest-bearing investments and the amounts of loans for which interest is not accruing. Interest income from our investments decreased primarily due to the overall reduction in the cost basis of our investments, resulting from the exit of loans subsequent to March 31, 2009, partially offset by an increase in the weighted average yield on our portfolio. The annualized weighted average yield on our portfolio, excluding cash and cash equivalents, was 10.9% for the three months ended March 31, 2010 as compared to 9.7% for the prior year period. During the three months ended March 31, 2010, six investments were on non-accrual, for an aggregate of approximately $26,422 at cost, or 8.0% of the aggregate cost of our investment portfolio, and during the prior year period, three investments were on non-accrual, for an aggregate of approximately $10,659 at cost, or 2.4% of the aggregate cost of our investment portfolio. The increase in investments on non-accrual was due primarily to the addition of one portfolio company (Lindmark). Although we did not historically report Lindmark as non-accrual, we have not recognized interest income on this investment since April 2009.

Interest income from Non-Control/Non-Affiliate investments decreased for the three months ended March 31, 2010, as compared to the prior year period. The decrease was primarily attributable to an overall decrease in the aggregate Non-Control/Non-Affiliate investments held at March 31, 2010 compared to the prior year period. The decrease was also attributable to the conversion of two Non-Control/Non-Affiliate investments held during the prior year period (Clinton and Defiance) to Control investments. In addition, we reversed previously recorded interest income of approximately $90 during the three months ended March 31, 2010. The success fees earned during the three months ended March 31, 2010 and March 31, 2009 included in interest income were $848 and $21, respectively. Success fees earned during the three months ended March 31, 2010 resulted from payoffs from ActivStyle, Saunders and Visual Edge. Success fees earned during the three months ended March 31, 2009 resulted from a refinancing by It's Just Lunch.

Interest income from Control investments increased for the three months ended March 31, 2010, as compared to the prior year period. The increase was attributable to two additional Control investments held during the quarter ended March 31, 2010 (Clinton and Defiance), which were converted from Non-Control/Non-Affiliate investments, as compared to the prior year period.

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The following table lists the interest income from investments for the five largest portfolio company investments during the respective periods:

Three months ended March 31, 2010

Company	Interest Income	% of Total
Visual Edge	$ 967	10.5%
Reliable Biopharma	738	8.0%
Sunshine Media	693	7.5%
Westlake Hardware	672	7.3%
Clinton	514	5.5%
Subtotal	**$ 3,584**	**38.8%**
Other companies	5,648	61.2%
Total interest income	**$ 9,232**	**100.0%**

Three months ended March 31, 2009

Company	Interest Income	% of Total
Sunshine Media	$ 824	7.6%
Reliable Biopharma	757	7.0%
Westlake Hardware	597	5.5%
Clinton	465	4.3%
VantaCore	416	3.9%
Subtotal	**$ 3,059**	**28.3%**
Other companies	7,752	71.7%
Total interest income	**$ 10,811**	**100.0%**

Interest income from invested cash for the three months ended March 31, 2010 and 2009 was nominal. Interest income is based on the amount of cash held in interest bearing accounts and the interest earned on our custodial account prior to disbursement.

Interest income from loans to our employees, in connection with the exercise of employee stock options, decreased slightly for the three months ended March 31, 2010 as compared to the prior year period due to the reduction of employee loans during the previous quarter ended December 31, 2009.

Prepayment fees and other income increased for the three months ended March 31, 2010 as compared to the prior year period. The income for the current period consisted of prepayment penalty fees received upon unscheduled principal repayments as well as interest from stock option loans of former employees.

Operating Expenses

Operating expenses, net of credits from the Adviser for fees earned and voluntary and irrevocable waivers applied to the base management and incentive fees, decreased for the three months ended March 31, 2010, as compared to the prior year period. This reduction was primarily due to a decrease in interest expense and the amortization of deferred financing fees incurred in connection with the Credit Facility, as well as a decrease in incentive fees, which were offset by a reduction in the Adviser's voluntary credit to the incentive fee and compensation expense.

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Interest expense decreased for the three months ended March 31, 2010 as compared to the prior year period due primarily to decreased borrowings under our line of credit during the three months ended March 31, 2010 as well as a lower weighted average annual interest cost, which is determined by using the annual stated interest rate plus commitment and other fees, plus the amortization of deferred financing fees divided by the weighted average debt outstanding.

Loan servicing fees decreased for the three months ended March 31, 2010 as compared to the prior year period. These fees are incurred in connection with a loan servicing agreement between Business Loan and our Adviser, which is based on the size of our investment portfolio. The decrease was primarily due to the reduction in the size of our investment portfolio, in particular the loans in our borrowing base. Due to voluntary, irrevocable and unconditional waivers applied during these periods, senior syndicated loans incurred a 0.5% annual fee, whereas proprietary loans incurred a 1.5% annual fee. All of these fees were offset against the amount of the base management fee due to our Adviser.

Base management fee (which is net of loan servicing fees) increased for the three months ended March 31, 2010 as compared to the prior year period. However, the gross management fee (consisting of the loan servicing fees plus the base management fee) decreased from the prior year period as shown below:

	Three months ended	
	March 31, 2010	**March 31, 2009**
Loan servicing fee	$ 852	$ 1,526
Base management fee	739	484
Gross management fee	$ 1,591	$ 2,010

Gross management fee decreased due to fewer total assets held during the three months ended March 31, 2010. The base management fee is computed quarterly as described under *"Investment Advisory and Management Agreement"* in Note 4 of the notes to the consolidated financial statements in the accompanying prospectus, and is summarized in the table below:

	Three months ended	
	March 31, 2010	**March 31, 2009**
Base management fee(1)	$ 739	$ 484
Credit for fees received by Adviser from the portfolio companies		(80)
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum(2)	(6)	(97)
Net base management fee	$ 733	$ 307

(1) Base management fee is net of loan servicing fees per the terms of the Advisory Agreement.

(2) The board of our Adviser voluntarily and irrevocably waived, for the three months ended March 31, 2010 and 2009, the annual 2.0% base management fee to 0.5% for senior syndicated loan participations. Fees waived cannot be recouped by the Adviser in the future.

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Incentive fee decreased slightly for the three months ended March 31, 2010 as compared to the prior year period. The board of directors of our Adviser voluntarily, irrevocably and unconditionally waived the entire incentive fee for the three months ended March 31, 2009. No portion of the incentive fee was waived during the three months ended March 31, 2010. The incentive fee and associated credits are summarized in the table below:

	Three months ended	
	March 31, 2010	**March 31, 2009**
Incentive fee	$ 1,072	$ 1,089
Credit from voluntary, irrevocable waiver issued by Adviser's board of directors		(1,089)
Net incentive fee	$ 1,072	$

Administration fee decreased for the three months ended March 31, 2010 as compared to the prior year period, due to a decrease of administration staff and related expenses, as well as a decrease in our total assets in comparison to the total assets of all companies managed by our Adviser under similar agreements. The calculation of the administration fee is described in detail under *"Investment Advisory and Management Agreement"* in Note 4 of the notes to the consolidated financial statements in the accompanying prospectus.

Compensation expense increased for the three months ended March 31, 2010 as compared to the prior year period due to the conversion of stock option loans of two former employees of the Adviser from recourse to non-recourse loans. The conversions were non-cash transactions and were accounted for as repurchases of the shares previously received by the employees of the Adviser upon exercise of the stock options in exchange for the non-recourse notes. The repurchases were accounted for as treasury stock transactions at the fair value of the shares, totaling $420. Since the value of the stock option loans totaled $665, we recorded compensation expense of $245.

Other operating expenses (including professional fees, deferred financing fees, stockholder related costs, director's fees, insurance and other direct expenses) increased for the three months ended March 31, 2010 as compared to the prior year period, due primarily to legal fees incurred in connection with troubled loans during the three months ended March 31, 2010 and the provision for uncollectible receivables from portfolio companies.

Net Realized Gain (Loss) on Investments

Net realized gain on investments for the three months ended March 31, 2010 was $892, which consisted of a gain from ACE Expediters of $1,366, partially offset by an aggregate of $474 of losses from the CCS payoff and GoldToe syndicated loan sale. Net realized loss on investments for the three months ended March 31, 2009 was $2,000, which resulted from writing off the remaining balance of the Greatwide senior subordinated term loan.

Realized Loss on Settlement of Derivative

During the three months ended March 31, 2009, we realized a loss of $304 due to the expiration of the interest rate cap in February 2009.

Net Unrealized Appreciation on Derivative

Net unrealized appreciation (depreciation) on derivative is the net change in the fair value of our interest rate cap during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. For the three months ended March 31, 2009, we recorded unrealized appreciation on derivative of $304, which resulted from the reversal of

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previously recorded unrealized depreciation when the loss was realized during the March 2009 quarter (see discussion above).

Net Unrealized Appreciation on Investments

Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. The net unrealized appreciation on investments for the three months ended March 31, 2010 consisted of the following:

Control investments	$ (566)
Non-Control/Non-Affiliate investments	1,018
Reversal of previously recorded unrealized depreciation upon realization of losses	2,031
Total	$ 2,483

Although our investment portfolio appreciated during the three months ended March 31, 2010, our entire portfolio was fair valued at 88% of cost as of March 31, 2010. The cumulative 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.

Net Unrealized Depreciation on Borrowings under Line of Credit

Net unrealized depreciation on borrowings under line of credit is the net change in the fair value of our line of credit borrowings during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. We elected to apply ASC 825, "Financial Instruments," which requires that we apply a fair value methodology to the Credit Facility. We estimated the fair value of the Credit Facility using estimates of value provided by an independent third party and our own assumptions in the absence of observable market data, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. Since the Credit Facility was entered into during the three months ended March 31, 2010, the cost basis of the Credit Facility of $53,000 was determined to be the best approximation of the fair value as of March 31, 2010.

Net Increase in Net Assets Resulting from Operations

For the three months ended March 31, 2010, we realized a net increase in net assets resulting from operations of $7,980 as a result of the factors discussed above. For the three months ended March 31, 2009, we realized a net increase in net assets resulting from operations of $10,280. Our net increase in net assets resulting from operations per basic and diluted weighted average common share for the three months ended March 31, 2010 and March 31, 2009 were $0.38 and $0.48, respectively.

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Comparison of the Six Months Ended March 31, 2010 to the Six Months Ended March 31, 2009

A comparison of our operating results for the six months ended March 31, 2010 and March 31, 2009 is shown below:

	For the six months ended March 31,			
	2010	**2009**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income non control/non affiliate investments	$ 17,432	$ 21,990	$ (4,558)	(20.7)%
Interest income control investments	1,477	502	975	194.2%
Interest income cash		11	(11)	(100.0)%
Interest income notes receivable from employees	221	235	(14)	(6.0)%
Prepayment fees and other income	488		488	
Total investment income	19,618	22,738	(3,120)	(13.7)%
EXPENSES				
Interest expense	2,671	4,478	(1,807)	(40.4)%
Loan servicing fee	1,781	3,149	(1,368)	(43.4)%
Base management fee	1,459	917	542	59.1%
Incentive fee	1,447	2,265	(818)	(36.1)%
Administration fee	354	438	(84)	(19.2)%
Professional fees	1,131	518	613	118.3%
Amortization of deferred financing fees	943	1,446	(503)	(34.8)%
Stockholder related costs	222	284	(62)	(21.8)%
Directors' fees	97	97		0.0%
Insurance expense	147	122	25	20.5%
Compensation expense	245		245	
Other expenses	254	140	114	81.4%
Expenses before credit from Adviser	10,751	13,854	(3,103)	(22.4)%
Credit to base management and incentive fees from Adviser	(35)	(2,553)	2,518	(98.6)%
Total expenses net of credit to base management and incentive fees	10,716	11,301	(585)	(5.2)%
NET INVESTMENT INCOME	8,902	11,437	(2,535)	(22.2)%
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, DERIVATIVE AND BORROWINGS UNDER LINE OF CREDIT:				
Net realized loss on investments	(28)	(3,731)	3,703	(99.2)%
Realized loss on settlement of derivative		(304)	304	(100.0)%
Net unrealized appreciation on derivative		304	(304)	(100.0)%
Net unrealized appreciation (depreciation) on investments	5,082	(6,528)	11,610	(177.8)%
Net unrealized appreciation on borrowings under line of credit	350		350	
Net gain (loss) on investments, derivative and borrowings under line of credit	5,404	(10,259)	15,663	(152.7)%
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 14,306	$ 1,178	$ 13,128	1,114.4%

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Investment Income

Investment income for the six months ended March 31, 2010 was $19,618, as compared to $22,738 for the six months ended March 31, 2009. Interest income from our aggregate investment portfolio decreased for the six months ended March 31, 2010, as compared to the prior year period. The level of interest income from investments is directly related to the balance, at cost, of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average yield varies from period to period based on the current stated interest rate on interest-bearing investments and the amounts of loans for which interest is not accruing. Interest income from our investments decreased primarily due to the overall reduction in the cost basis of our investments, resulting from the exit of loans subsequent to March 31, 2009, partially offset by an increase in the weighted average yield on our portfolio. The annualized weighted average yield on our portfolio, excluding cash and cash equivalents, was 10.7% for the six months ended March 31, 2010 as compared to 10.0% for the prior year period. During the six months ended March 31, 2010, six investments were on non-accrual, for an aggregate of approximately $26,422 at cost, or 8.0% of the aggregate cost of our investment portfolio, and during the prior year period, three investments were on non-accrual, for an aggregate of approximately $10,659 at cost, or 2.4% of the aggregate cost of our investment portfolio. The increase in investments on non-accrual was due primarily to the addition of one portfolio company (Lindmark). Although we did not historically report Lindmark as non-accrual, we have not recognized interest income on this investment since April 2009.

Interest income from Non-Control/Non-Affiliate investments decreased for the six months ended March 31, 2010, as compared to the prior year period. The decrease was primarily attributable to an overall decrease in the aggregate Non-Control/Non-Affiliate investments held at March 31, 2010 compared to the prior year period. The decrease was also attributable to the conversion of two Non-Control/Non-Affiliate investments held during the prior year period (Clinton and Defiance) to Control investments. In addition, we reversed previously recorded interest of approximately $598 during the six months ended March 31, 2010. The success fees earned during the six months ended March 31, 2010 and March 31, 2009, included in interest income, were $1,387 and $21, respectively. Success fees earned during the six months ended March 31, 2010 resulted from payoffs by ActivStyle, Saunders and Visual Edge, an amendment to senior term debt issued to Doe & Ingalls and a refinancing by Tulsa Welding. Success fees earned during the six months ended March 31, 2009 resulted from a refinancing by It's Just Lunch.

Interest income from Control investments increased for the six months ended March 31, 2010, as compared to the prior year period. The increase was attributable to two additional Control investments held during the six months ended March 31, 2010 (Clinton and Defiance), which were converted from Non-Control/Non-Affiliate investments, as compared to the prior year period. In addition, we reversed previously recorded interest of approximately $75 during the six months ended March 31, 2010.

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The following table lists the interest income from investments for the five largest portfolio company investments during the respective periods:

Six months ended March 31, 2010

Company	Interest Income	% of Total
Westlake Hardware	$ 1,596	8.5%
Sunshine Media	1,539	8.1%
Reliable Biopharma	1,497	7.9%
Visual Edge	1,246	6.6%
Clinton	1,036	5.5%
Subtotal	**6,914**	**36.6%**
Other companies	11,995	63.4%
Total interest income	**$ 18,909**	**100.0%**

Six months ended March 31, 2009

Company	Interest Income	% of Total
Sunshine Media	$ 1,667	7.4%
Reliable Biopharma	1,530	6.8%
Westlake Hardware	1,213	5.4%
Clinton	940	4.2%
VantaCore	857	3.8%
Subtotal	**6,207**	**27.6%**
Other companies	16,285	72.4%
Total interest income	**22,492**	**100.0%**

Interest income from invested cash for the six months ended March 31, 2010 and 2009 was nominal. Interest income is based on the amount of cash held in interest bearing accounts and the interest earned on our custodial account prior to disbursement.

Interest income from loans to our employees, in connection with the exercise of employee stock options, decreased slightly for the six months ended March 31, 2010 as compared to the prior year period due to the reduction of employee loans during the prior quarter ended December 31, 2009.

Prepayment fees and other income increased for the six months ended March 31, 2010 as compared to the prior year period. The income for the current period consisted of prepayment penalty fees received upon unscheduled principal repayments as well as interest from stock option loans of former employees.

Operating Expenses

Operating expenses, net of credits from the Adviser for fees earned and voluntary and irrevocable waivers applied to the base management and incentive fees, decreased for the six months ended March 31, 2010, as compared to the prior year period. This reduction was primarily due to a decrease in interest expense and the amortization of deferred financing fees incurred in connection with the Credit Facility, as well as a decrease in incentive fees, which were offset by a reduction in the Adviser's voluntary credit to the incentive fee, compensation expense and an increase in professional fees.

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Interest expense decreased for the six months ended March 31, 2010 as compared to the prior year period due primarily to decreased borrowings under our line of credit during the six months ended March 31, 2010 as well as a lower weighted average annual interest cost, which is determined by using the annual stated interest rate plus commitment and other fees, plus the amortization of deferred financing fees divided by the weighted average debt outstanding.

Loan servicing fees decreased for the six months ended March 31, 2010 as compared to the prior year period. These fees are incurred in connection with a loan servicing agreement between Business Loan and our Adviser, which is based on the size of our investment portfolio. The decrease was primarily due to the reduction in the size of our investment portfolio, in particular the loans in our borrowing base. Due to voluntary, irrevocable and unconditional waivers applied during these periods, senior syndicated loans incurred a 0.5% annual fee, whereas proprietary loans incurred a 1.5% annual fee. All of these fees were offset against the amount of the base management fee due to our Adviser.

Base management fee (which is net of loan servicing fees) increased for the six months ended March 31, 2010 as compared to the prior year period. However, the gross management fee (consisting of the loan servicing fees plus the base management fee) decreased from the prior year period as shown below:

	Six months ended	
	March 31, 2010	**March 31, 2009**
Loan servicing fee	$ 1,781	$ 3,149
Base management fee	1,459	917
Gross management fee	$ 3,240	$ 4,066

Gross management fee decreased due to fewer total assets held during the six months ended March 31, 2010. The base management fee is computed quarterly as described under "*Investment Advisory and Management Agreement*" in Note 4 of the notes to the consolidated financial statements in the accompanying prospectus, and is summarized in the table below:

	Six months ended	
	March 31, 2010	**March 31, 2009**
Base management fee(1)	$ 1,459	$ 917
Credit for fees received by Adviser from the portfolio companies		(85)
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum(2)	(13)	(203)
Net base management fee	$ 1,446	$ 629

(1) Base management fee is net of loan servicing fees per the terms of the Advisory Agreement.

(2) The board of our Adviser voluntarily and irrevocably waived, for the six months ended March 31, 2010 and 2009, the annual 2.0% base management fee to 0.5% for senior syndicated loan participations. Fees waived cannot be recouped by the Adviser in the future.

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Incentive fee decreased for the six months ended March 31, 2010 as compared to the prior year period. The board of directors of our Adviser voluntarily, irrevocably and unconditionally waived a portion of the incentive fee for the six months ended March 31, 2010 and the entire incentive fee for the six months ended March 31, 2009. The incentive fee and associated credits are summarized in the table below:

	Six months ended	
	March 31, 2010	**March 31, 2009**
Incentive fee	$ 1,447	$ 2,265
Credit from voluntary, irrevocable waiver issued by Adviser's board of directors	(22)	(2,265)
Net incentive fee	$ 1,425	$

Administration fee decreased for the six months ended March 31, 2010 as compared to the prior year period, due to a decrease of administration staff and related expenses, as well as a decrease in our total assets in comparison to the total assets of all companies managed by our Adviser under similar agreements. The calculation of the administration fee is described in detail above under "*Investment Advisory and Management Agreement*" in Note 4 of the notes to the consolidated financial statements in the accompanying prospectus.

Compensation expense increased for the six months ended March 31, 2010 as compared to the prior year period due to the conversion of stock option loans of two former employees from recourse to non-recourse loans. The conversions were non-cash transactions and were accounted for as repurchases of the shares previously received by the employees upon exercise of the stock option in exchange for the non-recourse notes. The repurchases were accounted for as treasury stock transactions at the fair value of the shares, totaling $420. Since the value of the stock option loans totaled $665, we recorded compensation expense of $245.

Other operating expenses (including professional fees, deferred financing fees, stockholder related costs, director's fees, insurance and other direct expenses) increased for the six months ended March 31, 2010 as compared to the prior year period, due primarily to legal fees incurred in connection with troubled loans during the six months ended March 31, 2010 and the provision for uncollectible receivables from portfolio companies.

Net Realized Loss on Investments

Net realized loss on investments for the six months ended March 31, 2010 was $28, which consisted of $1,394 of losses from the Gold Toe, Kinetek and Wesco syndicated loan sales and CCS payoff, offset by a $1,366 gain from ACE Expediters payoff. Net realized loss on investments for the six months ended March 31, 2009 was $3,731, which consisted of $2,000 from writing off the remaining balance of the Greatwide senior subordinated term loan and a $1,758 loss from the sale of the Greatwide senior subordinated term loan, offset by a $27 gain from the Country Road payoff.

Realized Loss on Settlement of Derivative

During the six months ended March 31, 2009, we realized a loss of $304 due to the expiration of the interest rate cap in February 2009.

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Net Unrealized Appreciation on Derivative

Net unrealized appreciation (depreciation) on derivative is the net change in the fair value of our interest rate cap during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. For the six months ended March 31, 2009, we recorded unrealized appreciation on derivative of $304, which resulted from the reversal of previously recorded unrealized depreciation when the loss was realized during the quarter ended March 31, 2009 (see discussion above).

Net Unrealized Appreciation (Depreciation) on Investments

Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. The net unrealized appreciation on investments for the six months ended March 31, 2010 consisted of the following:

Control investments	$	(1,566)
Non-Control/Non-Affiliate investments		3,437
Reversal of previously recorded unrealized depreciation upon realization of losses		3,211
Total	$	5,082

Although our investment portfolio appreciated during the six months ended March 31, 2010, our entire portfolio was fair valued at 88% of cost as of March 31, 2010. The cumulative 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.

Net Unrealized Depreciation on Borrowings under Line of Credit

Net unrealized depreciation on borrowings under line of credit is the net change in the fair value of our line of credit borrowings during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. We elected to apply ASC 825, "Financial Instruments," which requires that we apply a fair value methodology to the Credit Facility. We estimated the fair value of the Credit Facility using estimates of value provided by an independent third party and our own assumptions in the absence of observable market data, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. Since the Credit Facility was entered into during the six months ended March 31, 2010, the cost basis of the Credit Facility of $53,000 was determined to be the best approximation of fair value as of March 31, 2010.

Net Increase in Net Assets Resulting from Operations

For the six months ended March 31, 2010, we realized a net increase in net assets resulting from operations of $14,306 as a result of the factors discussed above. For the six months ended March 31, 2009, we realized a net increase in net assets resulting from operations of $1,178. Our net increase in net assets resulting from operations per basic and diluted weighted average common share for the six months ended March 31, 2010 and March 31, 2009 were $0.68 and $0.05, respectively.

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LIQUIDITY AND CAPITAL RESOURCES (dollar amounts in thousands, unless otherwise indicated)

Operating Activities

At March 31, 2010, we had investments in debt securities of, or loans to, 41 private companies with a cost basis totaling approximately $330,094. During the six months ended March 31, 2010 and March 31, 2009, the following investment activity occurred:

Quarter Ended	New Investments(1)	Principal Repayments(2)	Proceeds from Sales/Exits(3)	Net Gain (Loss) on Sale/Exit
March 31, 2010	$ 5,153	$ 23,065	$ 337	$ 892
December 31, 2009	2,167	15,404	2,782	(920)
	$ 7,320	$ 38,469	$ 3,119	$ (28)
March 31, 2009	$ 8,427	$ 13,053	$	$ (2,000)
December 31, 2008	8,702	14,927	2,212	(1,731)
	$ 17,129	$ 27,980	$ 2,212	$ (3,731)

(1)

New Investments:

Quarter Ended	New Investments Companies	New Investments Investments	Disbursements to Existing Portfolio Companies	Total Disbursements
March 31, 2010		$	$ 5,153	$ 5,153
December 31, 2009	1(a)	180	1,987	2,167
	1	$ 180	$ 7,140	$ 7,320
March 31, 2009		$	$ 8,427	$ 8,427
December 31, 2008			8,702	8,702
		$	$ 17,129	$ 17,129

(a)

Northstar Broadband

(2)

Principal Repayments (including repayment of paid in kind interest previously applied to principal balance):

Quarter Ended	Number of Companies Fully Exited	Unscheduled Principal Repayments(*)	Scheduled Principal Repayments	Total Principal Repayments	Net Gain on Sale/Exit(#)
March 31, 2010	4(a)	$ 18,902	$ 4,163	$ 23,065	$ 1,055
December 31, 2009	1(b)	13,054	2,350	15,404	
	5	$ 31,956	$ 6,513	$ 38,469	$ 1,055
March 31, 2009	(c)	$ 7,813	$ 5,240	$ 13,053	$

December 31, 2008	2(d)		6,966		7,961		14,927	
	2	$	14,779	$	13,201	$	27,980	$

(*) Includes principal repayments due to excess cash flows, covenant violations, exits, refinancings, etc.

(#) Net gain on principal repayments of $1,055 plus the net loss on sales/exits of $1,083 (per footnote 3 below) equals net loss of $28, which is included on the condensed consolidated statement of operations for the six months ended March 31, 2010.

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(a) Full payoff from ACE Expediters (which resulted in a gain on the warrants), ActivStyle, CCS and Visual Edge.

(b) Full payoff from Tulsa Welding and partial payoff from BAS Broadcasting senior term debt (last out tranche).

(c) Refinancing from ACE Expediters and Sunburst Media.

(d) Full payoff from Community Media and Country Road.

(3) Proceeds from Sales/Exits:

Quarter Ended	Number of Companies Fully Exited	Proceeds Received	Position (Principal) Exited	Unamortized Loan Costs(*)	Net Loss on Exit(#)
March 31, 2010	1(a)	$ 337	$ (500)	$	$ (163)
December 31, 2009	2(b)	2,782	(3,685)	(17)	(920)
	3	$ 3,119	$ (4,185)	$ (17)	$ (1,083)
March 31, 2009	1(c)	$	$ (2,000)	$	$ (2,000)
December 31, 2008	(d)	2,212	(3,950)	7	(1,731)
	1	$ 2,212	$ (5,950)	$ 7	$ (3,731)

(*) Includes balance of premiums, discounts and acquisition cost at time of exit.

(#) Net gain on principal repayments of $1,055 (per footnote 2 above) plus the net loss on sales/exits of $1,083 equals net loss of $28, which is included on the condensed consolidated statement of operations for the six months ended March 31, 2010.

(a) Complete sale of Gold Toe senior subordinated syndicated loan.

(b) Complete sale of Kinetek senior term syndicated loan and Wesco Holdings senior subordinated syndicated loan.

(c) Write-off of Greatwide Logistics senior subordinated syndicated loan.

(d) Partial sale of Greatwide Logistics senior term syndicated loan.

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

		Amount
For the remaining six months ending September 30:	2010	$ 20,904
For the fiscal year ending September 30:	2011	92,686
	2012	78,069
	2013	119,763

2014	6,116
2015	6,851
Total Contractual Repayments	324,389
Investments in equity securities	5,278
Unamortized premiums, discounts and investment acquisition costs on debt securities	427
Total	$ 330,094

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Net cash provided by operating activities for the six months ended March 31, 2010, consisting primarily of the items described in " Results of Operations" and the investment activity described above, was $39,235 as compared to net cash provided by operating activities of $19,586 for the six months ended March 31, 2009.

Financing Activities

Net cash used in financing activities for the six months ended March 31, 2010 was $40,250 and mainly consisted of net payments on the Credit Facility of $30,000, distributions to stockholders of $8,853 and $1,323 in financing fees for the Credit Facility. On March 15, 2010, we entered into the Credit Facility. BB&T and ING also joined the Credit Facility as committed lenders. Net cash used in financing activities for the six months ended March 31, 2009 was $15,550 and primarily consisted of distributions to stockholders of $17,714, offset by net borrowings under our line of credit of $2,340.

Distributions

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. Further, our Credit Facility requires us to pay distributions only from estimated net investment income. In accordance with these requirements, we declared and paid monthly cash distributions of $0.07 per common share for January, February and March 2010. In April 2010, our Board of Directors declared a monthly distribution of $0.07 per common share for each of April, May and June 2010.

Section 19(a) Disclosure

Our Board of Directors estimates the source of the distributions at the time of their declaration as required by Section 19(a) of the 1940 Act. On a monthly basis, if required under Section 19(a), we post a Section 19(a) notice through the Depository Trust Company's Legal Notice System ("LENS") and also send to our registered stockholders a written Section 19(a) notice along with the payment of distributions for any payment which includes a distribution estimated to be paid from any other source other than net investment income. The estimates of the source of the distribution are interim estimates based on GAAP that are subject to revision, and the exact character of the distributions for tax purposes cannot be determined until our books and records are finalized for the calendar year. Following the calendar year end, after we have determined definitive information, if we have made distributions of taxable income (or return of capital), we will deliver a Form 1099-DIV to our stockholders specifying such amount and the tax characterization of such amount. Therefore, these estimates are made solely in order to comply with the requirements of Section 19(a) of the 1940 Act and should not be relied upon for tax reporting or any other purposes and could differ significantly from the actual character of distributions for tax purposes.

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The following GAAP estimates were made by our Board of Directors during the quarter ended March 31, 2010:

Month Ended	Ordinary Income	Return of Capital*	Total Distribution
January 31, 2010	$ 0.071	$ (0.001)	$ 0.070
February 28, 2010	0.088	(0.018)	0.070
March 31, 2010	0.057	0.013	0.070

Because our Board of Directors declares distributions at the beginning of a quarter, it is difficult to estimate how much of our monthly distributions, based on GAAP, will come from ordinary income, capital gains and returns of capital. Subsequent to the quarter ended March 31, 2010, the following corrections were made to the above listed estimates for that quarter:

Month Ended	Ordinary Income	Return of Capital*	Total Distribution
January 31, 2010	$ 0.098	$ (0.028)	$ 0.070
February 28, 2010	0.047	0.023	0.070
March 31, 2010	0.065	0.005	0.070

For distributions declared subsequent to quarter end, the following estimates, based on GAAP, have been made pursuant to Section 19(a) of the 1940 Act:

Month Ended	Ordinary Income	Return of Capital*	Total Distribution
April 30, 2010	$ 0.119	$ (0.049)	$ 0.070
May 31, 2010	0.086	(0.016)	0.070
June 30, 2010	0.028	0.042	0.070

* A positive number under Return of Capital indicates a return of capital was estimated whereas a negative number indicates that a surplus of income above the distribution was estimated.

Issuance of Equity

On October 20, 2009, we filed a registration statement on Form N-2 with the SEC, which was declared effective on January 28, 2010. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300 million in securities, consisting of common stock, senior common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, or a combination of these securities.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. Additionally, when our common stock is trading below NAV, as it has consistently traded for most of the last 18 months, we will have regulatory constraints under the 1940 Act on our ability to obtain additional capital in this manner. Generally, the 1940 Act provides that we may not issue and sell our common stock at a price below our NAV per share, other than to our then existing stockholders pursuant to a rights offering, without first obtaining approval from our stockholders and our independent directors. As of March 31, 2010, our NAV per share was $12.10 and as of May 3 our closing market price was $13.87 per share. To the extent that our common stock trades 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 approval or a rights offering. The asset coverage requirement of a business development company under the 1940 Act effectively limits our ratio of debt to equity to 1:1. To the extent that we are unable to raise capital through the issuance of equity, our ability to raise capital through the issuance of debt may also be inhibited to the extent of our regulatory debt to equity ratio limits.

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At our Annual Meeting of Stockholders held on February 18, 2010, our stockholders approved a proposal that authorizes us to sell shares of our common stock at a price below our then current NAV per share for a period of one year, provided that our Board of Directors makes certain determinations prior to any such sale.

Revolving Credit Facility

On March 15, 2010, we entered into a fourth amended and restated credit agreement which currently provides for a $127,000 revolving line of credit. Advances under the Credit Facility will generally bear interest at the 30-day LIBOR (subject to a minimum rate of 2%), plus 4.5% per annum, with a commitment fee of 0.5% per annum on undrawn amounts. Subject to certain terms and conditions, the Credit Facility may be expanded up to $202 million through the addition of other committed lenders to the facility. As of March 31, 2010, there was a cost basis of approximately $53,000 of borrowings outstanding under the Credit Facility at an average interest rate of 6.5%. As of May 4, 2010, there was a cost basis of approximately $28,400 of borrowings outstanding. We expect that the Credit Facility will allow us to increase the rate of our investment activity and grow the size of our investment portfolio. Available borrowings are subject to various constraints imposed under the Credit Facility, based on the aggregate loan balance pledged by us. Interest is payable monthly during the term of the Credit Facility. The Credit Facility matures on March 15, 2012, and, if the facility is not renewed or extended by this date, all principal and interest will be due and payable on March 15, 2013. In addition, if the Credit Facility is not renewed on or before March 15, 2012, we will be required to use all principal collections from our loans to pay outstanding principal on the Credit Facility.

The Credit Facility contains covenants that require Business Loan to maintain its status as a separate entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies. The facility requires a minimum of 20 obligors in the borrowing base and also limits payments of distributions. As of March 31, 2010, we had 23 obligors and we were in compliance with all of the facility covenants.

We applied ASC 825, "Financial Instruments," specifically for the Credit Facility, which was consistent with our application of ASC 820 to our investments. ASC 825 requires that we apply a fair value methodology to the Credit Facility. We estimated the fair value of the Credit Facility using estimates of value provided by an independent third party and our own assumptions in the absence of observable market data, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. We also considered our own credit risk. Since the Credit Facility was entered into during the three months ended March 31, 2010, the cost basis of the Credit Facility of $53,000 was determined to be the best approximation of the fair value as of March 31, 2010. The following table presents the Credit Facility carried at fair value as of March 31,

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2010 and September 30, 2009, by caption on the accompanying consolidated statements of assets and liabilities for each of the three levels of hierarchy established by ASC 820-10:

	As of March 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value Reported in Condensed Consolidated Statement of Assets and Liabilities
Borrowings under Line of Credit	$	$	$ 53,000	$ 53,000
Total	$	$	$ 53,000	$ 53,000

	As of September 30, 2009			
	Level 1	Level 2	Level 3	Total Fair Value Reported in Condensed Consolidated Statement of Assets and Liabilities
Borrowings under Line of Credit	$	$	$ 83,350	$ 83,350
Total	$	$	$ 83,350	$ 83,350

Changes in Level 3 Fair Value Measurements

The following table provides a roll-forward in the changes in fair value during the three-month period from December 31, 2009 to March 31, 2010 and the six month period from September 30, 2009 to March 31, 2010, for the Credit Facility for which we determine fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the 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 components, observable components (that is, components that are actively quoted and can be validated by external sources). Accordingly, the losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

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Fair value measurements using unobservable data inputs (Level 3)

	Borrowings under line of credit
Three months ended March 31, 2010:	
Fair value at December 31, 2009	$ 73,531
Unrealized depreciation(a)	(131)
Borrowings	2,600
Repayments	(23,000)
Transfers into/out of Level 3	
Fair value as of March 31, 2010	$ 53,000
Six months ended March 31, 2010:	
Fair value at September 30, 2009	$ 83,350
Unrealized depreciation(a)	(350)
Borrowings	5,500
Repayments	(35,500)
Transfers into/out of Level 3	
Fair value as of March 31, 2010	$ 53,000

(a) Included in unrealized depreciation on borrowings under line of credit on the accompanying condensed consolidated statements of operations for the three and six months ended March 31, 2010.

Contractual Obligations and Off-Balance Sheet Arrangements

As of March 31, 2010, we were not party to any signed term sheets for potential investments.

In July 2009, we executed a guaranty of a line of credit agreement between Comerica Bank and Defiance Integrated Technologies, Inc., one of our Control investments. If Defiance has a payment default, the guaranty is callable once the bank has reduced its claim by using commercial reasonable efforts to collect through disposition of the Defiance collateral. The guaranty is limited to $250 plus interest on that amount accrued from the date demand payment is made under the guaranty, and all costs incurred by the bank in its collection efforts. As of March 31, 2010, we have not been required to make any payments on the guaranty of the line of credit agreement and we consider the credit risk to be remote.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates. We have identified our investment valuation process as our most critical account policy.

Investment Valuation

The most significant estimate inherent in the preparation of our condensed consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

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General Valuation Policy: We value our investments in accordance with the requirements of the 1940 Act. As discussed more fully below, we value securities for which market quotations are readily available and reliable at their market value. We value all other securities and assets at fair value as determined in good faith by our Board of Directors.

We adopted guidance for fair value measurements on October 1, 2008. In part, this guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The guidance provides a consistent definition of fair value that 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. The guidance also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, 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 our own assumptions that market participants would use to price the asset or liability based upon the best available information.

See Note 3, *"Investments"* in the accompanying notes to the condensed consolidated financial statements for additional information regarding fair value measurements.

We use generally accepted valuation techniques to value our portfolio unless we have specific information about the value of an investment to determine otherwise. From time to time we may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently but provide a third-party valuation opinion that may differ in results, techniques and scopes used to value our investments. When these specific third-party appraisals are engaged or accepted, we would use estimates of value provided by such appraisals and our own assumptions including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date to value the investment we have in that business.

In determining the value of our investments, our Adviser has established an investment valuation policy (the "Policy"). The Policy has been approved by our Board of Directors, and each quarter our Board of Directors reviews whether our Adviser has applied the Policy consistently and votes whether or not to accept the recommended valuation of our investment portfolio.

The Policy, which is summarized below, applies to the following categories of securities:

Publicly-traded securities;

Securities for which a limited market exists; and

Securities for which no market exists.

Valuation Methods:

Publicly-traded securities: We determine the value of publicly-traded securities based on the closing price for the security on the exchange or securities market on which it is listed and primarily

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traded on the valuation date. To the extent that we own restricted securities that are not freely tradable, but for which a public market otherwise exists, we will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature.

Securities for which a limited market exists: We value securities that are not traded on an established secondary securities market, but for which a limited market for the security exists, such as certain participations in, or assignments of, syndicated loans, at the quoted bid price. In valuing these assets, we assess trading activity in an asset class, evaluate variances in prices and other market insights to determine if any available quote prices are reliable. If we conclude that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if a firm bid price is unavailable, we base the value of the security upon the indicative bid price offered by the respective originating syndication agent's trading desk, or secondary desk, on or near the valuation date. To the extent that we use the indicative bid price as a basis for valuing the security, our Adviser may take further steps to consider additional information to validate that price in accordance with the Policy.

In the event these limited markets become illiquid such that market prices are no longer readily available, we will value our syndicated loans using estimated net present values of the future cash flows or discounted cash flows. The use of a DCF methodology follows that prescribed by ASC 820, which provides guidance on the use of a reporting entity's own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs, such as quotes in active markets, are not available. When relevant observable market data does not exist, the alternative outlined in ASC 820 is the use of valuing investments based on DCF. For the purposes of using DCF to provide fair value estimates, we consider multiple inputs such as a risk-adjusted discount rate that incorporates adjustments that market participants would make both for nonperformance and liquidity risks. As such, we develop a modified discount rate approach that incorporates risk premiums including, among others, increased probability of default, or higher loss given default, or increased liquidity risk. The DCF valuations applied to the syndicated loans provide an estimate of what we believe a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. We will continue to apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

As of March 31, 2010, we assessed trading activity in syndicated loan assets and determined that there continued to be market liquidity and a functioning secondary market for these assets. Thus, firm bid prices or indicative bids were used to fair value our remaining syndicated loans at March 31, 2010.

Securities for which no market exists: The valuation methodology for securities for which no market exists falls into three categories: (1) portfolio investments comprised solely of debt securities; (2) portfolio investments in controlled companies comprised of a bundle of securities, which can include debt and equity securities; and (3) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities.

(1) **Portfolio investments comprised solely of debt securities:** Debt securities that are not publicly traded on an established securities market, or for which a limited market does not exist ("Non-Public Debt Securities"), and that are issued by portfolio companies where we have no equity or equity-like securities, are fair valued in accordance with the terms of the policy, which utilizes opinions of value submitted to us by Standard & Poor's Securities Evaluations, Inc. ("SPSE"). We may also submit PIK interest to SPSE for their evaluation when it is determined that PIK interest is likely to be received.

In the case of Non-Public Debt Securities, we have engaged SPSE to submit opinions of value for our debt securities that are issued by portfolio companies in which we own no equity, or equity-like securities. SPSE's opinions of value are based on the valuations prepared by our portfolio management team as described below. We request that SPSE also evaluate and

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assign values to success fees (conditional interest included in some loan securities) when we determine that there is reasonable probability of receiving a success fee on a given loan. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and may decline to make requested evaluations for any reason at its sole discretion. Upon completing our collection of data with respect to the investments (which may include the information described below under " Credit Information," the risk ratings of the loans described below under " Loan Grading and Risk Rating" and the factors described hereunder), this valuation data is forwarded to SPSE for review and analysis. SPSE makes its independent assessment of the data that we have assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

> SPSE provides evaluated price opinions which are reflective of what SPSE believes the bid side of the market would be for each loan after careful review and analysis of descriptive, market and credit information. Each price reflects SPSE's best judgment based upon careful examination of a variety of market factors. Because of fluctuation in the market and in other factors beyond its control, SPSE cannot guarantee these evaluations. The evaluations reflect the market prices, or estimates thereof, on the date specified. The prices are based on comparable market prices for similar securities. Market information has been obtained from reputable secondary market sources. Although these sources are considered reliable, SPSE cannot guarantee their accuracy.

SPSE opinions of value of our debt securities that are issued by portfolio companies where we have no equity or equity-like securities are submitted to our Board of Directors along with our Adviser's supplemental assessment and recommendation regarding valuation of each of these investments. Our Adviser generally accepts the opinion of value given by SPSE, however, in certain limited circumstances, such as when our Adviser may learn new information regarding an investment between the time of submission to SPSE and the date of our Board of Directors' assessment our Adviser's conclusions as to value may differ from the opinion of value delivered by SPSE. Our Board of Directors then reviews whether our Adviser has followed its established procedures for determinations of fair value, and votes to accept or reject the recommended valuation of our investment portfolio. Our Adviser and our management recommended, and our Board of Directors voted to accept, the opinions of value delivered by SPSE on the loans in our portfolio as denoted on the Schedule of Investments included in our accompanying condensed consolidated financial statements.

Because there is a delay between when we close an investment and when the investment can be evaluated by SPSE, new loans are not valued immediately by SPSE; rather, management makes its own determination about the value of these investments in accordance with our valuation policy using the methods described herein.

(2)

Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The fair value of these investments is determined based on the total enterprise value of the portfolio company, or issuer, utilizing a liquidity waterfall approach. For Non-Public Debt Securities and equity or equity-like securities (e.g. preferred equity, equity, or other equity-like securities) that are purchased together as part of a package, where we have control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale or recapitalization of the portfolio company. In accordance with ASC 820-10, we apply the in-use premise of value which assumes the debt and equity securities are sold together. Under this liquidity waterfall approach, we continue to use the enterprise value methodology utilizing a liquidity waterfall approach to determine the fair value of these investments under ASC

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820-10 if we have the ability to initiate a sale of a portfolio company as of the measurement date. Under this approach, we first calculate the total enterprise value of the issuer by incorporating some or all of the following factors:

- the issuer's ability to make payments;
- the earnings of the issuer;
- recent sales to third parties of similar securities;
- the comparison to publicly traded securities; and
- discounted cash flow or other pertinent factors.

In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. Once we have estimated the total enterprise value of the issuer, we subtract the value of all the debt securities of the issuer; which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of total enterprise value over the total debt outstanding for the issuer. Once the values for all outstanding senior securities (which include the debt securities) have been subtracted from the total enterprise value of the issuer, the remaining amount, if any, is used to determine the value of the issuer's equity or equity-like securities. If, in our Adviser's judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, our Adviser may recommend that we use a valuation by SPSE or, if that is unavailable, a DCF valuation technique.

(3) **Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities:** We value Non-Public Debt Securities that are purchased together with equity and equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical secondary market as our principal market. In accordance with ASC 820-10, we determine the fair value of these debt securities of non-control investments assuming the sale of an individual debt security using the in-exchange premise of value. As such, we estimate the fair value of the debt component using estimates of value provided by SPSE and our own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, we estimate the fair value of the equity using the in-exchange premise of value based on factors such as the overall value of the issuer, the relative fair value of other units of account including debt, or other relative value approaches. Consideration also is given to capital structure and other contractual obligations that may impact the fair value of the equity. Further, we may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or our own assumptions in the absence of other observable market data and may also employ DCF valuation techniques.

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that we might reasonably expect to receive upon the current sale of the security in an arms-length transaction in the security's principal market.

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Valuation Considerations: From time to time, depending on certain circumstances, the Adviser may use the following valuation considerations, including but not limited to:

- the nature and realizable value of the collateral;
- the portfolio company's earnings and cash flows and its ability to make payments on its obligations;
- the markets in which the portfolio company does business;
- the comparison to publicly traded companies; and
- DCF and other relevant factors.

Because such valuations, particularly valuations of private securities and private companies, are not susceptible to precise determination, may fluctuate over short periods of time, and may be based on estimates, our determinations of fair value may differ from the values that might have actually resulted had a readily available market for these securities been available.

Credit Information: Our 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. We and our Adviser participate in the periodic board meetings of our portfolio companies in which we hold Control and Affiliate investments and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, our Adviser calculates and evaluates the credit statistics.

Loan Grading and Risk Rating: As part of our valuation procedures above, we risk rate all of our investments in debt securities. For syndicated loans that have been rated by an NRSRO (as defined in Rule 2a-7 under the 1940 Act), we use the NRSRO's risk rating for such security. For all other debt securities, we use a proprietary risk rating system. Our risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. This system is used to estimate the probability of default on debt securities and the probability of loss if there is a default. These types of systems are referred to as risk rating systems and are used by banks and rating agencies. The risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold. During the three months ended March 31, 2010, we modified our risk rating model to incorporate additional factors in our qualitative and quantitative analysis. While the overall process did not change, we believe the additional factors enhance the quality of the risk ratings of our investments. No adjustments were made to prior periods as a result of this modification.

For the debt securities for which we do not use a third-party NRSRO risk rating, we seek to have our risk rating system mirror the risk rating systems of major risk rating organizations, such as those provided by an NRSRO. While we seek to mirror the NRSRO systems, we cannot provide any assurance that our risk rating system will provide the same risk rating as an NRSRO for these securities. The following chart is an estimate of the relationship of our risk rating system to the designations used by two NRSROs as they risk rate debt securities of major companies. Because our system rates debt securities of companies that are unrated by any NRSRO, there can be no assurance that the correlation to the NRSRO set out below is accurate. We believe our risk rating would be significantly higher than a typical NRSRO risk rating because the risk rating of the typical NRSRO is designed for larger businesses. However, our risk rating has been designed to risk rate the securities of smaller businesses that are not rated by a typical NRSRO. Therefore, when we use our risk rating on larger business securities, the risk rating is higher than a typical NRSRO rating. The primary difference between our risk rating and the rating of a typical NRSRO is that our risk rating uses more quantitative determinants and includes qualitative determinants that we believe are not used in the NRSRO rating. It is our 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

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market that would meet the definition of AAA, AA or A. Therefore, our 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 our scale is equal to a BBB on an NRSRO scale.

Company's System	First NRSRO	Second NRSRO	Gladstone Capital's Description(a)
>10	Baa2	BBB	Probability of Default (PD) during the next ten years is 4% and the Expected Loss (EL) is 1% or less
10	Baa3	BBB-	PD is 5% and the EL is 1% to 2%
9	Ba1	BB+	PD is 10% and the EL is 2% to 3%
8	Ba2	BB	PD is 16% and the EL is 3% to 4%
7	Ba3	BB-	PD is 17.8% and the EL is 4% to 5%
6	B1	B+	PD is 22% and the EL is 5% to 6.5%
5	B2	B	PD is 25% and the EL is 6.5% to 8%
4	B3	B-	PD is 27% and the EL is 8% to 10%
3	Caa1	CCC+	PD is 30% and the EL is 10% to 13.3%
2	Caa2	CCC	PD is 35% and the EL is 13.3% to 16.7%
1	Caa3	CC	PD is 65% and the EL is 16.7% to 20%
0	N/a	D	PD is 85% or there is a payment default and the EL is greater than 20%

(a) The default rates set forth are for a ten year term debt security. If a debt security is less than ten years, then the probability of default is adjusted to a lower percentage for the shorter period, which may move the security higher on our risk rating scale.

The above scale gives an indication of the probability of default and the magnitude of the loss if there is a default. Our policy is to stop accruing interest on an investment if we determine that interest is no longer collectible. As of March 31, 2010 one Non-Control/Non-Affiliate investment and five Control investments were on non-accrual. As of September 30, 2009, one Non-Control/Non-Affiliate investment and four Control investments were on non-accrual. Additionally, we do not risk rate our equity securities.

The following table lists the risk ratings for all non-syndicated loans in our portfolio at March 31, 2010 and September 30, 2009, representing approximately 97% and 96%, respectively, of all loans in our portfolio at the end of each period:

Rating	Mar. 31, 2010	Sept. 30, 2009
Average	**6.3**	**7.1**
Weighted Average	**5.9**	**7.2**
Highest	**10.0**	**9.0**
Lowest	**2.0**	**3.0**

The following table lists the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO at March 31, 2010 and September 30, 2009, representing approximately 2% of all loans in our portfolio at the end of each period:

Rating	Mar. 31, 2010	Sept. 30, 2009
Average	**7.0**	**7.0**
Weighted Average	**7.0**	**7.0**
Highest	**7.0**	**7.0**
Lowest	**7.0**	**7.0**

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For syndicated loans that are currently rated by an NRSRO, we risk rate such loans in accordance with the risk rating systems of major risk rating organizations, such as those provided by an NRSRO. The following table lists the risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO at March 31, 2010 and September 30, 2009, representing approximately 1% and 2%, respectively, of all loans in our portfolio at the end of each period:

Rating	Mar. 31, 2010	Sept. 30, 2009
Average	B2	CCC+/Caa1
Weighted Average	B2	CCC+/Caa1
Highest	B2	B-/B3
Lowest	B2	D/C

Tax Status

We intend to continue to qualify for treatment as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we must meet certain source-of-income, asset diversification, and annual distribution requirements. Under the annual distribution requirement, we are required to distribute to stockholders at least 90% of our investment company taxable income, as defined by the Code. We have a policy to pay out as a distribution up to 100% of that amount.

In an effort to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years.

Revenue Recognition

Interest Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs and for the accretion of discounts, 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 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 are restored to accrual status when past due principal and interest is paid or due to a restructuring such that the interest income is deemed to be collectible, and in management's judgment, are likely to remain current. At March 31, 2010, one Non-Control/Non-Affiliate investment and five Control investments were on non-accrual with an aggregate cost basis of approximately $26,422 or 8.0% of the cost basis of all investments in our portfolio. At September 30, 2009, one Non-Control/Non-Affiliate investment and four Control investments were on non-accrual with an aggregate cost basis of approximately $10,022 or 2.8% of the cost basis of all investments in our portfolio. Success fees are recorded upon receipt and are contractually due upon a change of control in a portfolio company.

Paid in Kind Interest

Two loans in our portfolio contain PIK provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to

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stockholders in the form of distributions, even though we have not yet collected the cash. For the three and six months ended March 31, 2010 we recorded PIK income of $49 and $100, respectively. For the three and six months ended March 31, 2009, we recorded PIK income of $13 and $31, respectively.

Services Provided to Portfolio Companies

As a business development company under the 1940 Act, we are required to make available significant managerial assistance to our portfolio companies. We provide these services through our Adviser, who provides these services on our behalf through its officers who are also our officers. Currently, neither we nor our Adviser charges a fee for managerial assistance; however, if our Adviser does receive fees for such managerial assistance, our Adviser will credit the managerial assistance fees to the base management fee due from us to our Adviser.

Our Adviser receives fees for the other services it provides to our portfolio companies. These other fees are typically non-recurring, are recognized as revenue when earned and are generally paid directly to our Adviser by the borrower or potential borrower upon the closing of the investment. The services our Adviser provides to our portfolio companies vary by investment, but generally include a broad array of services such as investment banking services, arranging bank and equity financing, structuring financing from multiple lenders and investors, reviewing existing credit facilities, restructuring existing investments, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. When our Adviser receives fees for these services, 50% of certain of those fees are voluntarily and irrevocably credited against the base management fee that we pay to our Adviser, whereas prior to such date fees were 100% credited. Any services of this nature subsequent to the closing would typically generate a separate fee at the time of completion.

Our Adviser also receives fees for monitoring and reviewing portfolio company investments. These fees are recurring and are generally paid annually or quarterly in advance to our Adviser throughout the life of the investment. Fees of this nature are recorded as revenue by our Adviser when earned and are not credited against the base management fee.

We may receive fees for the origination and closing services we provide to portfolio companies through our Adviser. These fees are paid directly to us and are recognized as revenue upon closing of the originated investment and are reported as fee income in the accompanying condensed consolidated statements of operations.

Recent Accounting Pronouncements

Refer to Note 2 in the accompanying condensed consolidated financial statements for a summary of recently issued accounting pronouncements.

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GLADSTONE CAPITAL CORPORATION

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	March 31, 2010	September 30, 2009
ASSETS		
Non-Control/Non-Affiliate investments (Cost 3/31/10: $274,627; 9/30/09: $312,043)	$ 256,227	$ 286,997
Control investments (Cost 3/31/10: $55,467; 9/30/09: $52,350)	35,524	33,972
Total investments at fair value (Cost 3/31/10: $330,094; 9/30/09: $364,393)	291,751	320,969
Cash	4,261	5,276
Interest receivable investments in debt securities	2,387	3,048
Interest receivable employees (Refer to Note 4)	91	85
Due from custodian	10,571	3,059
Due from Adviser (Refer to Note 4)		69
Deferred financing fees	1,610	1,230
Prepaid assets	288	341
Receivable from portfolio companies, less allowance for uncollectible receivables of $177 and $0 at March 31, 2010 and September 30, 2009, respectively	367	1,528
Other assets	312	305
TOTAL ASSETS	$ 311,638	$ 335,910
LIABILITIES		
Accounts payable	$	$ 67
Interest payable	244	378
Fee due to Administrator (Refer to Note 4)	176	216
Due to Adviser (Refer to Note 4)	2,365	834
Borrowings under line of credit at fair value (Cost 3/31/10: $53,000; 9/30/09: $83,000)	53,000	83,350
Accrued expenses and deferred liabilities	1,203	1,800
Funds held in escrow	101	189
TOTAL LIABILITIES	57,089	86,834
NET ASSETS	$ 254,549	$ 249,076
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value, 50,000,000 shares authorized and 21,039,242 and 21,087,574 shares issued and outstanding at March 31, 2010 and September 30, 2009, respectively	$ 21	$ 21
Capital in excess of par value	327,709	328,203
Notes receivable employees (Refer to Note 4)	(8,503)	(9,019)
Net unrealized depreciation on investments	(38,343)	(43,425)
Net unrealized appreciation on borrowings under line of credit		(350)
Accumulated Net Realized Losses	(26,335)	(26,354)
TOTAL NET ASSETS	$ 254,549	$ 249,076
NET ASSETS PER SHARE	$ 12.10	$ 11.81

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

AS OF MARCH 31, 2010

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(1)	Industry	Investment(2)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS				
Non-syndicated Loans:				
Access Television Network, Inc.	Service-cable airtime (infomercials)	Senior Term Debt (14.5%, Due 12/2009)(5)(11)	$ 963	$ 794
Allison Publications, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (10.5%, Due 9/2012)(5)	9,399	8,779
		Senior Term Debt (13.0%, Due 12/2010)(5)	195	191
Anitox Acquisition Company	Manufacturing-preservatives for animal feed	Line of Credit, $3,000 available (4.5%, Due 1/2011)(5)	1,950	1,950
		Senior Term Debt (8.5%, Due 1/2012)(5)	2,603	2,596
		Senior Term Debt (10.5%, Due 1/2012)(3)(5)	3,688	3,660
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013)(5)	7,435	6,766
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, $700 available (7.3%, Due 9/2010)(5)	450	432
		Senior Term Debt (7.3%, Due 9/2010)(5)	425	407
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (10.3%, Due 11/2012)(5)	6,240	6,061
Doe & Ingalls Management LLC	Distributor-specialty chemicals	Senior Term Debt (8.0%, Due 11/2010)(5)	1,900	1,881
		Senior Term Debt (9.0%, Due 11/2010)(3)(5)	4,343	4,299
Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants(7)(8)	37	651
GFRC Holdings LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (9.0%, Due 12/2012)(5)	6,405	6,333
		Senior Subordinated Term Debt (11.5%, Due 12/2012)(3)(5)	6,649	6,516
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (14.0%, Due 6/2010)(3)(5)	4,310	3,232
Heartland Communications Group	Service-radio station operator	Senior Term Debt (10.0%, Due 5/2011)(5)	4,559	2,272
Interfilm Holdings, Inc.	Service-slitter and distributor of plastic films	Senior Term Debt (12.3%, Due 10/2012)(5)	4,924	4,796
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, $1,500 available (9.0%, Due 5/2010)(5)(13)	1,500	1,487
		Senior Term Debt (8.5%, Due 5/2012)(5)	1,854	1,823
		Senior Term Debt (10.5%, Due 5/2012)(3)(5)	2,500	2,438
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, $200 available (11.0%, Due 7/2010)(5)	162	32
		Senior Term Debt (11.0%, Due 7/2010)(5)	1,921	384
Legend Communications of Wyoming LLC	Service-operator of radio stations	Line of Credit, $500 available (12.0%, Due 6/2011)(5)	497	430
		Senior Term Debt (12.0%, Due 6/2013)(5)	9,373	8,107
Newhall Holdings, Inc.	Service-distributor of personal care products and supplements	Line of Credit, $1,350 available (5.0%, Due 5/2010)(5)	1,000	934
		Senior Term Debt(5) (5.0%, Due 5/2012)(5)	3,870	3,614
		Senior Term Debt (5.0%, Due 5/2012)(3)(5)	4,648	4,294
		Preferred Equity(7)(8)		
		Common Stock(7)(8)		
Northern Contours, Inc.		Senior Subordinated Term Debt (13.0%, Due 9/2012)(5)		

	Manufacturing-veneer and laminate components	6,388	5,781

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF MARCH 31, 2010

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(1)	Industry	Investment(2)	Cost	Fair Value
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012)(5)	$ 143	$ 120
Pinnacle Treatment Centers, Inc.	Service-Addiction treatment centers	Senior Term Debt (10.5%, Due 12/2011)(5)	2,350	2,332
		Senior Term Debt (10.5%, Due 12/2011)(3)(5)	7,500	7,359
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the aluminum industry	Equipment Note (13.0%, Due 10/2010)(5)	1,000	975
		Senior Term Debt (13.0%, Due 10/2010)(5)	4,125	4,022
		Senior Term Debt (13.0%, Due 10/2010)(3)(5)	4,053	3,952
PROFITSystems Acquisition Co.	Service-design and develop ERP software	Line of Credit, $350 available (4.5%, Due 7/2010)		
		Senior Term Debt (8.5%, Due 7/2011)(5)	1,300	1,216
		Senior Term Debt (10.5%, Due 7/2011)(3)(5)	2,900	2,686
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (8.5%, Due 1/2011)(3)(5)	2,187	2,179
		Senior Term Debt (10.5%, Due 1/2011)(4)(5)	3,060	3,037
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, $5,000 available (9.0%, Due 10/2010)(5)	700	698
		Mortgage Note (9.5%, Due 10/2014)(5)	7,293	7,284
		Senior Term Debt (9.0%, Due 10/2012)(5)	1,305	1,302
		Senior Term Debt (11.0%, Due 10/2012)(3)(5)	11,753	11,635
		Senior Subordinated Term Debt (12.0%, Due 10/2013)(5)	6,000	5,873
		Common Stock Warrants(7)(8)	209	
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Senior Term Debt (9.8%, Due 5/2013)(5)	9,558	9,534
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (non-accrual, Due 10/2008)(5)(10)(13)	3,031	379
Sunburst Media Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 6/2011)(5)	6,401	5,961
Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of credit, $2,000 available (9.0%, Due 2/2011)(5)	799	751
		Senior Term Debt (10.5%, Due 5/2012)(5)	16,948	15,931
		Senior Term Debt (13.3%, Due 5/2012)(3)(5)	10,700	9,898
Thibaut Acquisition Co.	Service-design and disbribute wall covering	Line of Credit, $1,000 available (9.0%, Due 1/2011)(5)	1,000	957
		Senior Term Debt (8.5%, Due 1/2011)(5)	1,413	1,352
		Senior Term Debt (12.0%, Due 1/2011)(3)(5)	3,000	2,839
VantaCore	Service-acquisition of aggregate quarries	Senior Subordinated Term Debt (12.0%, Due 8/2013)(14)	13,590	13,590
Viapack, Inc.	Manufacturing-polyethylene film	Senior Real Estate Term Debt (10.0%, Due 3/2011)(5)	725	719
		Senior Term Debt (13.0%, Due 3/2011)(3)(5)	4,058	4,022
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (10.3%, Due 1/2011)(5)	15,000	14,700
		Senior Subordinated Term Debt (11.5%, Due 1/2011)(5)	10,000	9,700
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.2%, Due 12/2010)(5)	1,250	1,244
		Senior Term Debt (5.7%, Due 5/2013)(5)	1,686	1,648

	Senior Subordinated Term Debt (14.0%, Due 6/2013)(5)	9,900	9,529
Subtotal Non-syndicated loans		265,125	248,364

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF MARCH 31, 2010

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(1)	**Industry**	**Investment(2)**	**Cost**	**Fair Value**
Syndicated Loans:				
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (7.8%, Due 1/2012)(6)	$ 7,167	$ 6,284
WP Evenflo Group Holdings Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (8.0%, Due 2/2013)(6)	1,891	1,579
		Senior Preferred Equity(7)(8)	333	
		Junior Preferred Equity(7)(8)	111	
		Common Stock(7)(8)		
Subtotal Syndicated loans			9,502	7,863
Total Non-Control/Non-Affiliate Investments			**$ 274,627**	**$ 256,227**
CONTROL INVESTMENTS				
BERTL, Inc.	Service-web-based evaluator of digital imaging products	Line of Credit, $1,023 available (non-accrual, Due 10/2010)(7)(10)(12)	$ 996	$ 232
		Common Stock(7)(8)	423	
Clinton Holdings, LLC	Distribution-aluminum sheets and stainless steel &	Senior Subordinated Term Debt (12.0%, Due 1/2013)(5)	17,140	12,855