GLADSTONE CAPITAL CORP
Form 497
October 31, 2011

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Prospectus Supplement
(To Prospectus Dated July 15, 2011)

$35,000,000

PREFERRED STOCK
1,400,000 Shares, 7.125% Series 2016
Liquidation Preference $25 Per Share

We are offering 1,400,000 shares of our 7.125% Series 2016 preferred stock, or the Series 2016 Term Preferred Shares. We will pay monthly dividends on the Series 2016 Term Preferred Shares at an annual rate of 7.125% of the $25 liquidation preference per share, or $1.7813 per Series 2016 Term Preferred Share per year, on the last business day of each month, commencing on December 30, 2011.

We are required to redeem all of the outstanding Series 2016 Term Preferred Shares on December 31, 2016 at a redemption price equal to $25 per share plus an amount equal to accumulated but unpaid dividends, if any, to the date of redemption. We cannot effect any amendment, alteration or repeal of our obligation to redeem all of the Series 2016 Term Preferred Shares on December 31, 2016 without the prior unanimous consent of the holders of Series 2016 Term Preferred Shares. If we fail to maintain an Asset Coverage ratio of at least 200% (as described in this prospectus supplement), we will redeem a portion of the outstanding Series 2016 Term Preferred Shares in an amount at least equal to the lesser of (1) the minimum number of shares of Series 2016 Term Preferred Stock necessary to cause us to meet our required Asset Coverage ratio and (2) the maximum number of Series 2016 Term Preferred Shares that we can redeem out of cash legally available for such redemption. At any time on or after December 31, 2012, at our sole option, we may redeem the Series 2016 Term Preferred Shares at a redemption price per share equal to the sum of the $25 liquidation preference per share plus (i) an initial premium of 1.00% of the liquidation preference (with such premium declining by 0.50% on the first and second anniversaries such that, beginning on December 31, 2014, no premium will be payable in connection with any such optional redemption) and (ii) an amount equal to accumulated but unpaid dividends, if any, on the Series 2016 Term Preferred Shares.

Each holder of our Series 2016 Term Preferred Shares (and any other preferred stock we may issue in the future) will be entitled to one vote for each share held by such holder on any matter submitted to a vote of our stockholders, and the holders of all of our outstanding preferred stock and common stock will vote together as a single class. The holders of the Series 2016 Term Preferred Shares (together with any other preferred stock we may issue in the future), voting separately as a class, will elect at least two of our directors and, upon failure to pay dividends for at least two years, will elect a majority of our directors.

The Series 2016 Term Preferred Shares will rank equally in right of payment with all other shares of preferred stock that we may issue and will rank senior in right of payment to all of our common stock.

The Series 2016 Term Preferred Shares have been approved for listing on the New York Stock Exchange, or the NYSE, under the symbol GLAD PR A. Our common stock is traded on the NASDAQ Global Select Market, or NASDAQ, under the symbol GLAD. On October 27, 2011, the last sale price of our common stock as reported on NASDAQ was $7.99 per share. The Series 2016 Term Preferred Shares will not be convertible into our common stock or any other security of our company.

Investing in our securities involves risks. You could lose some or all of your investment. You should carefully consider each of the factors described under Risk Factors beginning on page S-8 of this prospectus supplement and beginning on page 8 of the accompanying prospectus before you invest in the Series 2016 Term Preferred Shares.

Neither the Securities and Exchange Commission, or 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.

	Per Share	**Total(2)**
Public offering price	*$ 25.00*	*$ 35,000,000*
Underwriting discounts and commissions	*$ 1.00*	*$ 1,400,000*
Proceeds, before expenses, to us(1)	*$ 24.00*	*$ 33,600,000*

(1) *Total expenses of the offering payable by us, excluding underwriting discounts and commissions, are estimated to be $500,000.*

(2) *We have granted the underwriters a 30-day option to purchase up to an additional 210,000 Series 2016 Term Preferred Shares from us on the same terms and conditions set forth above solely to cover over-allotments, if any. If such option is exercised in full, the public offering price, underwriting discounts and commissions and proceeds, before expenses, to us would be $40,250,000, $1,610,000 and $38,640,000, respectively. See Underwriting on page S-42 of this prospectus supplement.*

The underwriters expect to deliver the Series 2016 Term Preferred Shares on or about November 4, 2011.

Janney Montgomery Scott

BB&T Capital Markets
A Division of Scott & Stringfellow, LLC

J.J.B. Hilliard, W.L. Lyons, LLC

Wunderlich Securities

Ladenburg Thalmann & Co. Inc.

Boenning & Scattergood, Inc.

Prospectus Supplement dated October 28, 2011

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This prospectus supplement, together with the accompanying prospectus, sets forth the information that you should know before investing. You should read the prospectus supplement and accompanying prospectus, which contain important information, before deciding whether to invest in the Series 2016 Term Preferred Shares.

We also file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may inspect such reports, proxy statements and other information, as well as the prospectus supplement, and the accompanying prospectus and the exhibits and schedules to the registration statement of which the accompanying prospectus is a part, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC s website is http://www.sec.gov. You may also obtain copies of such material from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

You may request a free copy of this prospectus supplement, the accompanying prospectus, our annual reports to stockholders, when available, and other information about us, and make stockholder inquiries by calling (866) 366-5745 or by writing to us at 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102, or from our website (http://www.GladstoneCapital.com). The information contained in, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We also furnish to our stockholders annual reports, which include annual financial information that has been examined and reported on, with an opinion expressed, by our independent registered public accounting firm.

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

The Series 2016 Term Preferred Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus in making an investment decision. We have not authorized any other person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the Series 2016 Term Preferred Shares in any jurisdiction where such an offer or sale is not permitted. The information appearing in this prospectus supplement and in the accompanying prospectus is accurate only as of the dates on their respective covers, regardless of the time of delivery or any sale of the Series 2016 Term Preferred Shares.

We expect to deliver the Series 2016 Term Preferred Shares against payment therefor on or about the date specified in the last paragraph of the cover page of this prospectus supplement, which will be the fifth business day following the date of the pricing of the Series 2016 Term Preferred Shares. Under Rule 15c6-1 of the Exchange Act, trades in the

secondary market generally settle in three business days, and purchasers who wish to trade the Series 2016 Term Preferred Shares on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Series 2016 Term Preferred Shares initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement.

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PROSPECTUS SUPPLEMENT SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this prospectus supplement and in the accompanying prospectus, including the Company s Articles Supplementary Establishing and Fixing the Rights and Preferences of Gladstone Capital Term Preferred Shares, or the Articles Supplementary, which is attached as Appendix A to this prospectus supplement, prior to making an investment in the Series 2016 Term Preferred Shares, and especially the information set forth under the headings Risk Factors. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the Company, we, us or our refers to Gladstone Capital Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; and Gladstone Companies refers to our Adviser and its affiliated companies. Capitalized terms used but not defined in this prospectus supplement or accompanying prospectus have the meanings given to such terms in the Articles Supplementary. Unless otherwise stated, the information in this prospectus supplement and the accompanying prospectus does not take into account the possible exercise by the underwriters of their over-allotment option.

Gladstone Capital Corporation

Gladstone Capital Corporation is an externally managed specialty finance company that provides capital to small and medium-sized private U.S. businesses and commenced investment operations in September 2001. 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 and individual investors or are family owned businesses, with a particular focus on investments in senior notes. 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.

As of June 30, 2011, our portfolio consisted of loans to 59 companies in 29 states in 24 different industries with a fair value of $299.3 million, consisting of senior term debt, senior subordinated term debt, preferred equity and common equity. Since our initial public offering in 2001, we have made over 100 consecutive monthly distributions. Our monthly distributions per share were $0.07 in September 2011.

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, 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, or the Code.

As of June 30, 2011, we had 21,039,242 shares of common stock, par value $0.001 per share, or Common Stock, outstanding and no shares of preferred stock outstanding.

Our principal executive offices are located at 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102, and our telephone number is (703) 287-5800. Our corporate website is located at http://www.GladstoneCapital.com.

Information on our website is not incorporated into or a part of this prospectus supplement or the accompanying prospectus.

Investment Strategy

We seek to invest in small and medium-sized private U.S. businesses that meet some, but not necessarily all, of the following criteria: (1) potential for growth in cash flow, (2) adequate assets for loan collateral, (3) experienced management teams with a significant ownership interest in the borrower, (4) profitable operations based on the borrower s cash flow, (5) reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds) and (6) potential to realize appreciation or gain liquidity in our equity investment, if any. We seek to lend to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control. Our loans include senior, senior subordinated (including second lien notes) and junior subordinated loans (including mezzanine notes). These loans typically range from

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$5 million to $20 million, although our average investment size tends to vary proportionately with the size of our capital base. Our loans generally mature in no more than seven years and accrue interest at a fixed or variable rate that exceeds the applicable prime rate. We may also receive yield enhancements in connection with our loans, which may include warrants to purchase stock, stock or success fees.

Because we expect that a majority of our portfolio loans will consist of term debt issued by private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most of the debt securities we acquire will be unrated. We cannot accurately predict what ratings these loans might receive if they were rated, and thus cannot determine whether or not they should be considered of investment grade quality. However, for loans that lack a rating by a credit rating agency, investors should assume that these loans would be rated below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered high risk as compared to investment-grade debt instruments. We anticipate that we will achieve liquidity in our equity investments, if any, through a merger or acquisition of the borrower, a public offering of the borrower s common stock or through an exercise of our right to require the borrower to repurchase our warrants, although there can be no assurance that we will always obtain these rights.

Recent Operating Results

Set forth below are certain preliminary estimates of the results of operations for the fiscal year ended September 30, 2011. These estimates are subject to completion of our financial closing procedures. These estimates are not a comprehensive statement of our financial results for the fiscal year ended September 30, 2011, and our actual results may differ materially from these estimates as a result of the completion of our financial closing procedures, final adjustments and other developments arising between now and the time that our financial results for this year are finalized.

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

The following are preliminary estimates for the fiscal year ended September 30, 2011:

Total investment income for the fiscal year ended September 30, 2011 is estimated to be between $35.0 million and $36.0 million, compared to $35.5 million for the fiscal year ended September 30, 2010.

Total expenses net of credits for the fiscal year ended September 30, 2011 is estimated to be between $16.4 million and $17.4 million, compared to total expenses net of credits of $17.8 million for the fiscal year ended September 30, 2010. The estimated decrease in total expenses net of credits for the fiscal year ended September 30, 2011 when compared to fiscal year ended September 30, 2010 was primarily due to a decrease in interest expense resulting from lower average borrowings outstanding under our $137.0 million revolving line of credit arranged by Key Equipment Finance Inc. as administrative agent, or the Credit Facility, and a lower effective interest rate.

Net investment income for the fiscal year ended September 30, 2011 is estimated to be between $17.6 million and $19.6 million, compared to $17.8 million for the fiscal year ended September 30, 2010.

Net realized loss on investments for the fiscal year ended September 30, 2011 is estimated to be between $1.0 million and $2.0 million, compared to $2.9 million for the fiscal year ended September 30, 2010.

Net unrealized depreciation on investments for the fiscal year ended September 30, 2011 is estimated to be between $39.0 million and $40.0 million, compared to the unrealized appreciation on investments of $2.3 million for the fiscal year ended September 30, 2010. The estimated increase in unrealized depreciation on investments for the fiscal year ended September 30, 2011 when compared to fiscal year ended

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September 30, 2010 was primarily due to a decrease in the performance of certain portfolio companies and certain comparable company multiples used in valuing our investments.

We placed two loans with an aggregate cost basis and estimated fair value, as of September 30, 2011, of approximately $11.4 million and $0.6 million, respectively, on non-accrual during the quarter ended September 30, 2011. With the additions of these loans, the total number of our portfolio companies with non-accrual loans as of September 30, 2011 was eight, with a total cost basis of approximately $41.1 million, or 10.7% of our total investment portfolio. On a fair value basis, we estimate that non-accrual loans represented approximately $4.3 million, or 1.4% of our total investment portfolio as of September 30, 2011.

Additionally, we estimate that our investments at fair value increased approximately $44.9 million from September 30, 2010 to approximately $302.0 million as of September 30, 2011, primarily due to increased net production, partially offset by increased unrealized depreciation. We also estimated that our borrowings outstanding under our Credit Facility increased approximately $81.5 million from September 30, 2010 to approximately $99.4 million as of September 30, 2011, primarily due to cash needs for increased net investment production. Overall, we estimate that our net assets decreased approximately $36.5 million from September 30, 2010 to approximately $212.8 million as of September 30, 2011, primarily due to increased unrealized depreciation.

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 our Adviser, our Administrator and certain other funds affiliated with us and advised by our Adviser. Our treasurer is also an executive officer of Gladstone Securities LLC, a broker-dealer registered with the Financial Industry Regulatory Authority, or FINRA. Our Administrator employs our chief financial officer, chief compliance officer, internal counsel, controller and treasurer and their respective staffs.

Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliated funds, some of which co-invest with us on certain portfolio investments. In the future, our Adviser and our Administrator may provide investment advisory and administrative services, respectively, to other funds, both public and private.

Our Adviser was organized as a Delaware corporation in 2002 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. Since October 1, 2004, we have been externally managed by the Adviser, which is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in California, Illinois, New York and Virginia.

We have entered into an investment advisory and management agreement with the Adviser, which we refer to as the Advisory Agreement. At a meeting of our Board of Directors held on July 12, 2011, our Board of Directors unanimously voted to approve the extension of the term of the Advisory Agreement through August 31, 2012. In reaching a decision to approve the Advisory Agreement, the Board of Directors reviewed a significant amount of information and considered, among other things:

- the nature, quality and extent of the advisory and other services to be provided to us by the Adviser;
- the fee structures of comparable externally managed business development companies that engage in similar investing activities; and
- various other matters.

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

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The Offering

The following is a brief summary of some of the terms of this offering. For a more complete description of the rights, preferences and other terms of the Series 2016 Term Preferred Shares, see Description of the Series 2016 Term Preferred Stock in this prospectus supplement.

Issuer

Gladstone Capital Corporation

Listing

The Series 2016 Term Preferred Shares have been approved for listing on the NYSE, under the symbol GLAD PR A. Trading on the Series 2016 Term Preferred Shares is expected to begin within 30 days after the date of initial delivery of the Series 2016 Term Preferred Shares. Prior to the expected commencement of trading on the NYSE, the underwriters do not intend to make a market in the Series 2016 Term Preferred Shares.

Securities Offered

1,400,000 shares of 7.125% Series 2016 Term Preferred Stock (1,610,000 shares if the underwriters exercise their over-allotment option in full).

Liquidation Preference

$25 per share, plus accrued but unpaid dividends, if any. In the event of any liquidation, dissolution or winding up of our affairs, holders of the Series 2016 Term Preferred Shares will be entitled to receive a liquidation distribution per share equal to $25 per share (which we refer to in this prospectus supplement as the Liquidation Preference), plus an amount equal to all accrued but unpaid dividends, if any, and distributions accumulated to (but excluding) the date fixed for distribution or payment, whether or not earned or declared by us, but excluding interest on any such distribution or payment. See Description of the Series 2016 Term Preferred Stock Liquidation Rights.

Dividends

The Series 2016 Term Preferred Shares will pay a monthly dividend at a fixed annual rate of 7.125% of the Liquidation Preference, or $1.7813 per share per year, which we refer to as the Fixed Dividend Rate. The Fixed Dividend Rate is subject to adjustment under certain circumstances, but will not in any case be lower than the Fixed Dividend Rate.

Cumulative cash dividends or distributions on each Series 2016 Term Preferred Share will be payable monthly, when, as and if declared, or under authority granted, by our Board of Directors out of funds legally available for such payment. The first dividend period for the Series 2016 Term Preferred Shares will commence on the initial issuance date of such shares upon the closing of this offering, which we refer to as the Date of Original Issue, and will end on December 31, 2011.

Ranking

The Series 2016 Term Preferred Shares are senior securities that constitute capital stock of the Company.

The Series 2016 Term Preferred Shares rank:

senior to the Common Stock in priority of payment of dividends and as to the distribution of assets upon dissolution, liquidation or the winding-up of our affairs; and

equal in priority with all other future series of preferred stock we may issue, which we refer to in this prospectus supplement, collectively with the Series 2016 Term Preferred Shares, as the Preferred Stock, as well as any other series of Term Preferred Shares (as such term is defined in the Articles Supplementary, the Term Preferred Stock) as to priority of payment of dividends and as to distributions of assets upon dissolution, liquidation or the winding-up of our affairs.

We may issue additional shares of Preferred Stock, but we may not issue additional classes of capital stock that rank senior or junior to the Series 2016 Term Preferred Shares (other than Common Stock) as to priority of payment of dividends and as to distribution of assets upon dissolution, liquidation or winding-up of our affairs. We may, however, borrow funds from banks and other lenders so long as the ratio of (1) the value of total assets less the total borrowed amounts to (2) the sum of all senior securities representing indebtedness and the outstanding Series 2016 Term Preferred Shares multiplied by $25 per share, is not greater than 200%.

Term Redemption

We are required to redeem all outstanding Series 2016 Term Preferred Shares on December 31, 2016 at a redemption price equal to the Liquidation Preference plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the redemption date. We cannot effect any amendment, alteration or repeal of our obligation to redeem all of the Series 2016 Term Preferred Shares on December 31, 2016 without the prior unanimous vote or consent of holders of the Series 2016 Term Preferred Shares. See Description of the Series 2016 Term Preferred Stock Redemption and Voting Rights.

Mandatory Redemption for Asset Coverage

If we fail to maintain an Asset Coverage ratio (as defined below) of at least 200% as of the close of business on any Business Day on which Asset Coverage is required to be calculated, and such failure is not cured by the close of business on the date that is 30 calendar days following such Business Day (referred to in this prospectus supplement as an Asset Coverage Cure Date), then we are required to redeem, within 90 calendar days of the Asset Coverage Cure Date, shares of Preferred Stock equal to the lesser of (1) the minimum number of shares of Preferred Stock that will result in our having an Asset Coverage ratio of at least 200% and (2) the maximum number of shares of Preferred Stock that can be redeemed out of funds legally available for such redemption. Also, at our sole discretion, we may redeem such number of shares of Preferred Stock (including shares of Preferred Stock required to be redeemed) that will result in our having an Asset Coverage ratio of up to and including 285%. The Preferred Stock to be redeemed may include, at our sole option, any number or proportion of the Series 2016 Term Preferred Shares and other series of Preferred Stock. If the Series 2016 Term Preferred Shares are to be redeemed in such an event, they will be redeemed at a redemption price

equal to their liquidation preference per share plus accumulated but unpaid dividends, if any, on such liquidation preference (whether

or not declared, but excluding, interest on accrued but unpaid dividends, if any) to, but excluding, the date fixed for such redemption.

Asset Coverage for purposes of our Preferred Stock is a ratio calculated under Section 18(h) of the 1940 Act, as in effect on the date of the Articles Supplementary, and is determined on the basis of values calculated as of a time within two Business Days preceding each determination. We estimate that, on the Date of Original Issue, our Asset Coverage, based on the composition and value of our portfolio as of June 30, 2011, and after giving effect to (1) the issuance of the Series 2016 Term Preferred Shares offered in this offering and (2) the payment of underwriting discounts and commissions of $1.4 million and estimated related offering costs payable by us of $0.5 million, will be 331%. Our net investment income coverage, which is calculated by dividing our net investment income by the amount of distributions to holders of our Common Stock, averaged approximately 91.1% from September 30, 2008 through June 30, 2011. Net investment income coverage has varied each year since our inception, and there is no assurance that historical coverage levels will be maintained. See Description of the Series 2016 Term Preferred Stock Asset Coverage.

Optional Redemption

At any time on or after December 31, 2012, at our sole option, we may redeem the Series 2016 Term Preferred Shares in whole or from time to time, in part, out of funds legally available for such redemption, at a price per share equal to the sum of the Liquidation Preference plus (1) an initial premium of 1.00% of the Liquidation Preference (with such premium declining by 0.5% on the first and second anniversaries such that, by December 31, 2014, there will be no premium payable on any such redemption) and (2) an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the date fixed for such redemption. See Description of the Series 2016 Term Preferred Stock Redemption Optional Redemption. See Description of the Series 2016 Term Preferred Stock Redemption.

Voting Rights

Except as otherwise provided in our Articles of Amendment and Restatement to the Articles of Incorporation or as otherwise required by law, (1) each holder of Preferred Stock (including the Series 2016 Term Preferred Shares) will be entitled to one vote for each share of Preferred Stock held by such holder on each matter submitted to a vote of our stockholders and (2) the holders of all outstanding Preferred Stock and Common Stock will vote together as a single class; provided that holders of Preferred Stock, voting separately as a class, will elect at least two of our directors and will be entitled to elect a majority of our directors if we fail to pay dividends on any outstanding shares of Preferred Stock in an amount equal to two full years of dividends and continuing during that period until we correct that failure. Preferred Stock holders will also vote separately as a class on any matter that materially and adversely affects any preference, right or power of holders of Preferred Stock. See

Description of the Series 2016 Term Preferred Stock   Voting Rights.

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Conversion Rights	The Series 2016 Term Preferred Shares will have no conversion rights.
Use of Proceeds	We intend to use the net proceeds from this offering (after the payment of underwriting discounts and commissions of $1.4 million and estimated expenses of the offering of approximately $0.5 million) to repay a portion of outstanding borrowings on our Credit Facility. See Use of Proceeds.
U.S. Federal Income Taxes	Prospective investors are urged to consult their own tax advisors regarding these matters in light of their personal investment circumstances. We have elected to be treated, and intend to continue to so qualify each year, as a RIC under Subchapter M of the Code, and we generally do not expect to be subject to U.S. federal income tax.
Risk Factors	Investing in the Series 2016 Term Preferred Shares involves risks. You should carefully consider the information set forth in the sections of this prospectus supplement and the accompanying prospectus entitled Risk Factors before deciding whether to invest in our Series 2016 Term Preferred Stock. See Risk Factors beginning on page S-8 of this prospectus supplement and page 8 of the accompanying prospectus.
Information Rights	During any period in which we are not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and any Series 2016 Term Preferred Shares are outstanding, we will provide holders of Series 2016 Term Preferred Shares, without cost, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such provisions.
Redemption and Paying Agent	We have entered into an amendment to our Transfer Agency and Service Agreement with BNY Mellon Shareholder Services, LLC, which we refer to as the Redemption and Paying Agent in this prospectus supplement. Under this amendment, the Redemption and Paying Agent will serve as transfer agent and registrar, dividend disbursing agent and redemption and paying agent with respect to the Series 2016 Term Preferred Shares.

RISK FACTORS

You should carefully consider the risks described below, and the risks described in Risk Factors beginning on page 8 of the accompanying prospectus, before deciding to invest in the Series 2016 Term Preferred Shares. The risks and uncertainties described below and in the accompanying prospectus are not the only ones we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance and the value of the Series 2016 Term Preferred Shares. If any of the following risks or the risks described in the accompanying prospectus actually occur, our business, financial condition or results of operations could be materially adversely affected, and the value of the Series 2016 Term Preferred Shares may be impaired. If that happens, the trading price of the Series 2016 Term Preferred Shares could decline, and you may lose all or part of your investment.

Risks of Investing in Term Preferred Stock

An investment in term preferred stock with a fixed interest rate bears interest rate risk. Term preferred stock pays dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to the Series 2016 Term Preferred Shares may increase, which would likely result in a decline in the secondary market price of the Series 2016 Term Preferred Shares prior to the term redemption date. For additional information concerning dividends on the Series 2016 Term Preferred Shares, see Description of the Series 2016 Term Preferred Stock Dividends and Dividend Periods.

There will be no initial secondary trading market due to delayed listing, and even after listing a liquid secondary trading market may not develop. Because we have no prior trading history for exchange-listed Preferred Stock, we cannot predict the trading patterns of the Series 2016 Term Preferred Shares, including the effective costs of trading the stock. During a period of up to 30 days from the date of this prospectus supplement, the Series 2016 Term Preferred Shares will not be listed on any securities exchange. During this period, the underwriters do not intend to make a market in the Series 2016 Term Preferred Shares. Consequently, an investment in the Series 2016 Term Preferred Shares during this period will be illiquid, and holders of such shares may not be able to sell them during that period as it is unlikely that a secondary market for the Series 2016 Term Preferred Shares will develop. If a secondary market does develop during this period, holders of the Series 2016 Term Preferred Shares may be able to sell such shares only at substantial discounts from the Liquidation Preference. The Series 2016 Term Preferred Shares have been approved for listing on the NYSE. If we are unable to list the Series 2016 Term Preferred Shares on the NYSE or another national securities exchange, holders of such shares may be unable to sell them at all or, if they are able to, only at substantial discounts from the Liquidation Preference. Even if the Series 2016 Term Preferred Shares are listed on the NYSE as anticipated, there is a risk that such shares may be thinly traded, and the market for such shares may be relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms and features.

The Series 2016 Term Preferred Shares will not be rated. We do not intend to have the Series 2016 Term Preferred Shares rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, there is a risk that the Series 2016 Term Preferred Shares may trade at a price that is lower than they might otherwise trade if rated by a rating agency.

The Series 2016 Term Preferred Shares will bear a risk of early redemption by us. We may voluntarily redeem some or all of the Series 2016 Term Preferred Shares on or after December 31, 2012, and we may be forced to redeem some or all of the Series 2016 Term Preferred Shares to meet regulatory requirements and the Asset Coverage requirements of such shares. Any such redemptions may occur at a time that is unfavorable to holders of the Series 2016 Term

Preferred Shares. We may have an incentive to redeem the Series 2016 Term Preferred Shares voluntarily before the Term Redemption Date if market conditions allow us to issue other Preferred Stock or debt securities at a rate that is lower than the Fixed Dividend Rate on the Series 2016 Term Preferred Shares. For further information regarding our ability to redeem the Term Preferred Stock, see Description of the Series 2016 Term Preferred Stock Redemption and Asset Coverage.

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Claims of holders of the Series 2016 Term Preferred Shares will be subject to a risk of subordination relative to holders of our debt instruments. Rights of holders of the Series 2016 Term Preferred Shares will be subordinated to the rights of holders of our indebtedness. Therefore, dividends, distributions and other payments to holders of Term Preferred Shares in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. In addition, under some circumstances the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of holders of the Series 2016 Term Preferred Shares.

We are subject to risks related to the general credit crisis and related liquidity risks. General market uncertainty and extraordinary conditions in the credit markets may impact the liquidity of our investment portfolio. In turn, during extraordinary circumstances, this uncertainty could impact our distributions and/or ability to redeem the Series 2016 Term Preferred Shares in accordance with their terms. Further, there may be market imbalances of sellers and buyers of Series 2016 Term Preferred Shares during periods of extreme illiquidity and volatility in the credit markets. Such market conditions may lead to periods of thin trading in any secondary market for the Series 2016 Term Preferred Shares and may make valuation of the Series 2016 Term Preferred Shares uncertain. As a result, the spread between bid and ask prices is likely to increase significantly such that an investor in the Series 2016 Term Preferred Shares may have difficulty selling his or her shares. Less liquid and more volatile trading environments could also result in sudden and significant valuation declines in the Series 2016 Term Preferred Shares.

Holders of the Series 2016 Term Preferred Shares will be subject to inflation risk. Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted, or real, value of an investment in Term Preferred Stock or the income from that investment will be worth less in the future. As inflation occurs, the real value of the Series 2016 Term Preferred Shares and dividends payable on such shares declines.

Holders of the Series 2016 Term Preferred Shares will bear reinvestment risk. Given the five-year term and potential for early redemption of the Series 2016 Term Preferred Shares, holders of such shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of the Series 2016 Term Preferred Shares may be lower than the return previously obtained from the investment in such shares.

Holders of Series 2016 Term Preferred Shares will bear dividend risk. We may be unable to pay dividends on the Series 2016 Term Preferred Shares under some circumstances. The terms of our indebtedness preclude the payment of dividends in respect of equity securities, including the Series 2016 Term Preferred Shares, under certain conditions.

We face Asset Coverage risks in our investment activities. The Asset Coverage that we maintain on the Term Preferred Stock will be based upon a calculation of the value of our portfolio holdings. 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 is generally not readily determinable. Our Board of Directors has established an investment valuation policy and consistently applied valuation procedures to determine the fair value of these securities on a quarterly basis. The procedures for the determination of value of many of our debt securities rely on opinions of value submitted to us by Standard & Poor s Securities Evaluations, 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, which we use for certain of our equity investments. SPSE will only evaluate the debt portion of investments for which we specifically request an evaluation, and SPSE may decline to provide requested evaluations for any reason in its sole discretion.

A portion of our assets are, and will continue to be, comprised of equity securities that are valued based on internal assessment using valuation methods approved by our Board of Directors, without the input of SPSE or any other third-party evaluator. While we believe that our equity valuation methods reflect those regularly used as standards by

other professionals in our industry who value equity securities, the determination of fair value for securities that are not publicly traded necessarily involves an exercise of subjective judgment, whether or not we obtain the recommendations of an independent third-party evaluator.

Our use of these fair value methods is inherently subjective and is based on estimates and assumptions regarding 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 us or SPSE, or determined using TEV or the DCF methodology. As a result, a risk exists that the Asset Coverage attributable to the Preferred Stock, including the Series 2016 Term Preferred Shares, may be materially lower than what is calculated based upon the fair valuation of our portfolio securities in accordance with our valuation policies. See Risk Factors Risks Related to Our Investments 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 on page 15 of the accompanying prospectus.

There is a risk of delay in our redemption of the Series 2016 Term Preferred Shares, and we may fail to redeem such securities as required by their terms. 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 obtain cash equal to the value at which we record our investments quickly if a need arises. If we are unable to obtain sufficient liquidity prior to the Term Redemption Date, we may be forced to engage in a partial redemption or to delay a required redemption. If such a partial redemption or delay were to occur, the market price of the Series 2016 Term Preferred Shares might be adversely affected.

We finance our investments with borrowed money and senior securities, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns on our portfolio, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to common stockholder(1)	(16.5)%	(9.3)%	(2.1)%	5.1%	12.3%

(1) The hypothetical return to common stockholders is calculated by multiplying our total assets as of June 30, 2011 by the assumed rates of return and subtracting all interest accrued on our debt, adjusted for the assumed dividends declared on the preferred stock to be issued in this offering; and then dividing the resulting difference by our total assets attributable to common stock. Based on $314.1 million in total assets, $92.2 million in debt outstanding and $217.5 million in net assets as of June 30, 2011.

Based on our outstanding indebtedness of $92.2 million as of June 30, 2011 and the effective annual interest rate of 5.5% as of that date, our investment portfolio at fair value would have been required to experience an annual return of at least 2.7% to cover annual interest payments on the outstanding debt.

Other Risks

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. We are party to the Credit Facility, which provides us with a revolving credit line facility of $137.0 million, of which $92.2 million was drawn as of June 30, 2011. The Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. 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 September 30, 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. 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. These are not realized losses, but 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.

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. As of June 30, 2011, our net assets were $217.5 million and we currently estimate that our net assets had declined to approximately $212.8 million as of September 30, 2011, down from $249.2 million as of September 30, 2010, primarily as a result of unrealized depreciation over the nine months. The minimum net worth covenant contained in the credit agreement requires our net assets to be at least $200.0 million. 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 minimum net worth covenant and other 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- further adverse changes in the economy and the capital markets;
- risks associated with negotiation and consummation of pending and future transactions;
- the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker or George Stelljes III;
- changes in our business strategy;
- availability, terms and deployment of capital;
- changes in our industry, interest rates, exchange rates or the general economy;
- the degree and nature of our competition; and

those factors described in the Risk Factors section of this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus supplement or the accompanying prospectus.

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USE OF PROCEEDS

We estimate that the net proceeds to us of this offering will be approximately $33.1 million, after deducting the payment of underwriting discounts and commissions of $1.4 million and estimated offering expenses of $0.5 million payable by us. We intend to use the net proceeds from this offering to repay a portion of our outstanding borrowings under the Credit Facility. Our Credit Facility matures on March 15, 2012 and, as of June 30, 2011, was accruing interest at an annual rate equal to the London Interbank Offered Rate, or LIBOR (subject to a minimum rate 1.5%), plus a premium of 3.75%. As of June 30, 2011, $92.2 million was drawn on the Credit Facility.

We have granted the underwriters the right to purchase up to 210,000 additional Series 2016 Term Preferred Shares at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus supplement solely to cover over-allotments, if any. If the underwriters exercise such option in full, the estimated net proceeds to us will be $38.1 million. We anticipate that substantially all of the net proceeds of this offering will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of the offering primarily in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

	For the Nine Months Ended June 30,	For the Year Ended September 30,				
	2011	2010	2009	2008	2007	2006
			(Dollars in thousands)			
Net investment income	$ 13,600	$ 17,759	$ 21,031	$ 26,553	$ 22,261	$ 19,351
Add: fixed charges	2,356	5,891	10,738	9,830	7,505	3,392
Less: preferred distributions						
Earnings	$ 15,956	$ 23,650	$ 31,769	$ 36,383	$ 29,766	$ 22,743
Fixed Charges:						
Interest expense	$ 1,316	4,390	7,949	8,284	7,226	3,239
Amortization of deferred financing fees	1,032	1,490	2,778	1,534	267	140
Estimated interest component of rent	8	11	11	12	12	13
Preferred distributions						
Total fixed charges and preferred distributions	$ 2,356	5,891	10,738	9,830	7,505	3,392
Ratio of earnings to combined fixed charges and preferred distributions	6.8x	4.0x	3.0x	3.7x	4.0x	6.7x

Computation of Pro Forma Ratio of Earnings to
Combined Fixed Charges and Preferred Dividends for
the Nine Months ended June 30, 2011
After Adjustment for issuance of Preferred Stock

Net Investment Income	$ 13,600
Fixed Charges, as above	$ 2,356
Adjustments:	
Pro Forma Reduction of Interest Expense	(511)
Pro forma fixed charges	1,845
Pro forma preferred dividends	1,870
Total pro forma fixed charges and preferred dividends	3,715
Pro forma earnings	$ 15,445
Pro forma ratio of earnings to combined fixed charges and preferred dividends	4.2x

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2011:

on an actual basis; and

on a pro forma basis to give pro forma effect to the completion of this offering and the application of the estimated net proceeds of the offering, after deducting underwriters discounts and commissions and estimated offering expenses payable by us (and assuming the underwriters overallotment option is not exercised).

	As of June 30, 2011	
	Actual	Pro Forma
	(Unaudited) (Dollars in thousands)	
Borrowings		
Borrowings under line of credit, fair value (cost: $92,200, actual; $59,100 pro forma)*	$ 92,700	$ 59,600
Preferred Stock		
Term Preferred Shares, 7.125% Series 2016, $0.001 par value per share; $25 liquidation preference per share; 0 shares authorized, issued and outstanding, actual; 4,000,000 shares authorized, 1,400,000 shares issued and outstanding, pro forma**	$	$ 35,000
Net Assets Available to Common Stockholders		
Common stock, $0.001 par value per share, 50,000,000 shares authorized, actual, and 46,000,000 shares authorized, pro forma; 21,039,242 shares issued and outstanding, actual and pro forma**	$ 21	$ 21
Capital in excess of par value***	326,935	326,935
Notes receivable employees	(4,998)	(4,998)
Net unrealized depreciation on investments	(75,911)	(75,911)
Net unrealized appreciation on borrowings*	(500)	(500)
Overdistributed net investment income	(758)	(758)
Accumulated net realized losses	(27,253)	(27,253)
Total Net Assets Available to Common Stockholders	$ 217,536	$ 217,536
Total Capitalization	$ 310,236	$ 312,136

* Our line of credit has not been fair value adjusted for pro forma purposes as of June 30, 2011.

** None of these outstanding shares are held by us or for our account.

***

Assumes a total of $1.4 million of aggregate underwriting discounts and commissions and $0.5 million of estimated offering costs payable by us in connection with this offering will be capitalized and amortized over the life of the Series 2016 Term Preferred Shares.

The following are our outstanding classes of securities as of June 30, 2011:

(1) Title of Class	**(2) Amount Authorized**	**(3) Amount Held by us or for Our Account**	**(4) Amount Outstanding Exclusive of Amounts Shown Under(3)**
Common Stock	50,000,000		21,039,242
Preferred Stock	0		

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SELECTED FINANCIAL INFORMATION

We have derived the selected financial information presented in the first table below as of September 30, 2010 and 2009 and for the fiscal years ended September 30, 2010, 2009 and 2008 from our audited consolidated financial statements included in the base prospectus. We have derived the selected financial information presented in the first table below as of and for the nine months ended June 30, 2011 and 2010 from our unaudited consolidated financial statements included in this prospectus supplement. The selected financial information presented in the first table below as of September 30, 2008, 2007 and 2006 and for the fiscal years ended September 30, 2007 and 2006 is derived from our audited consolidated financial statements that are not included in this prospectus supplement or the accompanying prospectus. The information included in the second table below is unaudited.

You should read this data together with our consolidated financial statements and notes to such financial statements presented elsewhere in this prospectus supplement and the accompanying prospectus, as well as the information under Prospectus Supplement Summary Recent Operating Results and Interim Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations in the accompanying prospectus for more information.

	Nine Months Ended June 30,		Year Ended September 30,				
	2011 (Unaudited)	2010 (Unaudited)	2010	2009	2008	2007	2006
	(Dollar amounts in thousands, except per unit data)						
ement							
rations n:							
l stment me	$ 25,387	$ 27,587	$ 35,539	$ 42,618	$ 45,725	$ 36,687	$ 26,90
l enses net redits n iser	11,787	14,257	17,780	21,587	19,172	14,426	7,44
stment me	13,600	13,330	17,759	21,031	26,553	22,261	19,35
(loss) on stments	(34,160)	(773)	(1,365)	(17,248)	(47,815)	(7,309)	5,07
rease)	$ (20,560)	$ 12,557	$ 16,394	$ 3,783	$ (21,262)	$ 14,952	$ 24,43

ease in assets lting n rations							
share (1):							
rease) ease in assets lting n rations share of nmon k							
c	$ (0.98)	$ 0.60	$ (0.78)	$ (0.18)	$ (1.08)	$ 1.13	$ 2.1
ted	(0.98)	0.60	(0.78)	(0.18)	(1.08)	1.13	2.1
stment me ore net s) gain stments share of nmon k							
c	0.65	0.63	0.84	1.00	1.35	1.69	1.7
ted	0.65	0.63	0.84	1.00	1.35	1.69	1.6
n ributions ared per e	(0.63)	(0.63)	(0.84)	(1.26)	(1.68)	(1.68)	(1.6
ement ssets							
ilities n:							
l assets	$ 314,130	$ 283,586	$ 270,518	$ 335,910	$ 425,698	$ 367,729	$ 225,78
assets	217,536	248,429	249,246	249,076	271,748	220,959	172,57
asset e per e	10.34	11.81	11.85	11.81	12.89	14.97	14.0
res of nmon k tanding	21,039,242	21,039,242	21,039,242	21,087,574	21,087,574	14,762,574	12,305,00

ghted es of nmon ck tanding							
c	21,039,242	21,067,465	21,060,351	21,087,574	19,699,796	13,173,822	11,381,37
ited	21,039,242	21,067,465	21,060,351	21,087,574	19,699,796	13,173,822	11,615,92
ior urities a:							
rowings er line of it(2)	$ 92,700	$ 30,656	$ 17,940	$ 83,350	$ 151,030	$ 144,440	$ 49,99
et erage o(3)(4)	336%	893%	1,419%	396%	279%	252%	44
et erage per (4)	$ 3,358	$ 8,931	$ 14,187	$ 3,963	$ 2,792	$ 2,294	$ 4,43

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(1) Per share data for net (decrease) increase in net assets resulting from operations are based on the weighted average shares of Common Stock outstanding for both basic and diluted.

(2) See Interim Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement for more information regarding our level of indebtedness.

(3) As a business development company, we are generally required to maintain an Asset Coverage ratio of 200% of total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings and guaranty commitments.

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

	Nine Months Ended June 30,		**Year Ended September 30,**				
	2011	**2010**	**2010**	**2009**	**2008**	**2007**	**2006**
	(Dollar amounts in thousands)						
Other unaudited data:							
Number of portfolio companies	57	40	39	48	63	56	32
Average size of portfolio company investment at cost	$ 6,582	$ 7,747	$ 7,647	$ 7,592	$ 7,315	$ 6,352	$ 6,756
Principal amount of new investments	(118,646)	(8,337)	(23,245)	(24,911)	(176,550)	(261,700)	(135,955)
Proceeds from loan repayments and investments sold	39,855	56,900	85,634	96,693	70,482	121,818	124,010
Weighted average yield on investments(1):	11.22%	10.94%	9.88%	9.82%	10.00%	11.22%	12.08%
Total return(2)	(13.24)	29.42	37.46	(30.94)	(13.90)	(4.40)	5.21

(1) Weighted average yield on investments equals interest income on investments divided by the annualized weighted average investment balance throughout the year.

(2) Total return equals the increase (decrease) of the ending market value over the beginning market value plus monthly distributions divided by the monthly beginning market value.

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)

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

OVERVIEW

Investment Highlights

Purchases: During the nine months ended June 30, 2011, we extended $101.1 million of investments to twenty-five new portfolio companies and $17.6 million of investments to existing portfolio companies through revolver draws or the additions of new term notes or equity investments, for total investments of $118.7 million.

Repayments: During the nine months ended June 30, 2011, six borrowers made unscheduled payoffs in the aggregate amount of $26.8 million, and we experienced contractual amortization, revolver repayments and received principal payments ahead of schedule in the aggregate amount of $13.0 million, for total principal repayments of $39.8 million.

Sales: During the nine months ended June 30, 2011, we sold one Non-Control/Non-Affiliate investment and partially sold one of our Control investments for aggregate net proceeds of $0.8 million.

RESULTS OF OPERATIONS

Comparison of the Nine Months Ended June 30, 2011 to the Nine Months Ended June 30, 2010

	For the Nine Months Ended June 30,			
	2011	2010	$ Change	% Change
INVESTMENT INCOME				
Interest income	$ 23,673	$ 25,220	$ (1,547)	(6.1)%
Other income	1,714	2,367	(653)	(27.6)
Total investment income	25,387	27,587	(2,200)	(8.0)
EXPENSES				
Loan servicing fee	2,413	2,600	(187)	(7.2)
Base management fee	1,751	2,118	(367)	(17.3)
Incentive fee	3,395	1,601	1,794	112.1
Administration fee	535	540	(5)	(0.9)
Interest expense	1,316	3,562	(2,246)	(63.1)
Amortization of deferred financing fees	1,032	1,182	(150)	(12.7)
Professional fees	894	1,632	(738)	(45.2)

Other expenses	799	1,142	(343)	(30.0)
Expenses before credit from Adviser	12,135	14,377	(2,242)	(15.6)
Credits to fees from Adviser	(348)	(120)	(228)	(190.0)
Total expenses net of credits to fees from Adviser	11,787	14,257	(2,470)	(17.3)
NET INVESTMENT INCOME	13,600	13,330	270	2.0
REALIZED AND UNREALIZED (LOSS) GAIN ON:				
Net realized gain (loss) on investments	3	(2,893)	2,896	NM
Net unrealized (depreciation) appreciation on investments	(34,803)	3,525	(38,328)	NM
Net unrealized appreciation on borrowings	640	(1,405)	2,045	NM
Net loss on investments and borrowings	(34,160)	(773)	(33,387)	NM
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (20,560)	$ 12,557	$ (33,117)	NM

NM = Not Meaningful

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Investment Income

Interest income from our investments in debt securities decreased for the nine months ended June 30, 2011, as compared to the nine months ended June 30, 2010, for several reasons. 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 cost basis of our interest-bearing investment portfolio during the nine months ended June 30, 2011 was approximately $277.9 million, compared to approximately $304.2 million for the prior year period, primarily due to increased principal repayments subsequent to June 30, 2010. This decrease in interest income was partially offset by an increase to the annualized weighted average yield on our interest-bearing investment portfolio for the nine months ended June 30, 2011, which was 11.2%, compared to 10.9% for the prior year period. The weighted average yield varies from period to period based on the current stated interest rate on interest-bearing investments. The increase in the weighted average yield on our portfolio for the nine months ended June 30, 2011 resulted primarily from the repayment of loans with lower stated interest rates and the restructuring of certain loans into higher interest rate loans, partially offset by the purchase of syndicated loans, which generally bear lower interest rates than our existing proprietary debt investments. During the nine months ended June 30, 2011, six investments were on non-accrual, for an aggregate of approximately $30.7 million at cost, or 8.2% of the aggregate cost of our investment portfolio, and during the prior year period, six investments were on non-accrual, for an aggregate of approximately $29.4 million at cost, or 9.5% of the aggregate cost of our investment portfolio.

Other income decreased for the nine months ended June 30, 2011, as compared to the prior year period, primarily due to success fees earned in the aggregate of $1.7 million from exits in Doe & Ingalls Management LLC, Tulsa Welding School, ActivStyle Acquisition Co., Saunders & Associates, Visual Edge Technology, Inc. and a prepayment by Northern Contours, Inc. of their success fee, and prepayment fees in the aggregate of $0.5 million from ActiveStyle Acquisition Co., ACE Expediters, Inc. and VantaCore during the nine months ended June 30, 2010, partially offset by the receipts in the aggregate of $1.0 million in settlements related, in part, to US Healthcare Communications, Inc. and Badanco Acquisition Corp., and success fees in the aggregate of $0.6 million from our exits in Pinnacle Treatment Centers, Inc. and Interfilm Holdings, Inc. during the nine months ended June 30, 2011.

The following tables list the interest income from investments for our five largest portfolio company investments during the respective periods:

	As of June 30, 2011		Nine Months Ended June 30, 2011	
Company	**Fair Value**	**% of Portfolio**	**Interest Income**	**% of Total Revenues**
Reliable Biopharmaceutical Holdings, Inc.	$ 25,605	8.6%	$ 2,266	9.6%
Westlake Hardware, Inc.	19,440	6.5	1,934	8.2
Midwest Metal Distribution, Inc. (formerly Clinton Holdings, LLC)	16,727	5.6	1,670	7.0
CMI Acquisition, LLC	14,247	4.8	559	2.4
Winchester Electronics Co.	12,591	4.2	1,169	4.9
Subtotal five largest investments	**88,610**	**29.7**	**7,598**	**32.1**
Other portfolio companies	210,669	70.3	15,728	66.4
Other non-portfolio company revenue			347	1.5

Total investment portfolio	**$ 299,279**	**100.0%**	**$ 23,673**	**100.0%**

Company	As of June 30, 2010		Nine Months Ended June 30, 2010	
	Fair Value	% of Portfolio	Interest Income	% of Total Revenues
Sunshine Media Holdings	$ 26,624	9.9%	$ 2,498	9.9%
Reliable Biopharmaceutical Holdings, Inc.	26,521	9.8	2,230	8.8
Westlake Hardware, Inc.	24,463	9.1	2,181	8.6
Midwest Metal Distribution, Inc. (formerly Clinton Holdings, LLC)	13,369	5.0	1,556	6.2
GFRC Holdings, LLC	12,624	4.7	1,076	4.3
Subtotal five largest investments	**103,601**	**38.5**	**9,541**	**37.8**
Other portfolio companies	166,365	61.5	15,349	60.9
Other non-portfolio company revenue			330	1.3
Total investment portfolio	**$ 269,966**	**100.0%**	**$ 25,220**	**100.0%**

Operating Expenses

Operating expenses, net of credits from our Adviser for fees earned and voluntary and irrevocable waivers applied to the base management and incentive fees, decreased for the nine months ended June 30, 2011, as compared to the prior year period. This reduction was primarily due to a decrease in interest expense subsequent to June 30, 2010, and the amortization of deferred financing fees incurred in connection with the Credit Facility during the nine months ended June 30, 2010, coupled with a decrease in the base management fee and professional fees, which were partially offset by an increase in the incentive fee during the nine months ended June 30, 2011.

Interest expense decreased for the nine months ended June 30, 2011, as compared to the prior year period, primarily due to decreased borrowings under the Credit Facility in the first six months of the current fiscal year and the reversal of $0.6 million of a minimum earnings shortfall fee during the nine months ended June 30, 2011. The weighted average balance outstanding on the Credit Facility during the nine months ended June 30, 2011, was approximately $32.6 million, as compared to $56.9 million in the prior year period, a decrease of 42.7%. On November 22, 2010, we amended the Credit Facility to provide that advances bear interest at LIBOR subject to a minimum annual rate of 1.5%, plus 3.75%. Under our prior credit facility and our pre-amended Credit Facility, advances generally bore interest at LIBOR subject to a minimum annual rate of 2.0%, plus 4.5%. In addition to the lower interest rate, the Amendment removed the annual minimum earnings shortfall fee to the committed lenders.

Amortization of deferred financing fees decreased for the nine months ended June 30, 2011, as compared to the prior year period, due to significant one-time costs related to the termination of our prior credit facility and transition to the Credit Facility, resulting in increased amortization of deferred financing fees during the nine months ended June 30, 2010, when compared to the nine months ended June 30, 2011.

Professional fees decreased for the nine months ended June 30, 2011, as compared to the prior year period, primarily due to legal fees incurred in connection with troubled loans during the nine months ended June 30, 2010.

The base management fee decreased for the nine months ended June 30, 2011, as compared to the prior year period, which is reflective of holding less total assets subject to the base management fee, compared to the prior year period. The incentive fee earned by our Adviser increased for the nine months ended June 30, 2011, as compared to the prior year period, primarily due to decreased interest expense, partially offset by a decrease in interest income earned. The incentive fee earned during the prior year period was due in part to

other income generated from multiple exits. The base management and incentive fees are computed quarterly and are summarized in the following table:

	Nine Months Ended June 30,	
	2011	2010
Average total assets subject to base management fee(1)	$ 277,600	$ 314,533
Multiplied by pro-rated annual base management fee of 2.0%	1.5%	1.5%
Unadjusted base management fee	$ 4,164	$ 4,718
Reduction for loan servicing fees(2)	(2,413)	(2,600)
Base management fee(2)	1,751	2,118
Credit for fees received by Adviser from the portfolio companies	(77)	
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum	(250)	(19)
Net base management fee	$ 1,424	$ 2,099
Incentive fee(2)	$ 3,395	$ 1,601
Credit from voluntary, irrevocable waiver issued by Adviser s board of directors	(21)	(101)
Net incentive fee	$ 3,374	$ 1,500
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum	(250)	(19)
Credit for fees received by Adviser from the portfolio companies	(77)	
Incentive fee credit	(21)	(101)
Credit to base management and incentive fees from Adviser(2)	$ (348)	$ (120)

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

(2) Reflected as a line item on the *Condensed Consolidated Statement of Operations*.

Net Realized Gain (Loss) on Investments

There were $3 in net realized gains for the nine months ended June 30, 2011, primarily due to realized gains from unamortized discounts on exits during the period, partially offset by realized losses in connection with workout expenditures related to the Sunshine Media Holdings restructure. Net realized losses on investments for the nine months ended June 30, 2010 was $2.9 million, which consisted of $4.3 million of losses from the Kinetek Acquisition Corp and Wesco Holdings, Inc. syndicated loan sales, Western Directories, Inc. write-off and CCS, LLC payoff, offset

in part by a $1.4 million gain from ACE Expediters, Inc. payoff.

Net Unrealized (Depreciation) Appreciation on Investments

Net unrealized (depreciation) appreciation 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 actually realized. During the nine months ended June 30, 2011, we recorded net unrealized depreciation on investments in the aggregate amount of $34.8 million. During the prior year period, we recorded net unrealized appreciation on investments in the aggregate amount of $3.5 million, which included the reversal of $6.3 million in unrealized appreciation related to the payoff of Wesco Holdings, Inc., Kinetek Acquisition Corp and Western Directories, Inc. Excluding reversals, we had $2.8 million in net unrealized depreciation for the nine months ended June 30, 2010. The net

unrealized appreciation (depreciation) across our investments for the nine months ended June 30, 2011 was as follows:

Nine Months Ended June 30, 2011

Portfolio Company	Investment Classification	Net Unrealized Appreciation (Depreciation)
Defiance Integrated Technologies, Inc.	Control	$ 2,947
Midwest Metal Distribution, Inc.	Control	1,182
Puerto Rico Cable Acquisition Company, Inc.	Non-Control/Non-Affiliate	732
WP Evenflo Group Holdings, Inc.	Non-Control/Non-Affiliate	352
Sunshine Media Holdings	Control	(18,360)
Newhall Holdings, Inc.	Non-Control/Non-Affiliate	(8,814)
Lindmark Acquisition, LLC	Control	(3,852)
Viapack, Inc.	Non-Control/Non-Affiliate	(3,376)
GFRC Holdings LLC	Non-Control/Non-Affiliate	(1,390)
SCI Cable, Inc.	Non-Control/Non-Affiliate	(785)
Heartland Communications Group	Non-Control/Non-Affiliate	(754)
Access Television Network, Inc.	Non-Control/Non-Affiliate	(659)
Legend Communications of Wyoming LLC	Non-Control/Non-Affiliate	(655)
Sunburst Media Louisiana, LLC	Non-Control/Non-Affiliate	(567)
International Junior Golf Training Acquisition Company	Non-Control/Non-Affiliate	(544)
LocalTel, LLC	Control	(386)
Other, net (<$250)		126
	Total:	**$ (34,803)**

The largest driver of our net unrealized depreciation for the nine months ended June 30, 2011 was the depreciation in each of Sunshine Media Holdings and Newhall Holdings Inc., primarily due to portfolio company performance and certain comparable multiples, partially offset by appreciation in Defiance Integrated Technologies, Inc., which was as a result of an improvement in portfolio company performance and in certain comparable multiples.

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The unrealized appreciation (depreciation) across our investments for the nine months ended June 30, 2010 was as follows:

Nine Months Ended June 30, 2010

Portfolio Company	Investment Classification	Net Unrealized Appreciation (Depreciation)
Western Directories, Inc.	Control	$ 2,819(1)
Visual Edge Technology, Inc.	Non-Control/Non-Affiliate	1,716(2)
BAS Broadcasting	Non-Control/Non-Affiliate	1,229
Westlake Hardware, Inc.	Non-Control/Non-Affiliate	794
WP Evenflo Group Holdings, Inc.	Non-Control/Non-Affiliate	674
Puerto Rico Cable Acquisition Company, Inc.	Non-Control/Non-Affiliate	582
Northern Contours, Inc.	Non-Control/Non-Affiliate	562
Kinetek Acquisition Corp.	Non-Control/Non-Affiliate	513
CCS, LLC	Non-Control/Non-Affiliate	505(3)
Pinnacle Treatment Centers, Inc.	Non-Control/Non-Affiliate	434
Wesco Holdings, Inc.	Non-Control/Non-Affiliate	408
Allison Publications, LLC	Non-Control/Non-Affiliate	388
Gold Toe Investment Corp	Non-Control/Non-Affiliate	280
Lindmark Acquisition, LLC	Control	(3,363)
LocalTel, LLC	Control	(1,412)
Legend Communications of Wyoming LLC	Non-Control/Non-Affiliate	(1,283)
Defiance Integrated Technologies, Inc.	Control	(816)
Finn Corporation	Non-Control/Non-Affiliate	(755)
KMBQ Corporation	Non-Control/Non-Affiliate	(609)
SCI Cable, Inc.	Non-Control/Non-Affiliate	(467)
Sunshine Media Holdings	Non-Control/Non-Affiliate	(326)
Other, net (<$250)		1,652
	Total:	**$ 3,525**

(1) Reflects the reversal of $2.9 million in unrealized depreciation in connection with the write-off of the investment.

(2) Reflects the reversal of $1.7 million in unrealized depreciation in connection with payoff of the line of credit and senior subordinated term loan of Visual Edge Technology, Inc.

(3) Reflects the reversal of the unrealized depreciation in connection with the $0.3 million realized loss on the sale of CCS, LLC.

Excluding reversals, a general increase in our net unrealized depreciation for the nine months ended June 30, 2010 was experienced by our control investments, partially offset by increased unrealized appreciation in our Non-Control/Non-Affiliate portfolio of debt holdings, based on increases in market comparables and improved portfolio company performance.

Over our entire investment portfolio, we recorded an aggregate net unrealized depreciation of approximately $36.4 million on our debt positions for the nine months ended June 30, 2011, while our equity holdings experienced an aggregate net unrealized appreciation of approximately $1.6 million. At June 30, 2011, the fair value of our investment portfolio was less than its cost basis by approximately $75.9 million, or 79.8% of cost, as compared to $41.1 million, or 86.2%, of cost at September 30, 2010, representing net unrealized depreciation of $34.8 million for the period. We believe that our aggregate investment portfolio was valued at a depreciated value primarily due to reduced performance by certain portfolio companies and the general

instability of the loan markets and resulting decrease in market multiples relative to where multiples were when we originated such investments in our portfolio. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

Net Unrealized Appreciation on Borrowings

Net unrealized appreciation on borrowings represents 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 us to apply a fair value methodology to the Credit Facility. We estimated the fair value of the Credit Facility using a combination of estimates of value provided by an independent third party and our own assumptions in the absence of observable market data, including estimated remaining life, credit party risk, current market yield and interest rate spreads of similar securities as of the measurement date. The Credit Facility was fair valued at $92.7 million as of June 30, 2011.

Net (Decrease) Increase in Net Assets Resulting from Operations

For the nine months ended June 30, 2011, we realized a net decrease in net assets resulting from operations of $20.6 million as a result of the factors discussed above. For the nine months ended June 30, 2010, we realized a net increase in net assets resulting from operations of $12.6 million. Our net (decrease) increase in net assets resulting from operations per basic and diluted weighted average common share for the nine months ended June 30, 2011 and June 30, 2010 were $(0.98) and $0.60, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities for the nine months ended June 30, 2011 was $63.4 million and consisted primarily of disbursements of $118.6 million in investments, partially offset by principal repayments of $39.9 million and net unrealized depreciation of $34.8 million. Net cash provided by operating activities for the nine months ended June 30, 2010 was $70.0 million and consisted primarily of principal repayments of $56.9 million.

At June 30, 2011, we had investments in equity of, loans to, or syndicated participations in, 57 private companies with an aggregate cost basis of approximately $375.2 million. At September 30, 2010, we had investments in equity of, loans to, or syndicated participations in, 39 private companies with an aggregate cost basis of approximately $298.2 million. The following table summarizes our total portfolio investment activity during the nine months ended June 30, 2011 and 2010:

	Nine Months Ended June 30,	
	2011	**2010**
Beginning investment portfolio at fair value	$ 257,109	$ 320,969
New investments	101,053	580
Disbursements to existing portfolio companies	17,593	7,757
Principal repayments	(39,855)	(56,951)
Proceeds from sales	(777)	(3,119)
Increase in investment balance due to PIK	12	62

Increase in investment balance due to transferred interest	204	1,230
Net unrealized depreciation	(34,803)	(2,777)
Reversal of prior period depreciation on realization		6,302
Net realized gain (loss)	163	(2,893)
Net change in premiums, discounts and amortization	(1,420)	(479)
Loan impairment/contra-investment		(715)
Ending investment portfolio at fair value	$ 299,279	$ 269,966

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The following table summarizes the contractual principal repayments and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at June 30, 2011.

		Amount
For the remaining three months ending September 30:	2011	$ 9,246
For the fiscal year ending September 30:	2012	55,833
	2013	131,987
	2014	29,889
	2015	33,154
	2016 and thereafter	110,508
	Total contractual repayments	**$ 370,617**
	Investments in equity securities	6,734
	Adjustments to cost basis on debt securities	(2,161)
	Total cost basis of investments held at June 30, 2011:	**$ 375,190**

Financing Activities

Net cash provided by financing activities for the nine months ended June 30, 2011 was $63.5 million and consisted primarily of net borrowings from the Credit Facility of $75.4 million, partially offset by distributions to stockholders of $13.3 million. Net cash used in financing activities for the nine months ended June 30, 2010 was $68.8 million and mainly consisted of net payments on the Credit Facility of $54.1 million, distributions to stockholders of $13.3 million and $1.4 million in financing fees related to the Credit Facility.

Distributions

To qualify as a RIC and, therefore, 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. In accordance with these requirements, we declared and paid monthly cash distributions of $0.07 per common share for each of April, May and June 2011. In July 2011, our Board of Directors declared a monthly distribution of $0.07 per common share for each of July, August and September 2011. We declared these distributions based on our estimates of net taxable income for the fiscal year.

For the quarter ended June 30, 2011, please refer to *Section 19(a) Notice* below for estimated tax characterization. For the fiscal year ended September 30, 2010, which includes the three months ended June 30, 2010, our distribution payments were approximately $17.7 million. We declared these distributions based on our estimates of net taxable income for the fiscal year. Our investment pace was slower than expected and, consequently, our net taxable income was lower than our original estimates. Of the distributions declared during fiscal 2010, 4.4% were treated as a return of capital to our stockholders, with the remaining portion being treated as ordinary income.

Section 19(a) Notice

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 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 source other than accumulative net investment income during the fiscal year. The estimates of the source of the distribution are interim estimates based on accounting principles generally accepted in the United States, or 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 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.

Equity

On October 20, 2009, we filed a registration statement on Form N-2 (File No. 333-162592), that was declared effective by the SEC on January 28, 2010, and we filed a fourth post-effective amendment to such registration statement on July 13, 2011, which was declared effective by the SEC on July 15, 2011. 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, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of such 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 per share, as it has consistently traded for the last two years, we face 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 June 30, 2011, our NAV per share was $10.34 and as of August 2, 2011, our closing market price was $8.86 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.

At our annual meeting of stockholders held on February 17, 2011, our stockholders approved a proposal which authorizes us to sell shares of our common stock at a price below our then current NAV per share subject to certain limitations (including that the cumulative number of shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale) for a period of one year from the date of approval, provided that our Board of Directors makes certain determinations prior to any such sale. We have not issued any common stock since February 2008.

On May 17, 2010, we and our Adviser entered into an Equity Distribution Agreement with BB&T Capital Markets, a division of Scott & Stringfellow, LLC, or the Agent, under which we may, from time to time, issue and sell through the Agent up to 2.0 million shares, which we refer to as the Shares, of our common stock based upon instructions from us (including, at a minimum, the number of Shares to be offered, the time period during which sales are requested to be made, any limitation on the number of Shares that may be sold in any one day and any minimum price below which sales may not be made). Sales of Shares through the Agent, if any, will be executed by means of either ordinary brokers transactions on NASDAQ in accordance with Rule 153 under the Securities Act or such other sales of the Shares as shall be agreed by us and the Agent. The compensation payable to the Agent for sales of Shares with respect to which the Agent acts as sales agent will equal 2.0% of the gross sales price of the Shares for amounts of Shares sold pursuant to the Agreement. To date, we have not issued any shares pursuant to this Agreement.

Revolving Credit Facility

On March 15, 2010, we entered into the Credit Facility. BB&T and ING also joined the Credit Facility as committed lenders. Subject to certain terms and conditions, the Credit Facility may be expanded up to $202.0 million through the addition of other committed lenders to the facility. On the Amendment Date, we amended the Credit Facility. Prior to the Amendment Date, advances under the Credit Facility bore interest at

LIBOR, subject to a minimum annual rate of 2.0%, plus 4.5%, with an annual commitment fee of 0.5% on undrawn amounts. Effective as of the Amendment Date, advances under the Credit Facility bear interest at LIBOR, subject to a minimum annual rate of 1.5%, plus 3.75%, with an annual commitment fee of 0.5% on undrawn amounts when the facility is drawn more than 50% and 1.0% annually on undrawn amounts when the facility is drawn less than 50%. In addition, effective as of the Amendment Date, we are no longer obligated to pay an annual minimum earnings shortfall fee to the committed lenders, which was calculated as the difference between the weighted average of borrowings outstanding under the Credit Facility and 50.0% of the commitment amount of the Credit Facility, multiplied by 4.5% annually, less commitment fees paid during the year. As of the Amendment Date, we paid a $0.7 million fee.

As of June 30, 2011, there was a cost basis of approximately $92.2 million of borrowings outstanding under the Credit Facility at an average interest rate of 5.25%. As of August 2, 2011, there was a cost basis of approximately $102.5 million 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 not renewed or extended by this date, all unpaid 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 the pledged 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 June 30, 2011, Business Loan had 41 obligors and we complied with all of the Credit Facility covenants.

Contractual Obligations and Off-Balance Sheet Arrangements

We were not a party to any signed term sheets for potential investments as of June 30, 2011. However, we have certain lines of credit and capital commitments with our portfolio companies that have not been fully drawn or called, respectively. Since these commitments have expiration dates, and we expect many will never be fully drawn or called, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of these unused and uncalled commitments as of June 30, 2011 and September 30, 2010 to be nominal.

In accordance with GAAP, the unused and uncalled portions of these commitments are not recorded on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*. The following table summarizes the nominal dollar balance of unused line of credit commitments, uncalled capital commitments and guarantees as of June 30, 2011 and September 30, 2010:

	As of June 30, 2011	As of September 30, 2010
Unused line of credit commitments	$ 8,945	$ 9,304
Uncalled capital commitment	800	1,600
Guarantees		250
Total	$ 9,745	$ 11,154

The following table shows our contractual obligations as of June 30, 2011:

Contractual Obligations(1)	Payments Due by Period Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Credit Facility(2)	$ 92,200	$	$	$	$ 92,200

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(1) Excludes the unused commitments to extend credit or capital to our portfolio companies for an aggregate amount of $9.7 million, as discussed above.

(2) Principal balance of borrowings under the Credit Facility, based on the contractual maturity due to the revolving nature of the facility.

The following table lists the risk ratings for all proprietary loans in our portfolio at June 30, 2011 and September 30, 2010, representing approximately 68.6% and 93.2%, respectively, of all loans in our portfolio at fair value at the end of each period:

Rating	June 30, 2011	September 30, 2010
Highest	9.0	10.0
Average	5.7	6.1
Weighted Average	5.7	5.9
Lowest	1.0	1.0

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 June 30, 2011 and September 30, 2010, representing approximately 24.8% and 4.3%, respectively, at fair value of all loans in our portfolio at the end of each period:

Rating	June 30, 2011	September 30, 2010
Highest	B+/B1	B+/B2
Average	B-/B3	B+/B2
Weighted Average	B-/B3	B+/B2
Lowest	CCC+/Caa1	B2

The following table lists the risk ratings for all syndicated loans that were not rated by an NRSRO. As of June 30, 2011 and September 30, 2010, these loans represented 6.6% and 2.5%, respectively, at fair value of all loans in our portfolio at the end of each period:

Rating	June 30, 2011	September 30, 2010
Highest	9.0	7.0
Average	6.3	7.0
Weighted Average	7.5	7.0
Lowest	4.0	7.0

Investment 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 may be recognized as income or applied to the cost basis depending upon management s judgment. Non-accrual loans are restored to accrual status when past due principal and interest are paid and in management s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectible. As of June 30, 2011, two Non-Control/Non-Affiliate investments and four Control investments were on non-accrual with an aggregate cost basis of approximately $30.7 million, or 8.2% of the cost basis of all loans in our portfolio. As of September 30, 2010, two Non-Control/Non-Affiliate investments

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and four Control investments were on non-accrual with an aggregate cost basis of approximately $29.9 million, or 10.0% of the cost basis of all loans in our portfolio.

As of June 30, 2011, we had loans in our portfolio which contain a PIK provision. 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 income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of distributions, even though we have not yet collected the cash. We recorded PIK income of $4 and $12 for the three and nine months ended June 30, 2011, respectively, as compared to $4 and $62 for the three and nine months ended June 30, 2010, respectively.

We also transfer past due interest to the principal balance as stipulated in certain loan amendments with portfolio companies. We transferred past due interest to the principal balance of $0 and $0.2 million for the three and nine months ended June 30, 2011, respectively, as compared to $0.8 million and $1.2 million for the three and nine months ended June 30, 2010, respectively.

As of June 30, 2011, we had 25 OID loans. We recorded OID income of $64 and $117 for the three and nine months ended June 30, 2011, respectively, as compared to $8 and $10 for the three and nine months ended June 30, 2010, respectively.

We record success fees upon receipt. Success fees are contractually due upon a change of control in a portfolio company and are recorded in Other income in the accompanying *Condensed Consolidated Statements of Operations*. We recorded $0.6 million of success fees during the nine months ended June 30, 2011, which resulted from the exits of Pinnacle Treatment Centers, Inc. and Interfilm Holdings, Inc. During the nine months ended June 30, 2010, we received $1.7 million in success fees from the exits of ActivStyle Acquisition Co., Saunders & Associates, Visual Edge Technology, Inc., Tulsa Welding School, and the prepayment of success fees from Doe & Ingalls Management LLC and Northern Contours, Inc.

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SUPPLEMENTAL PORTFOLIO INFORMATION

The following table sets forth certain information as of June 30, 2011 regarding each portfolio company in which we held a debt or equity security as of such date. All such investments were made in accordance with our investment policies and procedures described in this prospectus supplement and in the accompanying prospectus.

				As of June 30, 2011		
Company	**Industry**	**Investment**	**% of Class Held on a Fully Diluted Basis**	**Principal**	**Cost**	**Fair Value**
NON-CONTROL/NON-AFFILIATE INVESTMENTS						
Non-syndicated Loans:						
Access Television Network, Inc. 2600 Michelson Drive, Ste 1650 Irvine, California 91612	Service-cable airtime (infomercials)	Senior Term Debt		$ 903	$ 903	$ 90
Allison Publications, LLC 4311 Oak Lawn, Suite 100 Dallas, Texas 75219	Service-publisher of consumer oriented magazines	Senior Term Debt		8,613	8,632	8,032
BAS Broadcasting 905 West State St. Fremont, OH 43420	Service-radio station operator	Senior Term Debt		7,465	7,465	6,439
Chinese Yellow Pages Company 9550 Flair Drive Suite 200 El Monte, CA 91731	Service-publisher of Chinese language directories	Line of Credit		450	450	360
		Senior Term Debt		198	198	159
CMI Acquisition, LLC	Service-recycling	Senior Subordinated		14,265	14,265	14,247

4211 E. 43rd St. Place Kearney, NE 68848		Term Debt				
FedCap Partners, LLC 11951 Freedom Drive, 13th Floor Reston, VA 20190	Private equity fund	Class A Membership Units	6.7%		1,200	1,200
GFRC Holdings LLC	Manufacturing-glass-fiber	Senior Term Debt		5,811	5,811	5,027
3615 Miller Park Dr. Garland, TX 75042	reinforced concrete	Senior Subordinated Term Debt		6,632	6,632	5,737
Global Materials Technologies, Inc. 1540 E. Dundee Road Palatine, IL 60067	Manufacturing-steel wool products and metal fibers	Senior Term Debt		2,835	2,835	2,395
Heartland Communications Group	Service-radio station operator	Line of Credit		100	100	44
909 North Railroad		Line of Credit		100	100	44
Eagle River, WI 54521		Senior Term Debt		4,342	4,312	1,889
		Common Stock Warrants	8.8%		66	
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit		1,500	1,500	1,320
		Senior Term Debt		1,060	1,060	933
58 Hospital Center Common Hilton Head, SC 29926		Senior Term Debt		2,500	2,500	2,200
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit		162	158	8
2200 East Parks Highway Wasilla, Alaska 99654		Senior Term Debt		2,081	2,038	102
Legend Communications of	Service-operator of radio stations	Senior Term Debt		9,812	9,812	5,789
Wyoming LLC		Senior Term Debt		220	220	130
6805 Douglas Legum Dr, Ste 100 Elkridge, MD 21075						
Newhall Holdings, Inc.	Service-distributor of personal	Line of Credit		1,985	1,985	198
26529 Ruether Ave				1,870	1,870	187

	care products and supplements	Senior Term Debt				
Santa Clarita, CA 91350		Senior Term Debt		2,000	2,000	200
		Senior Term Debt		4,648	4,648	465
		Preferred Equity	8.4%			
		Common Stock	10.0%			
Northern Contours, Inc.	Manufacturing-veneer and	Senior Subordinated Term Debt		6,171	6,171	5,670
409 South Roberts Street Fergus Falls, MN 56537	laminate components					
Northstar Broadband, LLC 3660 East Covington Ave suite C Post Falls, ID 83854	Service-cable TV franchise owner	Senior Term Debt		95	83	75
Precision Acquisition Group	Manufacturing-consumable	Equipment Note		1,000	1,000	945
Holdings, Inc.	components for the aluminum	Senior Term Debt		4,125	4,125	3,898
435 Burt Street	industry	Senior Term Debt		4,053	4,053	3,830
Sistersville, WV 26175						
PROFITSystems	Service-design and develop	Line of Credit				
Acquisition Co.	ERP software	Senior Term Debt		250	250	242
422 E. Vermijo Ave, Suite 100 Colorado Springs, CO 80903		Senior Term Debt		2,900	2,900	2,813
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt		1,563	1,563	1,524
16535 Southpark Drive		Senior Term Debt		3,060	3,060	2,983
Westfield, IN 46074						

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Company	Industry	Investment	% of Class Held on a Fully Diluted Basis	As of June 30, 2011 Principal	Cost	Fair Value
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit		$ 1,600	$ 1,600	$ 1,572
1945 Walton Rd.		Mortgage Note		7,190	7,190	7,064
		Senior Term Debt		11,603	11,603	11,196
St. Louis, MO 63114		Senior Subordinated Term Debt		6,000	6,000	5,670
		Common Stock Warrants	6.7%		209	103
Saunders & Associates 2520 East Rose Garden Ln.	Manufacturing-equipment provider for frequency control devices	Line of Credit				
		Senior Term Debt		8,947	8,947	8,969
Phoenix, AZ 85050						
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt		1,666	951	75
6700 South Topeka Boulevard Building 818, Unit N4 Topeka, Kansas 66619		Senior Term Debt		2,931	2,931	132
Sunburst Media Louisiana, LLC 300 Crescent Court, Suite 850 Dallas, Texas 75201	Service-radio station operator	Senior Term Debt		6,175	6,181	4,322
Thibaut Acquisition Co.	Service-design and distribute wall covering	Line of Credit		750	750	722
480 Frelinghuysen Avenue		Senior Term Debt		550	550	529
Newark, NJ 07114		Senior Term Debt		3,000	3,000	2,869
Viapack, Inc.	Manufacturing-polyethylene film	Senior Real Estate Term Debt		600	600	150

1224 S. Hamilton St Dalton, GA 30720		Senior Term Debt		3,925	3,925	981
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt		12,000	12,000	11,700
14000 Marshall Dr. Lenexa, KS 66215		Senior Subordinated Term Debt		8,000	8,000	7,740
Westland Technologies, Inc.	Service-diversified conglomerate	Line of Credit				
107 S. Riverside Drive		Senior Term Debt		2,000	2,000	1,993
Modesto, CA 95354		Senior Term Debt		4,000	4,000	3,985
		Common Stock Warrants	4.9%		350	350
Winchester Electronics	Manufacturing-high bandwidth	Senior Term Debt		1,250	1,250	1,244
62 Barnes Industrial Road	connectors and cables	Senior Term Debt		1,682	1,682	1,669
North Wallingford, CT 06492		Senior Subordinated Term Debt		9,825	9,825	9,678
Subtotal Non-syndicated loans					197,509	161,888
Syndicated Loans:						
Airvana Network Solutions, Inc. 19 Alpha Road, Chelmsford, MA 01824	Service - telecommunications	Senior Term Debt		8,024	7,869	8,124
Allied Security Holdings LLC 161 Washington Street Eight Tower Bridge, Suite 600 Conshocken, PA 19428	Service - contract security officer providers	Senior Subordinated Term Debt		1,000	990	1,011
				9,975	9,784	9,776

Allied Specialty Vehicles, Inc. 2778 N. Forsyth Road Winter Park, FL 32792	Manufacturing - speciality vechicles	Senior Term Debt			
Ameriqual Group, LLC 18200 Highway 41 North Evansville, IN 47725	Manufacturing - production and distribution of food products	Senior Term Debt	7,500	7,356	7,350
Applied Systems, Inc. 200 Applied Parkway, University Park, IL 60466	Software for property & casualty insurance industry	Senior Subordinated Term Debt	1,000	991	1,010
Ascend Learning, LLC 7500 West 160th Street, Stillwell, KS 66085	Service - technology-based learning solutions	Senior Subordinated Term Debt	1,000	971	1,000
Attachmate Corporate 1500 Dexter Ave N. Seattle, WA 98109	Service - develops, implements and supports software	Senior Subordinated Term Debt	4,000	3,961	4,050
Covad Communications Group, Inc. 2220 O Toole Avenue, San Jose, CA 95131	Service - telecommunications	Senior Term Debt	1,900	1,864	1,924
Ernest Health, Inc. 7770 Jefferson Street NE, Suite 320 Albuquerque, NM 87109	Service - post-acute care services	Senior Term Debt	2,000	1,970	1,970
Global Brass and Copper, Inc. 1901 North Roselle Road, Suite 824 Schaumburg, IL 60195	Manufacturing - specialized copper and brass products	Senior Term Debt	2,976	2,897	3,092
HGI Holding, Inc. 1810 Summit Commerce Park Twinsburg, OH 44087	Service - distributor of disposable medical products	Senior Term Debt	1,757	1,721	1,772

Hubbard Radio, LLC 3415 University Avenue St. Paul, MN 55114	Service - radio station operator	Senior Subordinated Term Debt	500	495	505
Keypoint Government Solutions, Inc. 1750 Foxtrail Drive Loveland, CO 80538	Service - security consulting services	Senior Term Debt	6,965	6,932	6,895

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				As of June 30, 2011		
mpany	Industry	Investment	% of Class Held on a Fully Diluted Basis	Principal	Cost	Fair Value
od Media Corporation York Mills Road, 6th Floor onto, Ontario	Service - media and marketing solutions	Senior Term Debt		$ 8,000	$ 7,921	$ 7,8
ional Surgical Hospitals, Inc South Wacker Drive, e 500 cago, IL 60606	Service - physician-partnered surgical facilities	Senior Term Debt		1,703	1,675	1,7
sus USA, Inc 1 Six Forks Road, Suite 700 eigh, NC 27615	Service - provider of utility communication systems	Senior Term Debt		500	495	5
ngs Window Fashions, LLC 9 Graber Road dleton, WI 53562	Manufacturing - window coverings	Senior Term Debt		5,000	4,851	4,8
AM LLC 3 North Kingsbury, Floor cago, IL 60622	Manufacturing - premium bicycle components	Senior Term Debt		2,500	2,475	2,5
gus Group International, Inc 1 North Miller Street heim, CA 92806	Manufacturing - carrying cases and accessories for notebook computers	Senior Term Debt		10,000	9,803	9,8
erra Drilling Technologies, Throckmorton Street, e 1110 Worth, TX 76102	Manufacturing - oil field drill bits and slick-slip reduction tools	Senior Term Debt		2,000	1,960	1,9

on Solutions, Inc. 00 Barranca Parkway ne, CA 92618	Service - provider of information availability software	Senior Term Debt		11,000	10,912	10,9
l Street Systems Holdings, 0 Avenue of the Americas v York, NY 10104	Service - software provided	Senior Term Debt		3,000	2,970	3,0
Evenflo Group dings Inc. Crossroads Court dalia, OH 45377	Manufacturing - infant and juvenile products	Senior Term Debt		1,853	1,853	1,7
		Senior Preferred Equity	1.1%		333	4
		Junior Preferred Equity	4.4%		111	1
		Common Stock	0.8%			
total Syndicated loans					93,160	94,0
al n-Control/Non-Affiliate estments					$ 290,669	$ 255,9
NTROL INVESTMENTS						
RTL, Inc. Craig Road nalapan, NJ 07726	Service-web-based evaluator of imaging products	Line of Credit		1,330	1,330	
		Common Stock	88.8%		424	
iance Integrated hnologies, Inc. 0 Perry Street iance, OH 43512	Manufacturing-trucking parts	Senior Term Debt		7,585	7,585	7,5
		Common Stock	58.7%		1	4,4
dmark Acquisition, LLC Lindmark Ave. cell, OK 73080	Service-advertising	Senior Subordinated Term Debt		10,000	10,000	2,5
		Senior Subordinated Term Debt		2,000	2,000	5
		Senior Subordinated Term Debt		1,909	1,908	4
		Common Stock	100.0%		317	
alTel, LLC	Service-yellow pages publishing	Line of Credit		1,773	1,773	7
		Line of Credit		1,170	1,170	

Merrimack Street, e 216 vrence, MA 01843		Senior Term Debt		325	325	
		Senior Term Debt		2,688	2,688	
		Senior Term Debt		2,750	2,750	
		Common Stock Warrants	40.0%			
west Metal Distribution,	Distribution-aluminum sheets	Senior Subordinated Term Debt		18,281	18,260	16,7
0 Van Buren Road nton, OH 44216	and stainless steel	Common Stock	70.1%		138	
shine Media Holdings Broad St, Suite 708	Service-publisher regional B2B trade magazines	Line of Credit		1,900	1,900	6
		Senior Term Debt		16,948	16,948	5,9
ttanooga, TN 37402		Senior Term Debt		10,700	10,700	3,7
		Junior Preferred Equity	50.0%		375	
		Common Stock	28.8%		740	
. Healthcare nmunications, Inc. Cleveland Ave., Unit 1 hland Park, NJ 08904	Service-magazine publisher/operator	Line of Credit		269	269	
		Line of Credit		450	450	
		Common Stock	100.0%		2,470	
al Control Investments					$ 84,521	$ 43,3
al Investments					$ 375,190	$ 299,2

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Investment Concentrations

As of June 30, 2011, we had investments in an aggregate of 57 portfolio companies. Approximately 68.3% of the aggregate fair value of such investments at June 30, 2011 was comprised of senior term debt, 29.5% was senior subordinated term debt and 2.2% was in equity securities. The following table outlines our investments by type at June 30, 2011 and September 30, 2010:

	June 30, 2011		September 30, 2010	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Senior term debt	**$ 265,986**	**$ 204,281**	$ 200,041	$ 172,596
Senior subordinated term debt	**102,470**	**88,223**	93,987	81,899
Preferred equity	**820**	**551**	444	387
Common equity/equivalents	**5,914**	**6,224**	3,744	2,227
Total investments	**$ 375,190**	**$ 299,279**	$ 298,216	$ 257,109

Investments at fair value consisted of the following industry classifications as of June 30, 2011 and September 30, 2010:

	June 30, 2011		September 30, 2010	
Industry Classification	**Fair Value**	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Electronics	**$ 46,925**	**15.7%**	$ 25,080	9.8%
Healthcare, education & childcare	**34,789**	**11.5**	41,098	16.0
Mining, steel, iron & non-precious metals	**33,370**	**11.2**	24,343	9.5
Broadcast (TV & radio)	**31,245**	**10.4**	44,562	17.3
Automobile	**21,850**	**7.3**	9,868	3.8
Printing & publishing	**19,645**	**6.6**	37,705	14.7
Retail stores	**19,440**	**6.5**	19,620	7.6
Buildings & real estate	**10,763**	**3.6**	12,454	4.8
Textiles & leather	**9,838**	**3.3**		
Home & office furnishings	**9,790**	**3.3**	10,666	4.1
Diversified/conglomerate manufacturing	**8,693**	**2.9**	2,042	0.8
Machinery	**8,673**	**2.9**	8,719	3.4
Personal, food and miscellaneous services	**7,906**	**2.6**		
Personal & non-durable consumer products	**7,672**	**2.6**	9,230	3.6
Beverage, food & tobacco	**7,350**	**2.5**		
Leisure, amusement, movies & entertainment	**6,953**	**2.3**	3,994	1.6
Diversified/conglomerate service	**4,050**	**1.4**		
Diversified natural resources, precious metals & minerals	**3,092**	**1.0**		
Oil & gas	**1,970**	**0.7**		

Telecommunications	**1,924**	**0.6**		
Aerospace & defense	**1,200**	**0.4**	400	0.2
Chemicals, plastics & rubber	**1,131**	**0.4**	7,044	2.7
Insurance	**1,010**	**0.3**		
Farming & agriculture			284	0.1
Total investments	**$ 299,279**	**100.0%**	$ 257,109	100.0%

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Our investments at fair value were included in the following geographic regions of the United States at June 30, 2011 and September 30, 2010:

	June 30, 2011		September 30, 2010	
Geographic Region	Fair Value	Percent of Total Investments	Fair Value	Percentage of Total Investments
Midwest	**$ 142,136**	**47.5%**	$ 109,299	42.5%
West	**73,379**	**24.5**	59,684	23.2
South	**46,308**	**15.5**	44,704	17.4
Northeast	**29,616**	**9.9**	36,995	14.4
Other	**7,840**	**2.6**	6,427	2.5
Total Investments	**$ 299,279**	**100.0%**	$ 257,109	100.0%

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

DESCRIPTION OF THE SERIES 2016 TERM PREFERRED STOCK

The following is a brief description of the terms of our Term Preferred Stock, including specific terms of the Series 2016 Term Preferred Shares. This is not a complete description and is subject to, and entirely qualified by reference to, our Articles of Incorporation, the Articles Supplementary and Appendix A to the Articles Supplementary. The Articles Supplementary and Appendix A thereto are attached to this prospectus supplement and such documents have been filed with the SEC as exhibits to our registration statement of which this prospectus supplement and the accompanying prospectus are a part. You may obtain copies of these documents as described under Where You Can Find More Information.

General

We are authorized to issue 4,000,000 shares of Term Preferred Stock. We are designating 1,610,000 of these shares as the Series 2016 Term Preferred Shares. We currently do not have any shares of Term Preferred Stock outstanding. Terms of the Term Preferred Stock are set forth in the Articles Supplementary. Terms of the Series 2016 Term Preferred Shares are the same as those of the Term Preferred Stock except as set forth in Appendix A to the Articles Supplementary.

At the time of issuance, any Term Preferred Stock, including the Series 2016 Term Preferred Shares, will be fully paid and non-assessable and will have no preemptive, conversion, or exchange rights or rights to cumulative voting. The Term Preferred Stock will rank equally with shares of all our other Preferred Stock that might be issued in the future, as to payment of dividends and the distribution of our assets upon dissolution, liquidation or winding up of our affairs. The Term Preferred Stock is, and all other Preferred Stock that we may issue in the future will be, senior as to dividends and distributions to the Common Stock. We may issue additional series of Term Preferred Stock or other Preferred Stock in the future.

Except in certain limited circumstances, holders of the Term Preferred Stock will not receive certificates representing their ownership interest in such shares, and the shares of Term Preferred Stock will be represented by a global certificate to be held by the Securities Depository for the Term Preferred Stock. The Depository Trust Company will initially act as Securities Depository with respect to the Term Preferred Stock.

Dividends and Dividend Periods

General. The holders of the Term Preferred Stock will be entitled to receive cumulative cash dividends and distributions on such shares, when, as and if declared by, or under authority granted by, our Board of Directors out of funds legally available for payment and in preference to dividends and distributions on Common Stock, calculated separately for each Dividend Period for such Term Preferred Stock at the Dividend Rate for such Term Preferred Stock in effect during such Dividend Period, in an amount equal to the

Liquidation Preference for such Term Preferred Stock. The Dividend Rate is computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends so declared and payable will be paid to the extent permitted under state law and our Articles of Incorporation, and to the extent available, in preference to and priority over any dividend declared and payable on the Common Stock.

Fixed Dividend Rate. The Fixed Dividend Rate is an annual rate of 7.125% for the Series 2016 Term Preferred Shares. The Fixed Dividend Rate for Term Preferred Stock may be adjusted in certain circumstances, including upon the occurrence of certain events resulting in a Default Period (as defined below).

Payment of Dividends and Dividend Periods. The first Dividend Period for the Series 2016 Term Preferred Shares will commence on November 4, 2011 and end on December 31, 2011 and each subsequent Dividend Period will be a calendar month (or the portion thereof occurring prior to the redemption of such Series 2016 Term Preferred Shares). Dividends will be payable monthly in arrears on the Dividend Payment Date the last Business Day of the month of the Dividend Period and upon redemption of the Term Preferred Stock. Except for the first Dividend Period, dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of Term Preferred Stock as their names shall appear on our registration books at the close of business on the on the applicable record date, which shall be such date designated by our Board of Directors that is not more than 20, nor less than 10, calendar days prior to such Dividend Payment Date. Dividends with respect to the first Dividend Period of the Series 2016 Term Preferred Shares will be declared and paid on December 30, 2011 to holders of record of such Series 2016 Term Preferred Shares as their names appear on our registration books at the close of business on December 21, 2011.

Only holders of Term Preferred Stock on the record date for a Dividend Period will be entitled to receive dividends and distributions payable with respect to such Dividend Period, and holders of Term Preferred Stock who sell shares before such a record date and purchasers of Term Preferred Stock who purchase shares after such a record date should take the effect of the foregoing provisions into account in evaluating the price to be received or paid for such Term Preferred Stock.

Although dividends will accrue and be paid monthly, the record date for holders of Term Preferred Stock entitled to receive dividend payments may vary from month-to-month. We will notify holders of the Term Preferred Stock of each record date by issuance of a quarterly press release.

Mechanics of Payment of Dividends. Not later than 12:00 noon, New York City time, on a Dividend Payment Date, we are required to deposit with the Redemption and Paying Agent sufficient funds for the payment of dividends in the form of Deposit Securities. Deposit Securities will generally consist of (1) cash or cash equivalents; (2) direct obligations of the United States or its agencies or instrumentalities that are entitled to the full faith and credit of the United States, which we refer to as the U.S. Government Obligations; (3) investments in money market funds registered under the 1940 Act that qualify under Rule 2a-7 under the 1940 Act and certain similar investment vehicles that invest in U.S. Government Obligations or any combination thereof; or (4) any letter of credit from a bank or other financial institution that has a credit rating from at least one ratings agency that is the highest applicable rating generally ascribed by such ratings agency to bank deposits or short-term debt of similar banks or other financial institutions, in each case either that is a demand obligation payable to the holder on any Business Day or that has a maturity date, mandatory redemption date or mandatory payment date, preceding the relevant Redemption Date, Dividend Payment Date or other payment date. We do not intend to establish any reserves for the payment of dividends.

All Deposit Securities paid to the Redemption and Payment Agent for the payment of dividends will be held in trust for the payment of such dividends to the holders of Term Preferred Stock. Dividends will be paid by the Redemption and Payment Agent to the holders of Term Preferred Stock as their names appear on our registration books. Dividends that are in arrears for any past Dividend Period may be declared and paid at any time, without reference to any regular

Dividend Payment Date. Such payments are made to holders of Term Preferred Stock as their names appear on our registration books on such date, not exceeding 20 nor less than 10 calendar days preceding the payment date thereof, as may be fixed by our Board of Directors. Any payment of dividends in arrears will first be credited against the earliest accumulated but unpaid dividends. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments

on any Term Preferred Stock which may be in arrears. See Adjustment to Fixed Dividend Rate Default Period.

Upon failure to pay dividends for at least two years, the holders of Term Preferred Stock will acquire certain additional voting rights. See Voting Rights below. Such rights shall be the exclusive remedy of the holders of Term Preferred Stock upon any failure to pay dividends on Term Preferred Stock.

Adjustment to Fixed Dividend Rate Default Period. Subject to the cure provisions below, a Default Period with respect to Term Preferred Stock will commence on a date we fail to deposit the Deposit Securities as required as described above. A Default Period with respect to a Dividend Default or a Redemption Default shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends and any unpaid redemption price shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of a Default, the applicable dividend rate for each day during the Default Period will be equal to the Default Rate. The Default Rate for any calendar day will be equal to the applicable Dividend Rate in effect on such day plus two percent (2%) per annum.

No Default Period with respect to a Dividend Default or Redemption Default will be deemed to commence if the amount of any dividend or any redemption price due (if such Default is not solely due to our willful failure) is deposited irrevocably in trust, in same-day funds with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three Business Days after the applicable Dividend Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount and period of such non-payment based on the actual number of calendar days comprising such period divided by 360.

Restrictions on Dividend, Redemption, Other Payments and Issuance of Debt

No full dividends and distributions will be declared or paid on Term Preferred Stock for any Dividend Period, or a part of a Dividend Period, unless the full cumulative dividends and distributions due through the most recent dividend payment dates for all outstanding shares of Preferred Stock (including shares of other series of Term Preferred Stock, if any) have been, or contemporaneously are, declared and paid through the most recent dividend payment dates for each share of Preferred Stock. If full cumulative dividends and distributions due have not been paid on all outstanding shares of Preferred Stock of any series, any dividends and distributions being declared and paid on Term Preferred Stock will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on the shares of each such series of Preferred Stock on the relevant dividend payment date. No holders of Term Preferred Stock will be entitled to any dividends and distributions in excess of full cumulative dividends and distributions as provided in the Articles Supplementary.

For so long as any shares of Term Preferred Stock are outstanding, we will not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in Common Stock) in respect of the Common Stock, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any such Common Stock, or (z) pay any proceeds of the liquidation of the Company in respect of such Common Stock, unless, in each case, (A) immediately thereafter, we will be in compliance with the 200% Asset Coverage limitations set forth under the 1940 Act after deducting the amount of such dividend or distribution or redemption or purchasing price or liquidation proceeds, (B) all cumulative dividends and distributions of shares of all series of Term Preferred Stock and all other series of Preferred Stock, if any, ranking on parity with the Term Preferred Stock due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and sufficient funds or Deposit Securities as permitted by the terms of such Preferred Stock for the payment thereof shall have been deposited irrevocably with the applicable paying agent) and (C) we have deposited Deposit Securities with the Redemption and Paying Agent in accordance with the requirements described herein with respect to outstanding Term Preferred Stock of any series to be redeemed pursuant to a Term Redemption or Asset Coverage mandatory redemption resulting from the failure to comply with the Asset Coverage as described below for which a

Notice of Redemption shall have been given or shall have been required to be given in

accordance with the terms described herein on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

Except as required by law, we will not redeem any shares of Term Preferred Stock unless all accumulated and unpaid dividends and distributions on all outstanding shares of Term Preferred Stock and other series of Preferred Stock, if any, ranking on parity with the Term Preferred Stock with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by us) (x) will have been or are contemporaneously paid or (y) will have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions will have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent, provided, however, that the foregoing will not prevent the purchase or acquisition of outstanding shares of Term Preferred Stock pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding shares of Term Preferred Stock and any other series of Preferred Stock, if any, for which all accumulated and unpaid dividends and distributions have not been paid.

We may issue debt in one or more classes or series. Under the 1940 Act, we may not (1) declare any dividend with respect to any Preferred Stock if, at the time of such declaration (and after giving effect thereto), Asset Coverage with respect to any of our borrowings that are senior securities representing indebtedness (as defined in the 1940 Act), would be less than 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum Asset Coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring dividends on its Preferred Stock) or (2) declare any other distribution on the Preferred Stock or purchase or redeem Preferred Stock if at the time of the declaration or redemption (and after giving effect thereto), Asset Coverage with respect to such borrowings that are senior securities representing indebtedness would be less than 200% (or such higher percentage as may in the future be specified in or under the 1940 Act as the minimum Asset Coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its shares). Senior securities representing indebtedness generally means any bond, debenture, note or similar obligation or instrument constituting a security (other than shares of capital stock) and evidencing indebtedness and could include our obligations under any borrowings. For purposes of determining Asset Coverage for senior securities representing indebtedness in connection with the payment of dividends or other distributions on or purchases or redemptions of stock, the term senior security does not include any promissory note or other evidence of indebtedness issued in consideration of any loan, extension or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed. The term senior security also does not include any such promissory note or other evidence of indebtedness in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of our total assets at the time when the loan is made; a loan is presumed under the 1940 Act to be for temporary purposes if it is repaid within 60 calendar days and is not extended or renewed; otherwise such loan is presumed not to be for temporary purposes. For purposes of determining whether the 200% statutory Asset Coverage requirements described above apply in connection with dividends or distributions on or purchases or redemptions of Preferred Stock, such Asset Coverage may be calculated on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of the applicable determination.

Asset Coverage

If we fail to maintain Asset Coverage of at least 200% as of the close of business on the last Business Day of a Calendar Quarter, the Term Preferred Stock may become subject to mandatory redemption as provided below. Asset Coverage means asset coverage of a class of senior security which is a stock, as defined for purposes of Section 18(h) of the 1940 Act as in effect on the date of the Articles Supplementary, determined on the basis of values calculated as of a time within two Business Days next preceding the time of such determination. For purposes of this determination, no shares of Term Preferred Stock or other Preferred Stock, if any, will be deemed to be outstanding for purposes of

the computation of Asset Coverage if, prior to or concurrently with such determination, either sufficient Deposit Securities or other sufficient funds (in

accordance with the terms of such Preferred Stock) to pay the full redemption price for such Preferred Stock (or the portion thereof to be redeemed) will have been deposited in trust with the paying agent for such Preferred Stock and the requisite notice of redemption for such Preferred Stock (or the portion thereof to be redeemed) will have been given or sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Preferred Stock) to pay the full redemption price for such Preferred Stock (or the portion thereof to be redeemed) will have been segregated by us and our custodian, or Custodian, from our assets, by means of appropriate identification on the Custodian s books and records or otherwise in accordance with the Custodian s normal procedures. In such event, the Deposit Securities or other sufficient funds so deposited or segregated will not be included as our assets for purposes of the computation of Asset Coverage.

Redemption

Term Redemption. We are required to provide for the mandatory redemption, or the Term Redemption, of all of the Series 2016 Term Preferred Shares on December 31, 2016, which we refer to as the Term Redemption Date, at a redemption price equal to the Liquidation Preference per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the Term Redemption Date, which we refer to as the Term Redemption Price.

Mandatory Redemption for Asset Coverage

Asset Coverage. If we fail to have Asset Coverage of at least 200% as provided in the Articles Supplementary and such failure is not cured as of the close of business on the Asset Coverage Cure Date, we will fix a redemption date and proceed to redeem the number of shares of Preferred Stock as described below at a price per share equal to the liquidation price per share of the applicable Preferred Stock, which in the case of the Term Preferred Stock is equal to the Liquidation Preference per share plus accumulated but unpaid dividends and distributions thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for redemption by our Board of Directors. We will redeem out of funds legally available the number of shares of Preferred Stock (which may include at our sole option any number or proportion of Term Preferred Stock) equal to the lesser of (i) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in us having Asset Coverage of at least 200% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available in accordance with our Articles of Incorporation and applicable law. Notwithstanding the foregoing sentence, in the event that shares of Preferred Stock are redeemed pursuant to the Articles Supplementary, we may at our sole option, but are not required to, redeem a sufficient number of shares of Term Preferred Stock that, when aggregated with other shares of Preferred Stock redeemed by us, permits us to have with respect to the shares of Preferred Stock (including Term Preferred Stock) remaining outstanding after such redemption, Asset Coverage on such Asset Coverage Cure Date of as much as 285%. We will effect a redemption on the date fixed by us, which date will not be later than 90 calendar days after the Asset Coverage Cure Date, except that if we do not have funds legally available for the redemption of all of the required number of shares of Term Preferred Stock and other shares of Preferred Stock which have been designated to be redeemed or we otherwise are unable to effect such redemption on or prior to 90 calendar days after the Asset Coverage Cure Date, we will redeem those shares of Term Preferred Stock and other shares of Preferred Stock which we were unable to redeem on the earliest practicable date on which we are able to effect such redemption.

Optional Redemption. On or after December 31, 2012 (any such date, an Optional Redemption Date), we may redeem in whole or from time to time in part outstanding Term Preferred Stock, at a redemption price equal to the Liquidation Preference, *plus* an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by us, but excluding interest thereon), *plus* the applicable Optional Redemption Premium per share (as calculated below) (the Optional Redemption Price). The

Optional Redemption Premium with respect to the Series 2016 Term Preferred Shares will be an amount equal to:

if the Optional Redemption Date occurs on or after December 31, 2012 and prior to December 31, 2013, 1.00% of the Liquidation Preference;

if the Optional Redemption Date occurs on or after December 31, 2013 and prior to December 31, 2014, 0.50% of the Liquidation Preference; or

if the Optional Redemption Date occurs on or after December 31, 2014, 0.0% of the Liquidation Preference.

Subject to the provisions of the Articles Supplementary and applicable law, our Board of Directors will have the full power and authority to prescribe the terms and conditions upon which shares of Term Preferred Stock will be redeemed from time to time.

We may not on any date deliver a notice of redemption to redeem any shares of Term Preferred Stock pursuant to the optional redemption provisions described above unless on such date we have available Deposit Securities for the Optional Redemption Date contemplated by such notice of redemption having a Market Value not less than the amount (including any applicable premium) due to holders of shares of Term Preferred Stock by reason of the redemption of such shares of Term Preferred Stock on such Optional Redemption Date.

Redemption Procedures. We will file a notice of our intention to redeem with the SEC so as to provide the 30 calendar day notice period contemplated by Rule 23c-2 under the 1940 Act, or such shorter notice period as may be permitted by the SEC or its staff.

If we shall determine or be required to redeem, in whole or in part, shares of Term Preferred Stock, we will deliver a notice of redemption, or a Notice of Redemption, by overnight delivery, by first class mail, postage prepaid or by electronic means to the holders of such shares of Term Preferred Stock to be redeemed, or request the Redemption and Paying Agent, on our behalf, to promptly do so by overnight delivery, by first class mail or by electronic means. A Notice of Redemption will be provided not more than 45 calendar days prior to the date fixed for redemption in such Notice of Redemption, which we refer to as the Redemption Date. If fewer than all of the outstanding shares of Term Preferred Stock are to be redeemed pursuant to either the Asset Coverage mandatory redemption provisions or the optional redemption provisions, the shares of Term Preferred Stock to be redeemed will be selected either (1) pro rata among Term Preferred Stock, (2) by lot or (3) in such other manner as our Board of Directors may determine to be fair and equitable. If fewer than all shares of Term Preferred Stock held by any holder are to be redeemed, the Notice of Redemption mailed to such holder shall also specify the number of shares of Term Preferred Stock to be redeemed from such holder or the method of determining such number. We may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to the Articles Supplementary that such redemption is subject to one or more conditions precedent and that we will not be required to effect such redemption unless each such condition has been satisfied. No defect in any Notice of Redemption or delivery thereof will affect the validity of redemption proceedings except as required by applicable law.

If we give a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by us), we will (i) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value at the time of deposit no less than the redemption price of the shares of Term Preferred Stock to be redeemed on the Redemption Date and (ii) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable redemption price to the holders of shares of Term Preferred Stock called for redemption on the Redemption Date. Notwithstanding the foregoing, if the Redemption Date is the Term Redemption Date, then such deposit of Deposit Securities will be made no later than 15 calendar days prior to the Term Redemption Date.

Upon the date of the deposit of Deposit Securities by us for purposes of redemption of shares of Term Preferred Stock, all rights of the holders of Term Preferred Stock so called for redemption shall cease and terminate except the right of

the holders thereof to receive the Term Redemption Price, Mandatory Redemption Price or Optional Redemption Price thereof, as applicable (any of the foregoing referred to in this prospectus supplement as the Redemption Price, and such shares of Term Preferred Stock will no longer be deemed outstanding for any purpose whatsoever (other than the transfer thereof prior to the applicable Redemption Date and other than the accumulation of dividends on such stock in accordance with the terms of the Term Preferred Stock up to (but excluding) the applicable Redemption Date). We will be entitled to

receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of shares of Term Preferred Stock called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of 90 calendar days from the Redemption Date will, to the extent permitted by law, be repaid to us, after which the holders of shares of Term Preferred Stock so called for redemption shall look only to us for payment of the Redemption Price. We will be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

On or after a Redemption Date, each holder of shares of Term Preferred Stock in certificated form (if any) that are subject to redemption will surrender the certificate(s) evidencing such shares of Term Preferred Stock to us at the place designated in the Notice of Redemption and will then be entitled to receive the Redemption Price, without interest, and in the case of a redemption of fewer than all shares of Term Preferred Stock represented by such certificate(s), a new certificate representing shares of Term Preferred Stock that were not redeemed.

If any redemption for which a Notice of Redemption has been provided is not made by reason of the absence of our legally available funds in accordance with the Articles Supplementary and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default will be deemed to have occurred if we have failed to deposit in trust with the Redemption and Paying Agent the applicable Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent has not been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any shares of Term Preferred Stock, dividends may be declared and paid on such shares of Term Preferred Stock in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such shares of Term Preferred Stock shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

We may, in our sole discretion and without a stockholder vote, modify the redemption procedures with respect to notification of redemption for the Term Preferred Stock, provided that such modification does not materially and adversely affect the holders of Term Preferred Stock or cause us to violate any applicable law, rule or regulation.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, the holders of the Series 2016 Term Preferred Shares will be entitled to receive out of our assets available for distribution to stockholders, after satisfying claims of creditors but before any distribution or payment will be made in respect of the Common Stock, a liquidation distribution equal to the Liquidation Preference of $25 per share, plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for such distribution or payment (whether or not earned or declared by us, but excluding interest thereon), and such holders will be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

If, upon any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, our assets available for distribution among the holders of all Term Preferred Stock, and any other outstanding shares of Preferred Stock, if any, will be insufficient to permit the payment in full to such holders of Term Preferred Stock of the Liquidation Preference plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to such other shares of Preferred Stock, then the available assets will be distributed among the holders of such Term Preferred Stock and such other series of Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or winding up of our affairs whether voluntary or involuntary, unless and until the Liquidation Preference on each outstanding share of Term Preferred Stock plus accumulated and unpaid dividends and distributions has been paid in full to the holders of

Term Preferred Stock, no dividends, distributions or other payments will be made on, and no redemption, repurchase or other acquisition by us will be made by us in respect of, the Common Stock.

Neither the sale of all or substantially all of the property or business of the Company, nor the merger, consolidation or our reorganization into or with any other business or corporation, statutory trust or other entity, nor the merger, consolidation or reorganization of any other business or corporation, statutory trust or other entity into or with us will be a dissolution, liquidation or winding up, whether voluntary or involuntary, for purposes of the provisions relating to liquidation set forth in the Articles Supplementary.

Voting Rights

Except as otherwise provided in our Articles of Incorporation, the Articles Supplementary, or as otherwise required by applicable law, each holder of Term Preferred Stock will be entitled to one vote for each share of Term Preferred Stock held by such holder on each matter submitted to a vote of our stockholders and the holders of outstanding shares of any Preferred Stock, including the Term Preferred Stock, will vote together with holders of Common Stock as a single class. Under applicable rules of NASDAQ and NYSE, we are currently required to hold annual meetings of stockholders.

In addition, the holders of outstanding shares of any Preferred Stock, including the Term Preferred Stock, will be entitled, as a class, to the exclusion of the holders of all other securities and classes of Common Stock, to elect two of our directors at all times (regardless of the total number of directors serving on the Board of Directors). We refer to these directors as the Preferred Directors. The holders of outstanding shares of Common Stock and Preferred Stock, including Term Preferred Stock, voting together as a single class, will elect the balance of our directors. Under our bylaws, our directors are divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three year term. At each annual meeting of our 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. One of the Preferred Directors will be up for election in 2012, and the other Preferred Director will be up for election in 2013.

In the event we owe accumulated dividends (whether or not earned or declared) on our Preferred Shares equal to at least two full years of dividends (and sufficient cash or securities have not been deposited a paying agent for the payment of the accumulated dividends) the number of directors constituting the board will be increased by the number of directors, which we refer to as the New Preferred Directors, that when added to the Preferred Directors will constitute a majority. We will then call a special meeting of shareholders to permit the election of the New Preferred Directors. The term of the New Preferred Directors will last for so long as we are in arrears on our dividends as described above. The ability of the Term Preferred Stockholders to elect the New Preferred Directors will also terminate, subject to reinstatement, once we have a Dividend Payment Date on which we are no longer in arrears on our dividends to the extent described above.

Notwithstanding the foregoing, if (1) at the close of business on any dividend payment date for dividends on any outstanding share of any Preferred Stock, including any outstanding shares of Term Preferred Stock, accumulated dividends (whether or not earned or declared) on the shares of Preferred Stock, including the Term Preferred Stock, equal to at least two full years dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or (2) at any time holders of any shares of Preferred Stock are entitled under the 1940 Act to elect a majority of our directors (a period when either of the foregoing conditions exists, a Voting Period), then the number of members constituting our Board of Directors will automatically be increased by the smallest number that, when added to the two directors elected exclusively by the holders of shares of any Preferred Stock, including the Term Preferred Stock, as described above, would constitute a majority of our Board of Directors as so increased by such smallest number; and the holders of the shares of Preferred Stock, including the Term Preferred Stock, will be entitled as a class on a one-vote-per-share basis, to elect such additional directors. The terms of office of the persons who are directors at the time of that election will not be affected by the election of the additional directors. If we

thereafter shall pay, or declare and set apart for payment, in full all dividends payable on all outstanding shares of Preferred Stock, including Term Preferred Stock, for all past dividend periods, or the Voting Period is otherwise terminated, (1) the voting rights stated above shall cease, subject always, however, to the revesting of such voting rights in the holders of shares of Preferred Stock upon the further occurrence of any of the

events described herein, and (2) the terms of office of all of the additional directors so elected will terminate automatically. Any Preferred Stock, including Term Preferred Stock, issued after the date hereof will vote with Term Preferred Stock as a single class on the matters described above, and the issuance of any other Preferred Stock, including Term Preferred Stock, by us may reduce the voting power of the holders of Term Preferred Stock.

As soon as practicable after the accrual of any right of the holders of shares of Preferred Stock to elect additional directors as described above, we will call a special meeting of such holders and notify the Redemption and Paying Agent and/or such other person as is specified in the terms of such Preferred Stock to receive notice, (i) by mailing or delivery by electronic means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such holders, such meeting to be held not less than 10 nor more than 30 calendar days after the date of the delivery by electronic means or mailing of such notice. If we fail to call such a special meeting, it may be called at our expense by any such holder on like notice. The record date for determining the holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of holders of shares of Preferred Stock held during a Voting Period at which directors are to be elected, such holders, voting together as a class (to the exclusion of the holders of all our other securities and classes of capital stock), will be entitled to elect the number of additional directors prescribed above on a one-vote-per-share basis.

Except as otherwise permitted by the terms of the Articles Supplementary, so long as any shares of Term Preferred Stock are outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of shares of Term Preferred Stock, voting as a separate class, amend, alter or repeal the provisions of the Articles of Incorporation or the Articles Supplementary, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of the Term Preferred Stock or the holders thereof; provided, however, that (i) a change in our capitalization as described under the heading Issuance of Additional Preferred Stock will not be considered to materially and adversely affect the rights and preferences of Term Preferred Stock, and (ii) a division of a share of Term Preferred Stock will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of Term Preferred Stock. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a share of Term Preferred Stock of such series or the holder thereof unless such matter (i) alters or abolishes any preferential right of such share of Term Preferred Stock, or (ii) creates, alters or abolishes any right in respect of redemption of such Term Preferred Stock (other than as a result of a division of such Term Preferred Stock). So long as any shares of Term Preferred Stock are outstanding, we will not, without the affirmative vote or consent of at least 662/3% of the holders of the shares of Term Preferred Stock outstanding at the time, voting as a separate class, file a voluntary application for relief under federal bankruptcy law or any similar application under state law for so long as we are solvent and does not foresee becoming insolvent.

The affirmative vote of the holders of at least a majority of the shares of Preferred Stock, including the shares of Term Preferred Stock outstanding at the time, voting as a separate class, will be required (i) to approve us ceasing to be, or to withdraw our election as, a business development company, or (ii) to approve any plan of reorganization (as such term is defined in Section 2(a)(33) of the 1940 Act) adversely affecting such shares of Preferred Stock. For purposes of the foregoing, the vote of a majority of the outstanding shares of Preferred Stock means the vote at an annual or special meeting duly called of (a) 67% or more of such shares present at a meeting, if the holders of more than 50% of such outstanding shares are present or represented by proxy at such meeting, or (b) more than 50% of such outstanding shares, whichever is less.

For purposes of determining any rights of the holders of Term Preferred Stock to vote on any matter, whether such right is created by the Articles Supplementary, by the provisions of the Articles of Incorporation, by statute or otherwise, no holder of Term Preferred Stock will be entitled to vote any shares of Term Preferred Stock and no share

of Term Preferred Stock will be deemed to be outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case

may be, the requisite Notice of Redemption with respect to such Term Preferred Stock will have been given in accordance with the Articles Supplementary, and the Redemption Price for the redemption of such shares of Term Preferred Stock will have been irrevocably deposited with the Redemption and Paying Agent for that purpose. No shares of Term Preferred Stock held by us will have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

Unless otherwise required by law or the Articles of Incorporation, holders of Term Preferred Stock will not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in the Voting Rights section of the Articles Supplementary. The holders of shares of Term Preferred Stock will have no rights to cumulative voting. In the event that we fail to declare or pay any dividends on Term Preferred Stock, the exclusive remedy of the holders will be the right to vote for additional directors as discussed above; provided that the foregoing does not affect our obligation to accumulate and, if permitted by applicable law and the Articles Supplementary, pay dividends at the Default Rate as discussed above.

Issuance of Additional Preferred Stock

So long as any shares of Term Preferred Stock are outstanding, we may, without the vote or consent of the holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of our senior securities representing stock under Section 18 of the 1940 Act, ranking on parity with the Term Preferred Stock as to payment of dividends and distribution of assets upon dissolution, liquidation or the winding up of our affairs, in addition to then outstanding shares of Term Preferred Stock, including additional series of Term Preferred Stock, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, including additional Term Preferred Stock, in each case in accordance with applicable law, provided that we will, immediately after giving effect to the issuance of such additional Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of Preferred Stock with such proceeds, have Asset Coverage of at least 200%.

Actions on Other than Business Days

Unless otherwise provided in the Articles Supplementary, if the date for making any payment, performing any act or exercising any right is not a Business Day, such payment will be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount will accrue for the period between such nominal date and the date of payment.

Modification

The Board of Directors, without the vote of the holders of Term Preferred Stock, may interpret, supplement or amend the provisions of the Articles Supplementary or any appendix thereto to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Preferred Stock.

UNDERWRITING

Janney Montgomery Scott LLC, J.J.B. Hilliard, W.L. Lyons, LLC, Wunderlich Securities, Inc., BB&T Capital Markets, a Division of Scott & Stringfellow, LLC, Ladenburg Thalmann & Co. Inc. and Boenning & Scattergood, Inc. are the underwriters of this offering. Subject to the terms and conditions of the underwriting agreement dated October 28, 2011, the underwriters have agreed to purchase severally, and we have agreed to sell to the underwriters, the number of Series 2016 Term Preferred Shares set forth opposite their respective names below at the public offering price less the underwriting discounts and commissions on the cover page of this prospectus supplement.

Underwriters	**Number of Shares**
Janney Montgomery Scott LLC	539,000
J.J.B. Hilliard, W.L. Lyons, LLC	280,000
Wunderlich Securities, Inc.	238,000
BB&T Capital Markets, a Division of Scott & Stringfellow, LLC	175,000
Ladenburg Thalmann & Co. Inc.	98,000
Boenning & Scattergood, Inc.	70,000
Total	1,400,000

The underwriting agreement provides that obligations of the underwriters to purchase the Series 2016 Term Preferred Shares that are being offered are subject to the approval of certain legal matters by counsel to the underwriters and to certain other conditions. Each underwriter is obligated to purchase all of the Series 2016 Term Preferred Shares set forth opposite its name in the table above if it purchases any of the Series 2016 Term Preferred Shares.

The underwriters propose to offer some of the Series 2016 Term Preferred Shares to the public initially at the offering price per share shown on the cover page of this prospectus supplement and may offer shares to certain dealers at such price less a concession not in excess of $0.50 per share. After the public offering of the Series 2016 Term Preferred Shares, the public offering price and concessions described above may be changed by the underwriters.

We have granted to the underwriters an option, exercisable for up to 30 days after the date of this prospectus supplement, to purchase up to 210,000 additional Series 2016 Term Preferred Shares at the same price per share as the public offering price, less the underwriting discounts shown on the cover page of this prospectus supplement. The underwriters may exercise such option only to cover over-allotments in the sale of the Series 2016 Term Preferred Shares offered by this prospectus supplement. To the extent that the underwriters exercise this option, each of the underwriters has a firm commitment, subject to certain conditions set forth in the underwriting agreement, to purchase the number of that additional Series 2016 Term Preferred Shares proportionate to such underwriter s initial commitment indicated in the table above.

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

	Per Share		Total	
	Without Over-Allotment	With Over-Allotment	Without Over-Allotment	With Over-Allotment
Underwriting discounts and commissions to be paid by us	$ 1.00	$ 1.00	$ 1,400,000	$ 1,610,000

We estimate that our out-of-pocket expenses for this offering, not including the underwriting discounts and commissions, will be approximately $500,000. Of this amount, $25,000 represents expenses for which we will reimburse the underwriters.

In connection with this offering and in compliance with applicable securities laws, the underwriters may over-allot (i.e., sell more Series 2016 Term Preferred Shares than the amount shown on the cover page of this prospectus supplement) and may effect transactions that stabilize, maintain or otherwise affect the market price of such shares at levels above those which might otherwise prevail in the open market. Such transactions may include making short sales and placing bids for the Series 2016 Term Preferred Shares or effecting purchases of such shares for the purpose of pegging, fixing or maintaining the market price of such shares or for the purpose of reducing a short position created in connection with this offering. The underwriters may cover a short position by exercising the over-allotment option described above in place of, or in addition to, open market purchases.

Additionally, the underwriters may engage in syndicate covering transactions which involve purchases of Series 2016 Term Preferred Shares in the open market after they have completed the distribution of such shares in order to cover syndicate short positions. In determining the appropriate source of shares to close out a covered short sale, the underwriters may consider, among other things, the market price of such shares compared to the purchase price of shares available under the over-allotment option.

The underwriters may also sell Series 2016 Term Preferred Shares in excess of the over-allotment option, thereby creating a naked short position. The underwriters must close out any such naked short position by purchasing shares in the open market. The underwriters are more likely to create a naked short position if they are concerned that there may be downward pressure on the price of the Series 2016 Term Preferred Shares in the open market after pricing, which could adversely affect investors who purchase in this offering.

The underwriters may also impose a penalty bid in connection with this offering. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the Series 2016 Term Preferred Shares originally sold by such syndicate member are purchased in a stabilizing transaction or syndicate covering transaction to cover syndicate short positions. The imposition of a penalty bid may affect the open market price of the Series 2016 Term Preferred Shares to the extent that it discourages resales of such shares.

We and the underwriters make no representation or prediction as to the direction or magnitude of any effect that these transactions may have on the market price of the Series 2016 Term Preferred Shares. In addition, we and the underwriters make no representation that the underwriters will engage in such transactions or that such transactions, if and when commenced, will not be discontinued without notice.

Each underwriter does not intend to confirm sales of the Series 2016 Term Preferred Shares to any accounts over which it exercises discretionary authority.

The underwriting agreement provides that we and our directors and executive officers will agree not to, directly or indirectly, sell or otherwise dispose of any of the Series 2016 Term Preferred Shares or shares of our Common Stock for a period of 60 days after the completion of this offering without the prior written consent of Janney Montgomery Scott LLC, on behalf of the underwriters. We have also agreed to make no such sales during this period except in connection with the issuance of shares of our Common Stock pursuant to our dividend reinvestment plan.

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

In addition, the terms of the lock-up agreement do not prevent a stockholder party to such agreement from (a) transferring the Series 2016 Term Preferred Shares or shares of our Common Stock acquired in open market transactions after the completion of this offering, (b) transferring any or all of the Series 2016 Term Preferred Shares or shares of our Common Stock or other Company securities if the transfer is by (i) gift, will or intestacy, or (ii) distribution to partners, members or shareholders of the undersigned, (c) transferring Series 2016 Term Preferred Shares or shares of our Common Stock pursuant to any 10b5-1 trading plan in

effect prior to the date of this prospectus and (d) entering into any new 10b5-1 plan, provided that no sales of Series 2016 Term Preferred Shares or shares of our Common Stock or other Company securities shall be made pursuant to such 10b5-1 plan until after the expiration of the lock-up period; provided, however, that in the case of a transfer pursuant to clause (b) above, it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding the securities subject to the provisions of the lock-up agreement.

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

The Series 2016 Term Preferred Shares have been approved for listing on the NYSE, under the symbol GLAD PR A. Trading on the Series 2016 Term Preferred Shares is expected to begin within 30 days after the date of initial delivery of the Series 2016 Term Preferred Shares. Our common stock is traded on NASDAQ under the symbol GLAD.

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

The distribution of this prospectus supplement and the accompanying prospectus and this offering of Series 2016 Term Preferred Shares in certain jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions.

Conflicts of Interest and Other Relationships

Branch Banking and Trust Company, which is an affiliate of an underwriter in this offering, is a lender under the Credit Facility. We intend to use a portion of the net proceeds from this offering to reduce the outstanding balance under the Credit Facility. Accordingly, the affiliate of such underwriter will receive a portion of the net proceeds from this offering that are used to repay the outstanding balance under the Credit Facility.

Certain of the underwriters in this offering and their respective affiliates have in the past, and may from time to time in the future, provide investment banking and other services to us for which they have received, or expect to receive, customary fees and commissions.

TAX MATTERS

This discussion serves as a supplement to the discussion in the accompanying prospectus under the heading Material U.S. Federal Income Tax Considerations.

Regulated Investment Company Status

As discussed in the accompanying prospectus, in order to be eligible for the tax conduit treatment available to RICs under Subchapter M of the Code, we must distribute to our stockholders, for each taxable year, at least 90% of our

investment company taxable income, which is generally our ordinary income plus short-term capital gains. We refer to this as the annual distribution requirement. In order for dividends we pay to our stockholders to count toward the annual distribution requirement, and to be deductible by us for tax

purposes, such dividends must not be preferential within the meaning of Section 562(c) of the Code, which we refer to as Section 562(c), or, if we pay any dividends that are preferential, we must qualify as a publicly offered regulated investment company, as defined in the Code. A publicly offered regulated investment company is a RIC whose shares are (1) continuously offered pursuant to a public offering, (2) regularly traded on an established securities market, or (3) held by at least 500 persons at all times during the taxable year. We generally expect to satisfy one or more of these conditions. However, because these conditions are not entirely under our control, it is possible that, from time to time, we may not qualify as a publicly offered regulated investment company. The discussion in the accompanying prospectus under the heading Material U.S. Federal Income Tax Considerations is based on the assumption that we either will qualify at all times as a publicly offered regulated investment company, or, if we do not so qualify, that no dividends paid on our common stock, our Senior Common Stock, or our Series 2016 Term Preferred Shares will be considered preferential within the meaning of Section 562(c).

In order for dividends not to be considered preferential within the meaning of Section 562(c), such dividends must be paid on a pro rata basis with no preference for any share of our stock and no preference for any class of our stock, except for dividends paid on shares of stock constituting a separate class in accordance with specific dividend rights attributable to such separate class as set forth in applicable governing documents. The Series 2016 Term Preferred Shares will be established as a separate class of stock under our Articles Supplementary, and the Series 2016 Term Preferred Shares will be treated as a separate class of stock under Maryland corporation law. In addition, we intend to pay dividends on the Series 2016 Term Preferred Shares solely in accordance with the specific dividend rights of the Series 2016 Term Preferred Shares as set forth in our articles of incorporation. Accordingly, we intend to count dividends paid on our Series 2016 Term Preferred Shares toward our annual distribution requirement and not as preferential dividends within the meaning of Section 562(c), even if we fail to qualify as a publicly offered regulated investment company.

Taxation of Our U.S. Stockholders

The Code allows the deduction by certain individuals, trusts, and estates of miscellaneous itemized deductions only to the extent that such deductions exceed 2% of the taxpayer s adjusted gross income. The limit on miscellaneous itemized deductions does not apply, however, with respect to the expenses incurred by any publicly offered regulated investment company. As indicated above, because we cannot entirely control the circumstances surrounding the conditions for qualification as a publicly offered regulated investment company, it is possible that we may not qualify as a publicly offered regulated investment company from time to time. In such case, stockholders who are individuals, trusts, and estates may be limited in their ability to deduct certain of our expenses, including fees paid to our Adviser and our Administrator. This limitation is applied to such a stockholder as if the stockholder had received a dividend from us in the amount of his allocable share of such expenses and had paid such expenses directly.

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

The custodian of our assets is The Bank of New York Mellon Corp. The custodian s address is: 2 Hanson Place, Sixth Floor, Brooklyn, NY 11217. Our assets are held under bank custodianship in compliance with the 1940 Act. Securities held through our wholly owned subsidiary, Gladstone Business Loan, LLC, or Business Loan, are held under a custodian agreement with The Bank of New York Mellon Corp., which acts as collateral custodian pursuant to the Credit Facility with Key Equipment Finance Inc. and certain other parties. The address of the collateral custodian is 2 Hanson Place, Sixth Floor, Brooklyn, NY 11217. BNY Mellon Shareowner Services acts as our transfer and dividend paying agent and registrar. The principal business address of BNY Mellon Shareowner Services is 480 Washington Boulevard, Jersey City, New Jersey 07310, telephone number 800-274-2944. BNY Mellon Shareowner Services also maintains an internet website at http://stock.bankofny.com.

MISCELLANEOUS

To the extent that a holder of Term Preferred Shares is directly or indirectly a beneficial owner of more than 10% of any class of our outstanding shares (meaning, for purposes of holders of Term Preferred Shares, more than 10% of our outstanding Preferred Stock), such 10% beneficial owner would be subject to the short-swing profit rules that are imposed pursuant to Section 16 of the Exchange Act (and related reporting requirements). These rules generally provide that such a 10% beneficial owner may have to disgorge any profits made on purchases and sales, or sales and purchases, of our equity securities (including Term Preferred Stock and the Series 2016 Term Preferred Shares and Common Stock) within any six-month time period. Investors should consult with their own counsel to determine the applicability of these rules.

WHERE YOU CAN FIND MORE INFORMATION

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

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

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

LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Cooley LLP, Reston, Virginia. Certain legal matters will be passed upon for the underwriters by Dechert LLP, Washington, D.C.

PROXY VOTING POLICIES AND PROCEDURES

We have delegated our proxy voting responsibility to the Adviser. The proxy voting policies and procedures of the Adviser are set out below. The guidelines are reviewed periodically by the Adviser and our directors who are not interested persons, and, accordingly, are subject to change.

Introduction

As an investment adviser registered under the Advisers Act, the Adviser has a fiduciary duty to act solely in our best interests. As part of this duty, the Adviser recognizes that it must vote our securities in a timely manner free of conflicts of interest and in our best interests.

The Adviser s policies and procedures for voting proxies for its investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy Policies

The Adviser votes proxies relating to our portfolio securities in what it perceives to be the best interest of our stockholders. The Adviser reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its effect on the portfolio securities we hold. In most cases the Adviser will vote in favor of proposals that the Adviser believes are likely to increase the value of the portfolio securities we hold.

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Although the Adviser will generally vote against proposals that may have a negative effect on our portfolio securities, the Adviser may vote for such a proposal if there exist compelling long-term reasons to do so.

Our proxy voting decisions are made by our Adviser s portfolio managers. To ensure that the Adviser s vote is not the product of a conflict of interest, the Adviser requires that (1) anyone involved in the decision-making process disclose to our Adviser s investment committee any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision-making process or vote administration are prohibited from revealing how the Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, the Adviser will disclose such conflicts to us, including our independent directors and may request guidance from us on how to vote such proxies.

Proxy Voting Records

You may obtain information without charge about how the Adviser voted proxies by making a written request for proxy voting information to:

Michael LiCalsi, Internal Counsel
c/o Gladstone Capital Corporation
1521 Westbranch Dr.
McLean, VA 22102

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	June 30, 2011		September 30, 2010	
	(Dollar amounts in thousands, except per share amounts) (Unaudited)			
ASSETS				
Investments at fair value				
Non-Control/Non-Affiliate investments (Cost of $290,669 and $244,140, respectively)	$	255,906	$	223,737
Control investments (Cost of $84,521 and $54,076, respectively)		43,373		33,372
Total investments at fair value (Cost of $375,190 and $298,216, respectively)		299,279		257,109
Cash		7,776		7,734
Interest receivable investments in debt securities		2,619		2,648
Interest receivable employees		97		104
Due from custodian		1,922		255
Deferred financing fees		993		1,266
Prepaid assets		660		799
Other assets		784		603
TOTAL ASSETS	$	314,130	$	270,518
LIABILITIES				
Borrowings at fair value (Cost of **$92,200** and $16,800, respectively)	$	92,700	$	17,940
Accounts payable and accrued expenses		601		752
Interest payable		263		693
Fee due to Administrator		174		267
Fees due to Adviser		1,791		673
Other liabilities		1,065		947
TOTAL LIABILITIES		96,594		21,272
NET ASSETS	$	217,536	$	249,246
ANALYSIS OF NET ASSETS				
Common stock, $0.001 par value per share, 50,000,000 shares authorized and 21,039,242 shares issued and outstanding at June 30, 2011 and September 30, 2010	$	21	$	21

Capital in excess of par value		326,935		326,935
Notes receivable employees		(4,998)		(7,103)
Net unrealized depreciation on investments		(75,911)		(41,108)
Net unrealized appreciation on borrowings		(500)		(1,140)
Overdistributed net investment income		(758)		(1,103)
Accumulated net realized losses		(27,253)		(27,256)
TOTAL NET ASSETS	$	217,536	$	249,246
NET ASSETS PER SHARE	$	10.34	$	11.85

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(Dollar amounts in thousands, except per share amounts) (Unaudited)			
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	$ 7,028	$ 6,992	$ 19,722	$ 23,037
Control investments	1,406	375	3,604	1,853
Notes receivable from employees	102	108	347	330
Total interest income	8,536	7,475	23,673	25,220
Other income				
Non-Control/Non-Affiliate investments	444	494	1,089	2,367
Control investments			625	
Total other income	444	494	1,714	2,367
Total Investment income	8,980	7,969	25,387	27,587
EXPENSES				
Loan servicing fee	814	819	2,413	2,600
Base management fee	637	658	1,751	2,118
Incentive fee	1,133	153	3,395	1,601
Administration fee	174	186	535	540
Interest expense	958	891	1,316	3,562
Amortization of deferred financing fees	368	240	1,032	1,182
Professional fees	360	501	894	1,632
Other expenses	196	178	799	1,142
Expenses before credits from Adviser	4,640	3,626	12,135	14,377
Credits to fees from Adviser	(194)	(86)	(348)	(120)
Total expenses net of credits to fees	4,446	3,540	11,787	14,257
NET INVESTMENT INCOME	4,534	4,429	13,600	13,330
REALIZED AND UNREALIZED (LOSS) GAIN ON:				
Net realized (loss) gain on investments	(2)	(2,865)	3	(2,893)
Net unrealized (depreciation) appreciation on investments	(18,789)	(1,556)	(34,803)	3,525
	(53)	(1,756)	640	(1,405)

Net unrealized (appreciation) depreciation on borrowings								
Net loss on investments and borrowings		(18,844)		(6,177)		(34,160)		(773)
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$	(14,310)	$	(1,748)	$	(20,560)	$	12,557
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE:								
Basic and Diluted	$	(0.68)	$	(0.08)	$	(0.98)	$	0.60
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:								
Basic and Diluted		21,039,242		21,039,242		21,039,242		21,067,465

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Nine Months Ended June 30,	
	2011	2010
	(Dollar amounts in thousands) (Unaudited)	
Operations:		
Net investment income	$ 13,600	$ 13,330
Net realized gain (loss) on investments	3	(2,893)
Net unrealized (depreciation) appreciation on investments	(34,803)	3,525
Net unrealized depreciation (appreciation) on borrowings	640	(1,405)
Net (decrease) increase in net assets from operations	(20,560)	12,557
Distributions:		
Distributions to stockholders	(13,255)	(13,271)
Capital transactions:		
Shelf offering costs		(28)
Conversion of former employee stock option loans from recourse to non-recourse		(420)
Repayment of principal on employee notes	2,105	
Reclassification of principal on employee note		515
Net increase in net assets from capital transactions	2,105	67
Total decrease in net assets	(31,710)	(647)
Net assets at beginning of period	249,246	249,076
Net assets at end of period	$ 217,536	$ 248,429

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
	(Dollar amounts in thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets resulting from operations	$ (20,560)	$ 12,557
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Purchase of investments	(118,646)	(8,337)
Principal repayments on investments	39,855	56,900
Proceeds from sale of investments	777	3,119
Increase in investment balance due to paid in kind interest	(12)	(62)
Repayment of paid in kind interest		51
Increase in investment balance due to transferred interest	(204)	(1,230)
Net change in premiums, discounts and amortization	1,420	1,194
Net realized (gain) loss on investments	(163)	2,893
Net unrealized depreciation (appreciation) on investments	34,803	(3,525)
Net unrealized (depreciation) appreciation on borrowings	(640)	1,405
Amortization of deferred financing fees	1,032	1,182
Change in compensation expense from non-recourse notes		245
Decrease in interest receivable	36	472
(Increase) decrease in due from custodian	(1,667)	1,272
Decrease (increase) in prepaid assets	139	(246)
(Increase) decrease in other assets	(181)	1,211
Decrease in accounts payable and accrued expenses	(151)	(440)
(Decrease) increase in interest payable	(430)	7
Increase in fees due to Adviser	1,118	1,566
Decrease in administration fee due to Administrator	(93)	(30)
Increase (decrease) in other liabilities	118	(172)
Net cash (used in) provided by operating activities	(63,449)	70,032
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shelf offering costs		(28)
Proceeds from borrowings	109,800	8,400
Repayments on borrowings	(34,400)	(62,500)
Distributions paid	(13,255)	(13,271)
Receipt of principal on employee notes	2,105	
Deferred financing fees	(759)	(1,441)
Net cash provided by (used in) financing activities	63,491	(68,840)
NET INCREASE IN CASH	42	1,192

CASH, BEGINNING OF PERIOD		7,734		5,276
CASH, END OF PERIOD	$	7,776	$	6,468

GLADSTONE CAPITAL CORPORATION

**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF JUNE 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)**

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS					
Non-syndicated Loans:					
Access Television Network, Inc.	Service-cable airtime (infomercials)	Senior Term Debt (14.0%, Due 2/2011)(D)	$ 903	$ 903	$ 90
Allison Publications, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (10.5%, Due 9/2012)(D)	8,613	8,632	8,032
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013)(D)	7,465	7,465	6,439
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, $250 available (7.3%, Due 11/2011)(D)	450	450	360
		Senior Term Debt (7.3%, Due 11/2011)(D)	198	198	159
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (12.0%, Due 12/2016)(D)	14,265	14,265	14,247
FedCap Partners, LLC	Private equity fund	Class A Membership Units(G)	1,200	1,200	1,200
		Uncalled Capital Commitment ($800)			
GFRC Holdings, LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (11.5%, Due 12/2012)(D)	5,811	5,811	5,027
		Senior Subordinated Term Debt (14.0%, Due 12/2012)(C)(D)	6,632	6,632	5,737
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (13.0%, Due 6/2012)(C)(D)	2,835	2,835	2,395
Heartland Communications Group	Service-radio station operator	Line of Credit, $0 available (10.0%, Due 3/2013)(D)	100	100	44
		Line of Credit, $0 available (10.0%, Due 3/2013)(D)	100	100	44
		Senior Term Debt (5.0%, Due 3/2013)(D)	4,342	4,312	1,889

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		Common Stock Warrants (8.75% ownership)(F)(G)			
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, $0 available (11.0%, Due 5/2012)(D)	1,500	1,500	1,320
		Senior Term Debt (10.5%, Due 5/2012)(D)	1,060	1,060	933
		Senior Term Debt (12.5%, Due 5/2012)(C)(D)	2,500	2,500	2,200
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, $42 available (12.3, Due 7/2010)(D)(G)(H)	162	158	8
		Senior Term Debt (12.3%, Due 7/2010)(D)(G)(H)	2,081	2,038	102
Legend Communications of Wyoming, LLC	Service-operator of radio stations	Senior Term Debt (12.0%, Due 6/2013)(D)	9,812	9,812	5,789
		Senior Term Debt (14.0%, Due 7/2011)(D)	220	220	130
Newhall Holdings, Inc.	Service-distributor of personal care products and supplements	Line of Credit, $0 available (8.0%, Due 12/2012)(D)	1,985	1,985	198
		Senior Term Debt (8.5%, Due 12/2012)(D)	1,870	1,870	187
		Senior Term Debt (3.5%, Due 12/2012)(C)(D)	2,000	2,000	200
		Senior Term Debt (3.5%, Due 12/2012)(C)(D)	4,648	4,648	465
		Preferred Equity (1,000,000 shares)(F)(G)			

GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
AS OF JUNE 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
		Common Stock (688,500 shares)(F)(G)			
Northern Contours, Inc.	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (13.0%, Due 9/2012)(D)	6,171	6,171	5,670
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012)(D)	95	83	75
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the aluminum industry	Equipment Note (13.0%, Due 11/2011)(D)	1,000	1,000	945
		Senior Term Debt (13.0%, Due 11/2011)(D)	4,125	4,125	3,898
		Senior Term Debt (13.0%, Due 11/2011)(C)(D)	4,053	4,053	3,830
PROFITSystems Acquisition Co.	Service-design and develop ERP software	Line of Credit, $350 available (4.5%, Due 7/2011)(J)			
		Senior Term Debt (8.5%, Due 7/2011)(D)(J)	250	250	242
		Senior Term Debt (10.5%, Due 7/2011)(C)(D)(J)	2,900	2,900	2,813
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (9.5%, Due 1/2013)(D)	1,563	1,563	1,524
		Senior Term Debt (11.5%, Due 1/2013)(C)(D)	3,060	3,060	2,983
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, $2,400 available (9.0%, Due 1/2013)(D)	$ 1,600	$ 1,600	$ 1,572
		Mortgage Note (9.5%, Due 12/2014)(D)	7,190	7,190	7,064
		Senior Term Debt (12.0%, Due 12/2014)(C)(D)	11,603	11,603	11,196
		Senior Subordinated Term Debt (12.5%, Due 12/2014)(D)	6,000	6,000	5,670
		Common Stock Warrants(F)(G)(764 shares)		209	103
Saunders & Associates					

	Manufacturing-equipment provider for frequency control devices	Line of Credit, $2,500 available (11.3%, Due 5/2013)(D)			
		Senior Term Debt (11.3%, Due 5/2013)(D)	8,947	8,947	8,969
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (10.0%, Due 10/2012)(D)(G)(H)	$ 1,666	$ 951	$ 75
		Senior Term Debt (10.0%, Due 10/2012)(D)(G)(H)	2,931	2,931	132
Sunburst Media Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 12/2011)(D)	6,175	6,181	4,322
Thibaut Acquisition Co.	Service-design and distribute wall covering	Line of Credit, $250 available (9.0%, Due 1/2014)(D)	750	750	722
		Senior Term Debt (8.5%, Due 1/2014)(D)	550	550	529
		Senior Term Debt (12.0%, Due 1/2014)(C)(D)	3,000	3,000	2,869
Viapack, Inc.(K)	Manufacturing-polyethylene film	Senior Real Estate Term Debt (10.0%, Due 3/2014)(D)	600	600	150
		Senior Term Debt (13.0%, Due 3/2014)(C)(D)	3,925	3,925	981
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (12.3%, Due 1/2014)(D)	12,000	12,000	11,700

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
AS OF JUNE 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
		Senior Subordinated Term Debt (13.5%, Due 1/2014)(D)	8,000	8,000	7,740
Westland Technologies, Inc.	Service-diversified conglomerate	Line of Credit, $1,000 available (6.5%, Due 4/2012)(D)			
		Senior Term Debt (7.5%, Due 4/2016)(D)	2,000	2,000	1,993
		Senior Term Debt (12.5%, Due 4/2016)(D)	4,000	4,000	3,985
		Common Stock Warrants (77,287 shares)(F)(G)		350	350
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.2%, Due 5/2012)(D)	1,250	1,250	1,244
		Senior Term Debt (5.7%, Due 5/2013)(D)	1,682	1,682	1,669
		Senior Subordinated Term Debt (14.0%, Due 6/2013)(D)	9,825	9,825	9,678
Subtotal Non-syndicated loans				$ 197,509	$ 161,888
Syndicated Loans:					
Airvana Network Solutions, Inc.	Service-telecommunications	Senior Term Debt (10.0%, Due 3/2015)(E)	$ 8,024	$ 7,869	$ 8,124
Allied Security Holdings, LLC	Service-contract security officer providers	Senior Subordinated Term Debt (8.5%, Due 2/2018)(E)	1,000	990	1,011
Allied Specialty Vehicles, Inc.	Manufacturing-specialty vehicles	Senior Term Debt (9.5%, Due 2/2016)(E)	9,975	9,784	9,776

Ameriqual Group, LLC	Manufacturing-production and distribution of food products	Senior Term Debt (9.8%, Due 3/2016)(E)	7,500	7,356	7,350
Applied Systems, Inc.	Software for property & casualty insurance industry	Senior Subordinated Term Debt (9.3%, Due 6/2017)(E)	1,000	991	1,010
Ascend Learning, LLC	Service-technology-based learning solutions	Senior Subordinated Term Debt (12.3%, Due 12/2017)(E)	1,000	971	1,000
Attachmate Corporate	Service-develops, implements and supports software	Senior Subordinated Term Debt (9.5%, Due 2/2017)(E)	4,000	3,961	4,050
Covad Communications Group, Inc.	Service-telecommunications	Senior Term Debt (12.0%, Due 11/2015)(E)	1,900	1,864	1,924
Ernest Health, Inc.	Service-post-acute care services	Senior Term Debt (10.3%, Due 5/2017)(E)	2,000	1,970	1,970
Global Brass and Copper, Inc.	Manufacturing-specialized copper and brass products	Senior Term Debt (10.3%, Due 8/2015)(E)	$ 2,976	$ 2,897	$ 3,092
HGI Holding, Inc	Service-distributor of disposable medical products	Senior Term Debt (6.8%, Due 10/2016)(E)	1,757	1,721	1,772
Hubbard Radio, LLC	Service-radio station operator	Senior Subordinated Term Debt (8.8%, Due 4/2018)(E)	500	495	505
Keypoint Government Solutions, Inc.	Service-security consulting services	Senior Term Debt (10.0%, Due 12/2015)(E)	6,965	6,932	6,895
Mood Media Corporation	Service-media and marketing solutions	Senior Term Debt (10.3%, Due 11/2018)(E)	8,000	7,921	7,840
National Surgical Hospitals, Inc.	Service-physician-partnered surgical facilities	Senior Term Debt (8.3%, Due 2/2017)(E)	1,703	1,675	1,707
Sensus USA, Inc.	Service-provider of utility communication services	Senior Term Debt (8.5%, Due 5/2018)(E)	500	495	506
Springs Window Fashions, LLC	Manufacturing-window coverings	Senior Term Debt (11.3%, Due 11/2017)(E)	5,000	4,851	4,850

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CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
AS OF JUNE 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
SRAM, LLC	Manufacturing-premium bicycle components	Senior Term Debt (8.5%, Due 12/2018)(E)	2,500	2,475	2,500
Targus Group International, Inc.	Manufacturing-carrying cases and accessories for notebook computers	Senior Term Debt (11.0%, Due 5/2016)(E)	10,000	9,803	9,838
Ulterra Drilling Technologies, LP	Manufacturing-oil field drill bits and slick-slip reduction tools	Senior Term Debt (9.8%, Due 6/2016)(E)	2,000	1,960	1,970
Vision Solutions, Inc.	Service-provider of information availability software	Senior Term Debt (9.5%, Due 7/2017)(E)	11,000	10,912	10,945
Wall Street Systems Holdings, Inc.	Service-software provider	Senior Term Debt (9.0%, Due 6/2018)(E)	3,000	2,970	3,019
WP Evenflo Group Holdings Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (8.0%, Due 2/2013)(E)	1,853	1,853	1,732
		Senior Preferred Equity (333.3 shares)(F)(G)		333	409
		Junior Preferred Equity (111.1 shares)(F)(G)		111	142
		Common Stock (1,873.95 shares)(F)(G)			81
Subtotal Syndicated loans				93,160	94,018
Total Non-Control/Non-Affiliate Investments (represented 85.5% of total investments at fair value)				**$ 290,669**	**$ 255,906**
CONTROL INVESTMENTS					
BERTL, Inc.	Service-web-based evaluator of imaging products	Line of Credit, $15 available (6.4%, Due 10/2011)(F)(G)(H)	$ 1,330	$ 1,330	$
		Common Stock (100 shares)(F)(G)		424	
Defiance Integrated	Manufacturing-trucking parts	Senior Term Debt (11.0%, Due	7,585	7,585	7,585

Technologies, Inc.		4/2013)(C)(F)			
		Common Stock (15,500 shares)(F)(G)		1	4,489
Lindmark Acquisition, LLC	Service-advertising	Senior Subordinated Term Debt (11.0%, Due 10/2012)(D)(G) (H)	10,000	10,000	2,500
		Senior Subordinated Term Debt (13.0%, Due 10/2012)(D)(G) (H)	2,000	2,000	500
		Senior Subordinated Term Debt (13.0%, Due Upon Demand)(D)(G) (H)	1,909	1,908	478
		Common Stock (100 shares)(F)(G)		317	
LocalTel, LLC	Service-yellow pages publishing	Line of credit, $77 available (10.0%, Due 12/2011)(F)(G)(H)	1,773	1,773	752
		Line of Credit, $1,830 available (4.7%, Due 6/2012)(F)(G)(H)	1,170	1,170	
		Senior Term Debt (12.5%, Due 2/2012)(F)(G)(H)	325	325	
		Senior Term Debt (8.5%, Due 6/2012)(F)(G)(H)	2,688	2,688	
		Senior Term Debt (10.5%, Due 6/2012)(C)(F)(G)(H)	2,750	2,750	
		Common Stock Warrants (4,000 shares)(F)(G)			
Midwest Metal Distribution, Inc.	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 7/2013)(D)	18,281	18,260	16,727
		Common Stock (501 shares)(F)(G)		138	
Sunshine Media Holdings(I)	Service-publisher regional B2B trade magazines	Line of credit, $100 available (10.5%, Due 5/2016)(D)	1,900	1,900	665

GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
AS OF JUNE 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
		Senior Term Debt (10.5%, Due 5/2016)(D)	16,948	16,948	5,932
		Senior Term Debt (5.0%, Due 5/2016)(C)(D)	10,700	10,700	3,745
		Junior Preferred Equity (1013.5 shares)(F)(G)		375	
		Common Stock (933.5 shares)(F)(G)		740	
U.S. Healthcare Communications, Inc.	Service-magazine publisher/operator	Line of credit, $131 available (6.0%, Due 12/2010)(F)(G)(H)	269	269	
		Line of credit, $0 available (6.0%, Due 12/2010)(F)(G)(H)	450	450	
		Common Stock (100 shares)(F)(G)		2,470	
Total Control Investments (represented 14.5% of total investments at fair value)				**$ 84,521**	**$ 43,373**
Total Investments				**$ 375,190**	**$ 299,279**

(A) Certain of the securities listed in the above chart are issued by affiliate(s) of the indicated portfolio company.

(B) Percentage represents interest rates in effect at June 30, 2011, and due date represents the contractual maturity date.

(C) Last Out Tranche (LOT) of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt.

(D) Fair value was primarily based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc.

(E) Security valued based on the indicative bid price on or near June 30, 2011, offered by the respective syndication agent s trading desk or secondary desk.

(F) Fair value was primarily based on the total enterprise value of the portfolio company using a liquidity waterfall approach. Gladstone Capital Corporation (the Company) also considered discounted cash flow methodologies.

(G) Security is non-income producing.

(H) Debt security is on non-accrual status.

(I) During the quarter ended March 31, 2011, the Company purchased a controlling interest in common stock from existing shareholders of Sunshine Media Holdings. This purchase resulted in the Company reclassifying the investment from Non-Control/Non-Affiliate to Control.

(J) Subsequent to June 30, 2011, PROFITSystems Acquisition Co. s debt securities were extended to July 2014.

(K) Subsequent to June 30, 2011, the Company purchased a controlling interest in the equity securities of Viapack, Inc.

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS					
Non-syndicated Loans:					
Access Television Network, Inc.	Service-cable airtime (infomercials)	Senior Term Debt (14.0%, Due 12/2011)(E)	$ 963	$ 963	$ 809
Allison Publications, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (10.5%, Due 9/2012)(E)	9,064	9,094	8,543
		Senior Term Debt (13.0%, Due 12/2010)(E)	65	65	64
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013)(E)	7,465	7,465	6,644
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, $250 available (7.3%, Due 11/2010)(E)	450	450	428
		Senior Term Debt (7.3%, Due 11/2010)(E)	333	333	317
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (10.3%, Due 11/2012)(E)	5,972	5,972	5,868
FedCap Partners, LLC	Private equity fund	Class A Membership Units (H)	400	400	400
		Uncalled Capital Commitment ($1,600)			
Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants (33,000 shares)(G)(H)		37	284
GFRC Holdings LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (11.5%, Due 12/2012)(E)	6,111	6,111	6,004
		Senior Subordinated Term Debt (14.0%, Due 12/2012)(C)(E)	6,632	6,632	6,450
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (13.0%, Due 6/2012)(C)(E)	3,560	3,560	2,937
Heartland Communications Group	Service-radio station operator	Line of Credit, $100 available (8.5%, Due 3/2013)			
		Line of Credit, $100 available (8.5%, Due 3/2013)			
			4,342	4,301	2,519

		Senior Term Debt (8.5%, Due 3/2013)(E)			
		Common Stock Warrants (8.75%)(G)(H)		66	
Interfilm Holdings, Inc.	Service-slitter and distributor of plastic films	Senior Term Debt (12.3%, Due 10/2012)(E)	2,400	2,400	2,382
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, $1,500 available (9.0%, Due 5/2011)(E)			
		Senior Term Debt (8.5%, Due 5/2012)(E)	1,557	1,557	1,537
		Senior Term Debt (10.5%, Due 5/2012)(C)(E)	2,500	2,500	2,456
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, $39 available (12.3%, Due 7/2010)(E)(J)(P)	161	161	16
		Senior Term Debt (12.3%, Due 7/2010)(E)(J)(P)	1,921	1,921	192
Legend Communications of Wyoming LLC	Service-operator of radio stations	Senior Term Debt (12.0%, Due 6/2013)(E)	9,880	9,880	6,422
Newhall Holdings, Inc.	Service-distributor of personal care products and supplements	Line of Credit, $0 available (5.0%, Due 12/2012)(E)	1,350	1,350	1,269
		Senior Term Debt (5)(5.0%, Due 12/2012)(E)	3,870	3,870	3,638
		Senior Term Debt (5.0%, Due 12/2012)(C)(E)	4,648	4,648	4,323
		Preferred Equity (1,000,000 shares)(G)(H)			

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
		Common Stock (688,500 shares)(G)(H)			
Northern Contours, Inc.	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (13.0%, Due 9/2012)(E)	6,301	6,301	5,765
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012)(E)	135	117	102
Pinnacle Treatment Centers, Inc.	Service-Addiction treatment centers	Line of Credit, $350 available (12.0%, Due 10/2010)(E)(L)	150	150	150
		Senior Term Debt (10.5%, Due 12/2011)(E)	1,950	1,950	1,945
		Senior Term Debt (10.5%, Due 12/2011)(C)(E)	7,500	7,500	7,481
Precision Acquisition Group Holdings,. Inc	Manufacturing-consumable components for the Aluminum industry	Equipment Note (13.0%, Due 10/2010)(E)(M)	$ 1,000	$ 1,000	$ 950
		Senior Term Debt (13.0%, Due 10/2010)(E)(M)	4,125	4,125	3,919
		Senior Term Debt (13.0%, Due 10/2010)(C)(E)(M)	4,053	4,053	3,850
PROFITSystems Acquisition Co.	Service-design and develop ERP software	Line of Credit, $350 available (4.5%, Due 7/2011)			
		Senior Term Debt (8.5%, Due 7/2011)(E)	1,000	1,000	940
		Senior Term Debt (10.5%, Due 7/2011)(C)(E)	2,900	2,900	2,697
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (9.5%, Due 1/2011)(C)(E)	1,938	1,937	1,918
		Senior Term Debt (11.5%, Due 1/2011)(D)(E)	3,060	3,060	3,029

Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, $3,800 available (9.0%, Due 10/2010)(E) (N)	1,200	1,200	1,188
		Mortgage Note (9.5%, Due 10/2014)(E)	7,256	7,255	7,201
		Senior Term Debt (9.0%, Due 10/2012)(E)	1,080	1,080	1,069
		Senior Term Debt (11.0%, Due 10/2012)(C)(E)	11,693	11,693	11,386
		Senior Subordinated Term Debt (12.0%, Due 10/2013)(E)	6,000	6,000	5,730
		Common Stock Warrants (764 shares)(G)(H)		209	
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Senior Term Debt (9.8%, Due 5/2013)(E)	8,947	8,947	8,935
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (10.0%, Due 10/2012)(E)(J)(P)	1,165	450	140
		Senior Term Debt (10.0%, Due 10/2012)(E)(J)(P)	2,931	2,931	352
Sunburst Media Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 6/2011)(E)	6,375	6,391	5,100
Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of credit, $401 available (10.5%, Due 2/2011)(E)	1,599	1,599	1,499
		Senior Term Debt (10.5%, Due 5/2012)(E)	16,948	16,948	15,889
		Senior Term Debt (13.3%, Due 5/2012)(C)(E)	10,700	10,700	9,898
Thibaut Acquisition Co.	Service-design and distribute wall covering	Line of Credit, $0 available (9.0%, Due 1/2011)(E)	1,000	1,000	970

GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
		Senior Term Debt (8.5%, Due 1/2011)(E)	1,075	1,075	1,043
		Senior Term Debt (12.0%, Due 1/2011)(C)(E)	3,000	3,000	2,888
Viapack, Inc.	Manufacturing-polyethylene film	Senior Real Estate Term Debt (10.0%, Due 3/2011)(E)	675	675	672
		Senior Term Debt (13.0%, Due 3/2011)(C)(E)	4,005	4,005	3,990
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (12.3%, Due 1/2014)(E)	12,000	12,000	11,820
		Senior Subordinated Term Debt (13.5%, Due 1/2014)(E)	8,000	8,000	7,800
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.3%, Due 5/2012)(E)	1,250	1,250	1,244
		Senior Term Debt (6.0%, Due 5/2013)(E)	1,686	1,686	1,661
		Senior Subordinated Term Debt (14.0%, Due 6/2013)(E)	9,875	9,875	9,603
Subtotal Non-syndicated loans				$ 225,798	$ 206,326
Syndicated Loans:					
Airvana Network Solutions, Inc	Service-telecommunications	Senior Term Debt (11.0%, Due 8/2014)(F)	9,056	8,858	8,942
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (7.9%, Due 1/2012)(F)	7,141	7,159	6,427
WP Evenflo Group Holdings Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (8.0%, Due 2/2013)(F)	1,881	1,881	1,655
		Senior Preferred Equity (333.3 shares)(G)(H)		333	379
				111	8

		Junior Preferred Equity (111.1 shares)(G)(H)			
		Common Stock (1,873.95 shares) (G)(H)			
Subtotal Syndicated loans				$ 18,342	$ 17,411
Total Non-Control/Non-Affiliate Investments (represented 87% of total investments at fair value)				**$ 244,140**	**$ 223,737**
CONTROL INVESTMENTS					
BERTL, Inc.	Service-web-based evaluator of imaging products	Line of Credit, $302 available (6.5%, Due 10/2010)(G) (J)(K)(P)	$ 1,319	$ 1,319	$
		Common Stock (100 shares)(G)(H)		424	
Defiance Integrated Technologies, Inc.	Manufacturing-trucking parts	Senior Term Debt (11.0%, Due 4/2013)(C)(E)	8,325	8,325	8,325
		Common Stock (15,500 shares)(G)(H)		1	1,543
		Guaranty ($250)			
Lindmark Acquisition, LLC	Service-advertising	Senior Subordinated Term Debt (11.0%, Due 10/2012)(E) (I)(J)(P)	10,000	10,000	5,000
		Senior Subordinated Term Debt (13.0%, Due 12/2010)(E) (I)(J)(P)	2,000	2,000	1,000
		Senior Subordinated Term Debt (13.0%, Due Upon Demand) (E)(I)(J)(P)	1,794	1,794	897
		Common Stock (100 shares)(G)(H)		1	
LocalTel, LLC	Service-yellow pages publishing	Line of credit, $152 available (10.0%, Due 12/2010)(G) (J)(P)	1,698	1,698	1,063
		Line of Credit, $1,830 available (4.8%, Due 6/2011)(G) (J)(P)	1,170	1,170	

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
		Senior Term Debt (12.5%, Due 2/2012)(G)(J)(P)	325	325	
		Senior Term Debt (8.5%, Due 6/2011)(G)(J)(P)	2,688	2,688	
		Senior Term Debt (10.5%, Due 6/2011)(C)(G)(J)(P)	2,750	2,750	
		Common Stock Warrants (4,000 shares)(G)(H)			
Midwest Metal Distribution, Inc.	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 7/2013) (E)	18,281	18,254	15,539
		Common Stock (501 shares)(G)(H)		138	
U.S. Healthcare Communications, Inc.	Service-magazine publisher/operator	Line of credit, $131 available (6.0%, Due 12/2010)(G) (J)(P)	269	269	5
		Line of credit, $0 available (6.0%, Due 12/2010)(G)(J) (P)	450	450	
		Common Stock (100 shares)(G)(H)		2,470	
Total Control Investments (represented 13% of total investments at fair value)				**$ 54,076**	**$ 33,372**
Total Investments (O)				**$ 298,216**	**$ 257,109**

(A) Certain of the securities listed in the chart above are issued by affiliate(s) of the indicated portfolio company.

(B) Percentage represents interest rates in effect at September 30, 2010, and due date represents the contractual maturity date.

(C)

LOT of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt.

(D) LOT of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt, however, the debt is also junior to another LOT.

(E) Fair value was primarily based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc.

(F) Security valued based on the indicative bid price on or near September 30, 2010, offered by the respective syndication agent s trading desk or secondary desk.

(G) Fair value was primarily based on the total enterprise value of the portfolio company using a liquidity waterfall approach. We also considered discounted cash flow methodologies.

(H) Security is non-income producing.

(I) Lindmark s loan agreement was amended in March 2009 to provide that any unpaid current interest accrues as a success fee. The success fee is not recorded until paid (see Note 2, Summary of Significant Accounting Policies *Interest Income Recognition*).

(J) BERTL, KMBQ, Lindmark, LocalTel, SCI Cable and U.S. Healthcare are currently past due on interest payments and are on non-accrual.

(K) BERTL s interest includes paid in kind interest. Please refer to Note 2 Summary of Significant Accounting Policies. Subsequent to September 30, 2010, BERTL s line of credit maturity date was extended to October 2011.

(L) Subsequent to September 30, 2010, Pinnacle s line of credit maturity date was extended to January 2011.

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GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)

(M) Subsequent to September 30, 2010, Precision s equipment note and senior term loan maturity dates were extended to November 2010.

(N) Subsequent to September 30, 2010, Reliable s line of credit limit was reduced to $3,500, the interest rate floor was increased to 10.0% and the maturity date was extended to January 2011.

(O) Aggregate gross unrealized depreciation for federal income tax purposes is $1,919; aggregate gross unrealized appreciation for federal income tax purposes is $43,023. Net unrealized depreciation is $41,104 based on a tax cost of $298,186.

(P) Debt security is on non-accrual status.

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND
PER SHARE DATA AND AS OTHERWISE INDICATED)

NOTE 1. ORGANIZATION

Gladstone Capital Corporation (the Company) was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. The Company is a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, the Company has elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). The Company s 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, the Company may acquire from others existing loans that meet this profile.

Gladstone Business Loan, LLC (Business Loan), a wholly-owned subsidiary of the Company, was established on February 3, 2003 for the purpose of holding the Company s portfolio of loan investments. Gladstone Capital Advisers, Inc. established on December 30, 2003, is also a wholly-owned subsidiary of the Company.

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of the Company, was established on November 21, 2006 for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial (previously known as Gladstone SSBIC Corporation) acquired this license in February 2007. The license enables the Company, through this subsidiary, to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies.

The financial statements of all of the aforementioned subsidiaries are consolidated with those of the Company.

The Company is externally managed by Gladstone Management Corporation (the Adviser), an affiliate of the Company.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933, as amended (the Securities Act). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X under the Securities Act, and the authoritative accounting guidance provided by the AICPA Audit and Accounting Guide for Investment Companies, the Company is not permitted to consolidate any portfolio company investments, including those in which the Company has a controlling interest. In the opinion of the Company s management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for

the nine months ended June 30, 2011 are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

statements and notes thereto included in the Company s Form 10-K for the fiscal year ended September 30, 2010, as filed with the Securities and Exchange Commission (the SEC) on November 22, 2010.

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

Reclassifications

Certain amounts in the prior period s financial statements have been reclassified to conform to the presentation for the period ended June 30, 2011 with no effect to net increase in net assets resulting from operations.

Investment Valuation Policy

The Company carries its investments at fair value to the extent that market quotations are readily available and reliable, and otherwise at fair value, as determined in good faith by the Company s board of directors (the Board of Directors). In determining the fair value of the Company s investments, the Adviser has established an investment valuation policy (the Policy). The Policy has been approved by the Company s Board of Directors, and each quarter the Company s Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of the Company s investment portfolio.

The Company uses generally accepted valuation techniques to value its portfolio unless the Company has specific information about the value of an investment to determine otherwise. From time to time the Company may accept an appraisal of a business in which the Company holds securities. These appraisals are expensive and occur infrequently, but provide a third-party valuation opinion that may differ in results, techniques and scope used to value the Company s investments. When these specific third-party appraisals are sought, the Company uses estimates of value delineated in such appraisals and its 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 the Company has in that business.

The Policy, summarized below, applies to publicly-traded securities, securities for which a limited market exists and securities for which no market exists.

Publicly-traded securities: The Company determines 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 traded on the valuation date. To the extent that the Company owns restricted securities that are not freely tradable, but for which a public market otherwise exists, the Company 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: The Company values 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, the Company assesses trading activity in an asset class and evaluates variances in prices and other market insights to determine if any available quote prices are reliable. If the Company concludes 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, the Company bases the value of the security upon the indicative bid price (IBP) offered by the respective originating syndication agent s trading desk, or

secondary desk, on or near the valuation date. To the extent that the Company uses the IBP as a basis for valuing the security, the 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 to a degree that market prices are no longer readily available, the Company will value its syndicated loans using alternative methods, such as estimated net present values of the future cash flows or discounted cash flows (DCF). The use of a DCF methodology follows that

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, 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, an alternative outlined in ASC 820 is the valuation of investments based on DCF. For the purposes of using DCF to provide fair value estimates, the Company considers 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, the Company develops a modified discount rate approach that incorporates risk premiums including, among other things, 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 the Company believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Company will apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

As of June 30, 2011, the Company assessed trading activity in its syndicated assets and determined that there continued to be market liquidity and a secondary market for these assets. Thus either firm bid prices, or IBPs, were used to fair value the Company s syndicated assets as of June 30, 2011.

Securities for which no market exists: The valuation methodology for securities for which no market exists falls into four categories: (A) portfolio investments comprised solely of debt securities; (B) portfolio investments in controlled companies comprised of a bundle of securities, which can include debt and equity securities; (C) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities; and (D) portfolio investments comprised of non-publicly-traded non-control equity securities of other funds.

(A) *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 in which the Company has no equity or equity-like securities, are fair valued in accordance with the terms of the Policy, which utilizes opinions of value submitted to the Company by Standard & Poor s Securities Evaluations, Inc. (SPSE). The Company may also submit paid in kind (PIK) interest to SPSE for its evaluation when it is determined that PIK interest is likely to be received.

(B) *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 (TEV) of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for the Company s Non-Public Debt Securities and equity or equity-like securities (e.g. preferred equity, common equity, or other equity-like securities) that are purchased together as part of a package, where the Company has 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, the Company applies the in-use premise of value which assumes the debt and equity securities are sold together. Under this liquidity waterfall approach, the Company first calculates the TEV 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

DCF or other pertinent factors.

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

In gathering the sales to third parties of similar securities, the Company may reference industry statistics and use outside experts. Once the Company has estimated the TEV of the issuer, the Company will 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 TEV 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 TEV 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 the Adviser s judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, the Adviser may recommend that the Company use a valuation by SPSE, or, if that is unavailable, a DCF valuation technique.

(C) *Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities:* The Company values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which the Company does not control or cannot gain control as of the measurement date, using a hypothetical secondary market as the Company s principal market. In accordance with ASC 820, the Company determines its 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, the Company estimates the fair value of the debt component using estimates of value provided by SPSE and its 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 the Company does not control or cannot gain control as of the measurement date, the Company estimates 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 is also given to capital structure and other contractual obligations that may impact the fair value of the equity. Further, the Company may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or its own assumptions in the absence of other observable market data and may also employ DCF valuation techniques.

(D) *Portfolio investments comprised of non-publicly traded non-control equity securities of other funds:* The Company values any uninvested capital of the non-control fund at par value and values any invested capital at the value provided by the non-control fund.

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. Furthermore, such 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 the Company might reasonably expect to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

Refer to Note 3 below for additional information regarding fair value measurements and the Company s adoption of ASC 820.

Investment Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs, the accretion of discounts and the amortization of amendment fees, 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 the Company s qualitative assessment indicates that the debtor is unable to service its debt or other obligations, the Company 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, the Company remains

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectible. As of June 30, 2011, two Non-Control/Non-Affiliate investments and four Control investments were on non-accrual with an aggregate cost basis of approximately $30.7 million, or 8.2% of the cost basis of all investments in the Company s portfolio. As of September 30, 2010, two Non-Control/Non-Affiliate investments and four Control investments were on non-accrual with an aggregate cost basis of approximately $29.9 million, or 10.0% of the cost basis of all investments in the Company s portfolio.

As of June 30, 2011, the Company had loans in its portfolio which contain a PIK provision. 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 income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash. The Company recorded PIK income of $4 and $12 for the three and nine months ended June 30, 2011, respectively, as compared to $4 and $62 for the three and nine months ended June 30, 2010, respectively.

The Company also transfers past due interest to the principal balance as stipulated in certain loan amendments with portfolio companies. The Company transferred past due interest to the principal balance of $0 and $0.2 million for the three and nine months ended June 30, 2011, respectively, as compared to $0.8 million and $1.2 million for the three and nine months ended June 30, 2010, respectively.

As of June 30, 2011, the Company had 25 original issue discount (OID) loans, primarily from the syndicated loans in its portfolio. The Company recorded OID income of $64 and $117 for the three and nine months ended June 30, 2011, respectively, as compared to $8 and $10 for the three and nine months ended June 30, 2010, respectively.

The Company records success fees upon receipt. Success fees are contractually due upon a change of control in a portfolio company and are recorded in Other income in the accompanying *Condensed Consolidated Statements of Operations*. The Company recorded $0.6 million of success fees during the nine months ended June 30, 2011, which resulted from the exits of Pinnacle Treatment Centers, Inc. and Interfilm Holdings, Inc. During the nine months ended June 30, 2010, the Company received $1.7 million in success fees from the exits of ActivStyle Acquisition Co., Saunders & Associates, Visual Edge Technology, Inc., Tulsa Welding School and the prepayment of success fees from Doe & Ingalls Management LLC and Northern Contours, Inc.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04) which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company is currently assessing the potential impact that the adoption of ASU 2011-04 may have on the Company s financial position and results of operations.

NOTE 3. INVESTMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 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. ASC 820 also establishes the following

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 the Company s own assumptions that market participants would use to price the asset or liability based upon the best available information.

As of June 30, 2011 and September 30, 2010, all of the Company s investments were valued using Level 3 inputs.

The following table presents the financial assets carried at fair value as of June 30, 2011 and September 30, 2010, by caption on the accompanying C*ondensed Consolidated Statements of Assets and Liabilities* for each of the applicable three levels of hierarchy established by ASC 820:

	Level 3 Investments Total Fair Value Reported in Condensed Consolidated Statements of Assets and Liabilities	
	June 30, 2011	**September 30, 2010**
Non-Control/Non-Affiliate Investments		
Senior term debt	$ 185,603	$ 163,203
Senior subordinated term debt	68,018	59,463
Preferred equity	551	387
Common equity/equivalents	1,734	684
Total Non-Control/Non-Affiliate investments at fair value	255,906	223,737
Control Investments		
Senior term debt	$ 18,678	$ 9,393
Senior subordinated term debt	20,205	22,436
Common equity/equivalents	4,490	1,543
Total Control investments at fair value	43,373	33,372

Total investments at fair value	**$**	**299,279**	**$**	**257,109**

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide a roll-forward in the changes in fair value during the three-month period from March 31, 2011 to June 30, 2011, and for the nine-month period from September 30, 2010 to June 30, 2011, for all investments for which the Company determines 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 to external sources). Accordingly, the gains and losses in the tables below include changes in fair value due in

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

part to observable factors that are part of the valuation methodology. Two tables are provided for each period. The first table is broken out by Control and Non-Control/Non-Affiliate investment classification. The second table is broken out by major security type.

Fair value measurements using unobservable data inputs (Level 3)

Periods ended June 30, 2011:

	Non-Control/ Non-Affiliate Investments	Control Investments	Total
Three months ended June 30, 2011:			
Fair value at March 31, 2011	**$ 208,461**	**$ 48,652**	**$ 257,113**
Net unrealized depreciation(A)	(13,706)	(5,083)	(18,789)
Issuances/Originations(B)	65,845	381	66,226
Settlements/Repayments	(4,694)	(577)	(5,271)
Fair value as of June 30, 2011	**$ 255,906**	**$ 43,373**	**$ 299,279**

	Non-Control/ Non-Affiliate Investments	Control Investments	Total
Nine months ended June 30, 2011:			
Fair value at September 30, 2010	**$ 223,737**	**$ 33,372**	**$ 257,109**
Net realized gain	163		163
Net unrealized depreciation(A)	(22,061)	(13,035)	(35,096)
Reversal of prior period net depreciation on realization(A)	293		293
Issuances/Originations(B)	115,970	2,892	118,862
Settlements/Repayments	(39,924)	(1,351)	(41,275)
Sales	(37)	(740)	(777)
Transfer(C)	(22,235)	22,235	
Fair value as of June 30, 2011	**$ 255,906**	**$ 43,373**	**$ 299,279**

	Senior Term Debt	Senior Subordinated Term Debt	Preferred Equity	Common Equity/ Equivalents	Total

Three months ended June 30, 2011:					
Fair value at March 31, 2011	**$ 173,602**	**$ 76,599**	**$ 537**	**$ 6,375**	**$ 257,113**
Net unrealized (depreciation) appreciation(A)	(16,849)	(1,053)	14	(901)	(18,789)
Issuances/Originations(B)	52,691	12,785		750	66,226
Settlements/Repayments	(5,163)	(108)			(5,271)
Fair value as of June 30, 2011	**$ 204,281**	**$ 88,223**	**$ 551**	**$ 6,224**	**$ 299,279**

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Senior Term Debt	Senior Subordinated Term Debt	Preferred Equity	Common Equity/ Equivalents	Total
Nine months ended June 30, 2011:					
Fair value at September 30, 2010	**$ 172,596**	**$ 81,899**	**$ 386**	**$ 2,228**	**$ 257,109**
Net realized gain (loss)	177	(14)			163
Net unrealized (depreciation) appreciation(A)	(34,067)	(2,892)	(210)	2,073	(35,096)
Reversal of prior period net (appreciation) depreciation on realization(A)	(191)	731		(247)	293
Issuances/Originations(B)	99,633	15,907	375	2,947	118,862
Settlements/Repayments	(33,867)	(7,408)			(41,275)
Sales				(777)	(777)
Fair value as of June 30, 2011	**$ 204,281**	**$ 88,223**	**$ 551**	**$ 6,224**	**$ 299,279**

Periods ended June 30, 2010:

	Non-Control/ Non-Affiliate Investments	Control Investments	Total
Three months ended June 30, 2010:			
Fair value at March 31, 2010	**$ 256,227**	**$ 35,524**	**$ 291,751**
Net realized loss(B)		(2,865)	(2,865)
Net unrealized depreciation(A)	(48)	(4,373)	(4,421)
Reversal of prior period net depreciation on realization(A)		2,865	2,865
Issuances/Originations(B)	1,185	(67)	1,118
Settlements/Repayments	(18,482)		(18,482)
Fair value as of June 30, 2010	**$ 238,882**	**$ 31,084**	**$ 269,966**

	Non-Control/ Non-Affiliate Investments	Control Investments	Total
Nine months ended June 30, 2010:			
Fair value at September 30, 2009	**$ 286,997**	**$ 33,972**	**$ 320,969**

Net realized loss(B)	(28)	(2,865)	(2,893)
Net unrealized appreciation (depreciation)(A)	3,162	(5,939)	(2,777)
Reversal of prior period net depreciation on realization(A)	3,437	2,865	6,302
Issuances/Originations(B)	5,384	3,051	8,435
Settlements/Repayments	(56,951)		(56,951)
Sales	(3,119)		(3,119)
Fair value as of June 30, 2010	**$ 238,882**	**$ 31,084**	**$ 269,966**

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Senior Term Debt	Senior Subordinated Term Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended June 30, 2010:					
Fair value at March 31, 2010	**$ 188,348**	**$ 102,752**	**$**	**$ 651**	**$ 291,751**
Net realized loss	(1,280)		(1,584)	(1)	(2,865)
Net unrealized appreciation (depreciation)(A)	(1,575)	(2,898)	235	(183)	(4,421)
Reversal of prior period net depreciation on realization(A)	1,280		1,584	1	2,865
Issuances/Originations(B)	793	(141)		466	1,118
Settlements/Repayments	(4,528)	(13,954)			(18,482)
Fair value as of June 30, 2010	**$ 183,038**	**$ 85,759**	**$ 235**	**$ 934**	**$ 269,966**

	Senior Term Debt	Senior Subordinated Term Debt	Preferred Equity	Common Equity/ Equivalents	Total
Nine months ended June 30, 2010:					
Fair value at September 30, 2009	**$ 212,290**	**105,794**	**$**	**$ 2,885**	**$ 320,969**
Net realized (loss) gain	(2,105)	(570)	(1,584)	1,366	(2,893)
Net unrealized (depreciation) appreciation(A)	(364)	(678)	235	(1,970)	(2,777)
Reversal of prior period net depreciation (appreciation) on realization(A)	3,344	1,620	1,584	(246)	6,302
Issuances/Originations(B)	6,866	1,103		466	8,435
Settlements/Repayments	(36,068)	(19,316)		(1,567)	(56,951)
Sales	(925)	(2,194)			(3,119)
Fair value as of June 30, 2010	**$ 183,038**	**85,759**	**$ 235**	**$ 934**	**$ 269,966**

Included in unrealized appreciation (depreciation) on investments on the accompanying C*ondensed Consolidated Statements of Operations* for the three and nine months ended June 30, 2011 and 2010.

Includes PIK, amortization of OID and other cost basis adjustments.

(C) Transfer represents the fair value of Sunshine Media Holdings as of December 31, 2010, which was reclassified from a Non-Control/Non-Affiliate investment to a Control investment during the three months ended March 31,

2011.

Non-Control/Non-Affiliate Investments

As of June 30, 2011 and September 30, 2010, the Company held Non-Control/Non-Affiliate investments in the aggregate of approximately $255.9 million and $223.7 million, at fair value, respectively. During the three months ended June 30, 2011, the Company added 14 new Non-Control/Non-Affiliate investments, with an aggregate fair value of $55.9 million as of June 30, 2011, and exited one Non-Control/Non-Affiliate investment, for which the Company received a payment of $0.2 million. During the nine months ended June 30, 2011, the Company added 25 new Non-Control/Non-Affiliate investments, with an aggregate fair value of $98.0 million as of June 30, 2011, exited six Non-Control/Non-Affiliate investments, for which the Company received aggregate payments of $26.8 million, sold one Non-Control/Non-Affiliate investment and partially

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

sold one Control investment for aggregate net proceeds of $0.8 million. As of June 30, 2011, the Company had a total of 50 Non-Control/Non-Affiliate investments, 23 of which were syndicated loans.

Control Investments

As of June 30, 2011 and September 30, 2010, the Company held seven and six Control investments in the aggregate of approximately $43.4 million and $33.4 million, at fair value, respectively. During the three months ended June 30, 2011 two Control investments made draws, totaling $0.4 million, on their respective lines of credit. During the nine months ended June 30, 2011, four Control investments made draws, totaling $0.7 million, on their respective lines of credit. The Company did not exit any Control investments during the nine months ended June 30, 2011.

Investment Concentrations

As of June 30, 2011, the Company had investments in 57 portfolio companies. Approximately 68.3% of the aggregate fair value of the Company s investment portfolio at June 30, 2011 was comprised of senior term debt, 29.5% was comprised of senior subordinated term debt and 2.2% was comprised of equity securities. The following table outlines the Company s investments by security type at June 30, 2011 and September 30, 2010:

	June 30, 2011		**September 30, 2010**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Senior term debt	**$ 265,986**	**$ 204,281**	$ 200,041	$ 172,596
Senior subordinated term debt	**102,470**	**88,223**	93,987	81,899
Preferred equity	**820**	**551**	444	387
Common equity/equivalents	**5,914**	**6,224**	3,744	2,227
Total investments	**$ 375,190**	**$ 299,279**	$ 298,216	$ 257,109

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Investments at fair value consisted of the following industry classifications at June 30, 2011 and September 30, 2010:

	June 30, 2011		September 30, 2010	
Industry Classification	**Fair Value**	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Electronics	**$ 46,925**	**15.7%**	$ 25,080	9.8%
Healthcare, education & childcare	**34,789**	**11.5**	41,098	16.0
Mining, steel, iron & non-precious metals	**33,370**	**11.2**	24,343	9.5
Broadcast (TV & radio)	**31,245**	**10.4**	44,562	17.3
Automobile	**21,850**	**7.3**	9,868	3.8
Printing & publishing	**19,645**	**6.6**	37,705	14.7
Retail stores	**19,440**	**6.5**	19,620	7.6
Buildings & real estate	**10,763**	**3.6**	12,454	4.8
Textiles & leather	**9,838**	**3.3**		
Home & office furnishings	**9,790**	**3.3**	10,666	4.1
Diversified/conglomerate manufacturing	**8,693**	**2.9**	2,042	0.8
Machinery	**8,673**	**2.9**	8,719	3.4
Personal, food and miscellaneous services	**7,906**	**2.6**		
Personal & non-durable consumer products	**7,672**	**2.6**	9,230	3.6
Beverage, food & tobacco	**7,350**	**2.5**		
Leisure, amusement, movies & entertainment	**6,953**	**2.3**	3,994	1.6
Diversified/conglomerate service	**4,050**	**1.4**		
Diversified natural resources, precious metals & minerals	**3,092**	**1.0**		
Oil & gas	**1,970**	**0.7**		
Telecommunications	**1,924**	**0.6**		
Aerospace & defense	**1,200**	**0.4**	400	0.2
Chemicals, plastics & rubber	**1,131**	**0.4**	7,044	2.7
Insurance	**1,010**	**0.3**		
Farming & agriculture			284	0.1
Total investments	**$ 299,279**	**100.0%**	$ 257,109	100.0%

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The investments at fair value were included in the following geographic regions of the United States at June 30, 2011 and September 30, 2010:

	June 30, 2011		September 30, 2010	
Geographic Region	**Fair Value**	**Percent of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Midwest	**$ 142,136**	**47.5%**	$ 109,299	42.5%
West	**73,379**	**24.5**	59,684	23.2
South	**46,308**	**15.5**	44,704	17.4
Northeast	**29,616**	**9.9**	36,995	14.4
Other	**7,840**	**2.6**	6,427	2.5
Total Investments	**$ 299,279**	**100.0%**	$ 257,109	100.0%

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

Investment Principal Repayments

The following table summarizes the contractual principal repayments and maturity of the Company s investment portfolio by fiscal year, assuming no voluntary prepayments, at June 30, 2011:

	Amount
For the remaining three months ending September 30:	
2011	$ 9,246
For the fiscal year ending September 30:	
2012	55,833
2013	131,987
2014	29,889
2015	33,154
2016 and thereafter	110,508
Total contractual repayments	**$ 370,617**
Investments in equity securities	6,734
Adjustments to cost basis on debt securities	(2,161)
Total cost basis of investments held at June 30, 2011:	**$ 375,190**

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs incurred on behalf of portfolio companies. The Company maintains an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. The Company charges the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of June 30, 2011 and September 30, 2010, the Company had gross receivables from portfolio companies of $0.8 million. The allowance for uncollectible receivables was $0.4 million for June 30, 2011 and $0.3 million for September 30, 2010. In addition, the Company recorded an allowance for uncollectible interest receivable of $36 and $0 as of June 30, 2011 and September 30, 2010, respectively.

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 4. RELATED PARTY TRANSACTIONS

Loans to Former Employees

The Company has outstanding loans to certain employees of the Adviser, each of whom was a joint employee of the Adviser (or the Company s previous adviser, Gladstone Capital Advisers, Inc.) and the Company at the time the loans were originally provided. The loans were for the exercise of options granted under the Amended and Restated 2001 Equity Incentive Plan, which has since been terminated. The loans require the quarterly payment of interest at the market rate in effect at the date of issuance, have varying terms not exceeding ten years and have been recorded as a reduction of net assets. The loans are evidenced by full recourse notes that are due upon maturity or 60 days following termination of employment, and the shares of common stock purchased with the proceeds of the loan were posted as collateral. The Company received $2.1 million and $0 of principal repayments during the nine months ended June 30, 2011 and 2010, respectively. The Company recognized interest income from all employee loans of $0.1 million and $0.3 million for the three and nine months ended June 30, 2011, respectively, and $0.1 million and $0.3 million for the three and nine months ended June 30, 2010, respectively.

Investment Advisory and Management Agreement

The Company has entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement), which is controlled by the Company s chairman and chief executive officer. In accordance with the Advisory Agreement, the Company pays the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee. On July 12, 2011, the Company s Board of Directors approved the renewal of the Advisory Agreement through August 31, 2012.

The following table summarizes the management fees, incentive fees and associated credits reflected in the accompanying *Condensed Consolidated Statements of Operations*:

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Average total assets subject to base management fee(A)	**$ 290,200**	$ 295,400	**$ 277,600**	$ 314,533
Multiplied by pro-rata annual base management fee of 2.0%	**0.5%**	0.5%	**1.5%**	1.5%
Unadjusted base management fee	**$ 1,451**	$ 1,477	**$ 4,164**	$ 4,718
Reduction for loan servicing fees(B)	**(814)**	(819)	**(2,413)**	(2,600)
Base management fee(B)	**637**	658	**1,751**	2,118
Credit for fees received by Adviser from the portfolio companies	**(77)**		**(77)**	
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per	**(117)**	(6)	**(250)**	(19)

annum

Net base management fee	**$ 443**	$ 652	**$ 1,424**	$ 2,099
Incentive fee(B)	**1,133**	153	**3,395**	1,601
Credit from voluntary, irrevocable waiver issued by Adviser s board of directors		(80)	**(21)**	(101)
Net incentive fee	**$ 1,133**	$ 73	**$ 3,374**	$ 1,500
Credit for fees received by Adviser from the portfolio companies	**(77)**			
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum	**(117)**	(6)	**(327)**	(19)
Incentive fee credit		(80)	**(21)**	(101)
Credit to base management and incentive fees from Adviser (B)	**$ (194)**	$ (86)	**$ (348)**	$ (120)

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

(B) Reflected as a line item on the *Condensed Consolidated Statements of Operations*.

Base Management Fee

The base management fee is payable quarterly and assessed at an annual rate of 2.0%, computed on the basis of the value of the Company s average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. In addition, the following three items are adjustments to the base management fee calculation.

Loan Servicing Fees

The Adviser also services the loans held by Business Loan, in return for which it receives a 2.0% annual fee based on the monthly aggregate outstanding balance of loans pledged under the Company s line of credit. Since the Company owns these loans, all loan servicing fees paid to the Adviser are treated as reductions directly against the 2.0% base management fee under the Advisory Agreement.

Senior Syndicated Loan Fee Waiver

The Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations, for the nine months ended June 30, 2011 and 2010.

Portfolio Company Fees

Under the Advisory Agreement, the Adviser has also provided, and continues to provide, managerial assistance and other services to the Company s portfolio companies and may receive fees for services other than managerial assistance. 50% of certain of these fees and 100% of other fees are credited against the base management fee that the Company would otherwise be required to pay to the Adviser.

Incentive Fee

The incentive fee consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. The income-based incentive fee rewards the Adviser if the Company s quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of the Company s net assets (the hurdle rate). The Company will pay the Adviser an income-based incentive fee with respect to the Company s pre-incentive fee net investment income in each calendar quarter as follows:

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

100% of the Company s pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and

20% of the amount of the Company s pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20% of the Company s realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, the Company will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since the Company s inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in the Company s portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since the Company s inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since the Company s inception. Aggregate unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for the Company s calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to the Company s portfolio of investments. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of the Company s portfolio in all prior years. No capital gains-based incentive fee has been recorded for the Company from its inception through June 30, 2011, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, the Company did not accrue a capital gains-based incentive fee for the three months ended June 30, 2011. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP require the Company to record a capital gains-based incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded for the Company from its inception through June 30, 2011.

Administration Agreement

The Company has entered into an administration agreement (the Administration Agreement) with Gladstone Administration, LLC (the Administrator), an affiliate of the Adviser, whereby it pays separately for administrative services. The Administration Agreement provides for payments equal to the Company s allocable portion of its Administrator s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and the salaries and benefits expenses of the Company s chief financial officer, chief compliance officer, treasurer, internal counsel and their respective staffs. The Company s allocable portion of administrative expenses is generally derived by multiplying the Administrator s total allocable expenses by the percentage of the Company s total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies managed by the Adviser under similar agreements. On July 12, 2011, the Company s Board of

Directors approved the renewal of the Administration Agreement through August 31, 2012.

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Related Party Fees Due

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

	As of June 30, 2011	As of September 30, 2010
Base management fee due to Adviser	**$ 444**	$ 319
Incentive fee due to Adviser	**1,133**	158
Loan servicing fee due to Adviser	**214**	196
Total fees due to Adviser	**1,791**	673
Administration fee due to Administrator	**174**	267
Total related party fees due	**$ 1,965**	$ 940

NOTE 5. BORROWINGS

Credit Facility

On March 15, 2010, the Company, through Business Loan, entered into a fourth amended and restated credit agreement which provides for a $127.0 million 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 $202.0 million through the addition of other committed lenders to the facility. On November 22, 2010 (the Amendment Date), the Company amended its Credit Facility. Prior to the Amendment Date, advances under the Credit Facility bore interest at LIBOR subject to a minimum rate of 2.0%, plus 4.5% per annum, with a commitment fee of 0.5% per annum on undrawn amounts. As of the Amendment Date, advances under the Credit Facility bear interest at LIBOR subject to a minimum rate of 1.5%, plus 3.75% per annum, with a commitment fee of 0.5% per annum on undrawn amounts when the facility is drawn more than 50% and 1.0% per annum on undrawn amounts when the facility is drawn less than 50%. In addition, effective as of the Amendment Date, the Company is no longer obligated to pay an annual minimum earnings shortfall fee to the committed lenders, which was calculated as the difference between the weighted average of borrowings outstanding under the Credit Facility and 50.0% of the commitment amount of the Credit Facility, multiplied by 4.5% per annum, less commitment fees paid during the year. During the quarter ended December 31, 2010, the Company reversed the projected annual minimum earnings shortfall fee of $0.6 million that had been accrued as of September 30, 2010. The Company paid a $0.7 million fee in connection with the amendment.

As of June 30, 2011, there was a cost basis of approximately $92.2 million of borrowings outstanding under the Credit Facility at an average interest rate of 5.25%. Available borrowings are subject to various constraints imposed under

the Credit Facility, based on the aggregate loan balance pledged by Business Loan. 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 unpaid 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, the Company will be required to use all principal collections from its 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 the Company s credit and collection policies. The facility requires a minimum of 20 obligors in the borrowing base and also limits payments of distributions. As of June 30, 2011, Business Loan had 41 obligors and the Company was in compliance with all of the facility covenants.

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Fair Value

The Company elected to apply ASC 825, Financial Instruments, specifically for the Credit Facility, which was consistent with its application of ASC 820 to its investments. The Company estimates the fair value of the Credit Facility using estimates of value provided by an independent third party and its own assumptions in the absence of observable market data, including estimated remaining life, credit party risk, current market yield and interest rate spreads of similar securities as of the measurement date. The following tables present the Credit Facility carried at fair value as of June 30, 2011 and September 30, 2010, by caption on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* for level three of the hierarchy established by ASC 820 and a roll-forward in the changes in fair value during the three-month period from March 31, 2011 to June 30, 2011 and the nine-month period from September 30, 2010 to June 30, 2011, for the Credit Facility for which the Company determines fair value using unobservable (Level 3) factors:

	Borrowings under Credit Facility			
	Level 1	Level 2	Level 3	Total Fair Value Reported in Condensed Consolidated Statements of Assets and Liabilities
June 30, 2011	$	$	$ 92,700	$ 92,700
September 30, 2010	$	$	$ 17,940	$ 17,940

Fair value measurements using unobservable data inputs (Level 3)

	Three Months Ended June 30,	
	2011	**2010**
Fair value as of March 31, 2011 and 2010, respectively	$ 33,646	$ 53,000
Unrealized appreciation(A)	54	1,756
Borrowings	59,000	2,900
Repayments		(27,000)
Fair value as of June 30, 2011 and 2010, respectively	**$ 92,700**	$ 30,656

	Nine Months Ended June 30,	
	2011	**2010**

Fair value as of September 30, 2010 and 2009, respectively	$ 17,940	$ 83,350
Unrealized (depreciation) appreciation(A)	(640)	1,406
Borrowings	109,800	8,400
Repayments	(34,400)	(62,500)
Fair value as of June 30, 2011 and 2010, respectively	**$ 92,700**	$ 30,656

(A) Included in net unrealized depreciation (appreciation) on borrowings on the accompanying C*ondensed Consolidated Statements of Operations* for the three and nine months ended June 30, 2011 and 2010.

The fair value of the collateral under the Credit Facility was approximately $261.0 million and $212.6 million at June 30, 2011 and September 30, 2010, respectively.

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 6. COMMON STOCK

Registration Statement

On October 20, 2009, the Company filed a registration statement on Form N-2 (File No. 333-162592) that was declared effective by the SEC on January 28, 2010, and the Company filed a fourth post-effective amendment to such registration statement on July 13, 2011, which was declared effective by the SEC on July 15, 2011. Such registration statement permits the Company to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of such securities.

On May 17, 2010, the Company and the Adviser entered into an equity distribution agreement (the Agreement) with BB&T Capital Markets, a division of Scott & Stringfellow, LLC (the Agent), under which the Company may, from time to time, issue and sell through the Agent, as sales agent, up to 2.0 million shares (the Shares) of the Company s common stock, par value $0.001 per share, based upon instructions from the Company (including, at a minimum, the number of shares to be offered, the time period during which sales are requested to be made, any limitation on the number of shares that may be sold in any one day and any minimum price below which sales may not be made). Sales of Shares through the Agent, if any, will be executed by means of either ordinary brokers transactions on NASDAQ in accordance with Rule 153 under the Securities Act of 1933 or such other sales of the Shares as shall be agreed by the Company and the Agent. The compensation payable to the Agent for sales of Shares with respect to which the Agent acts as sales agent shall be equal to 2.0% of the gross sales price of the Shares for amounts of Shares sold pursuant to the Agreement. To date, the Company has not issued any shares pursuant to this Agreement.

Employee Notes

The following table is a summary of all outstanding notes issued to employees of the Adviser for the exercise of stock options:

Issue Date	Number of Options Exercised	Strike Price of Options Exercised	Amount of Promissory Note Issued to Employees	Outstanding Balance of Employee Loans at 6/30/11	Maturity Date	Interest Rate on Note
Aug-01	393,334	15.00	$ 5,900(A)	$ 3,799	Aug-10	4.90%(B)
Aug-01	18,334	15.00	275(A)	251	Aug-10	4.90 (B)
Aug-01	18,334	15.00	275	275	Aug-11	4.90
Sep-04	13,332	15.00	200	198	Sep-13	5.00
Jul-06	13,332	15.00	200	200	Jul-15	8.26
Jul-06	18,334	15.00	275	275	Jul-15	8.26
	475,000		**$ 7,125**	**$ 4,998**		

(A) On September 7, 2010, the Company entered into redemption agreements (the Redemption Agreements) with David Gladstone, the Company s Chairman and Chief Executive Officer, and Laura Gladstone, the daughter of Mr. Gladstone, in connection with the maturity of secured promissory notes executed by Mr. Gladstone and Ms. Gladstone in favor of the Company on August 23, 2001, in the principal amounts of $5.9 million and $0.3 million, respectively (collectively, the Notes). Mr. and Ms. Gladstone executed the Notes in payment of the exercise price of certain stock options (the Options) to acquire shares of the Company s common stock. Concurrently with the execution of the Notes, the Company and Mr. and Ms. Gladstone entered into stock pledge agreements (collectively, the Pledge Agreements), pursuant to which Mr. and Ms. Gladstone granted to the Company a first priority security interest in the Pledged

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Collateral (as defined in the respective Pledge Agreements), which included 393,334 and 18,334 shares, respectively, of the Company s common stock that Mr. and Ms. Gladstone acquired pursuant to the exercise of the Options (collectively, the Pledged Shares). An event of default was triggered under the Notes by virtue of Mr. and Ms. Gladstone s failure to repay the amounts outstanding under the Notes within five business days of August 23, 2010. The Redemption Agreements provide that, pursuant to the terms and conditions thereof, the Company will automatically accept and retire the Pledged Shares in partial or full satisfaction, as applicable, of Mr. and Ms. Gladstone s obligations to the Company under the Notes at such time, if ever, that the trading price of the Company s common stock reaches $15 per share. In entering into the Redemption Agreements, the Company reserved all of its existing rights under the Notes and the Pledge Agreements, including, but not limited to, the ability to foreclose on the Pledged Collateral at any time. On March 30, 2011 and June 27, 2011, Mr. Gladstone paid down in the aggregate $2.1 million of the principal balance of his Note, leaving a principal balance of $3.8 million outstanding. In connection with these payments, the Company released its first priority security interest on 140,000 shares of Mr. Gladstone s Pledged Shares, leaving a balance of 253,334 shares in Pledged Collateral from Mr. Gladstone.

(B) An event of default was triggered under the Note by virtue of the employees failure to repay the amounts outstanding within five business days of August 23, 2010. As such, the Company charged a default rate of 2% per annum under the Note for periods following default.

In accordance with ASC 505-10-45-2, Equity, receivables from employees for the issuance of capital stock to employees prior to the receipt of cash payment should be reflected in the balance sheet as a reduction to stockholders equity. Therefore, these recourse notes were recorded as loans to employees and are included in the equity section of the accompanying C*ondensed Consolidated Statements of Assets and Liabilities*. As of June 30, 2011, the Company determined that these notes were still recourse.

NOTE 7. NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE

The following table sets forth the computation of basic and diluted net (decrease) increase in net assets resulting from operations per share for the three and nine months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Numerator for basic and diluted net (decrease) increase in net assets resulting from operations per share	**$ (14,310)**	$ (1,748)	**$ (20,560)**	$ 12,557
Denominator for basic and diluted weighted average shares	**21,039,242**	21,039,242	**21,039,242**	21,067,465
Basic and diluted net (decrease) increase in net assets resulting from operations per share	**$ (0.68)**	$ (0.08)	**$ (0.98)**	$ 0.60

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 8. DISTRIBUTIONS

The Board of Directors declared the following monthly distributions to stockholders for the nine months ended June 30, 2011 and 2010:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Share
2011	October 5, 2010	October 21, 2010	October 29, 2010	**$ 0.07**
	October 5, 2010	November 19, 2010	November 30, 2010	**0.07**
	October 5, 2010	December 23, 2010	December 31, 2010	**0.07**
	January 11, 2011	January 21, 2011	January 31, 2011	**0.07**
	January 11, 2011	February 21, 2011	February 28, 2011	**0.07**
	January 11, 2011	March 21, 2011	March 31, 2011	**0.07**
	April 12, 2011	April 22, 2011	April 29, 2011	**0.07**
	April 12, 2011	May 20, 2011	May 31, 2011	**0.07**
	April 12, 2011	June 20, 2011	June 30, 2011	**0.07**
			Nine Months Ended June 30, 2011:	**$ 0.63**
2010	October 6, 2009	October 22, 2009	October 30, 2009	$ 0.07
	October 6, 2009	November 19, 2009	November 30, 2009	0.07
	October 6, 2009	December 22, 2009	December 31, 2009	0.07
	January 12, 2010	January 21, 2010	January 29, 2010	0.07
	January 12, 2010	February 18, 2010	February 26, 2010	0.07
	January 12, 2010	March 23, 2010	March 31, 2010	0.07
	April 7, 2010	April 22, 2010	April 30, 2010	0.07
	April 7, 2010	May 20, 2010	May 28, 2010	0.07
	April 7, 2010	June 22, 2010	June 30, 2010	0.07
			Nine Months Ended June 30, 2010:	$ 0.63

Aggregate distributions declared and paid for the nine months ended June 30, 2011 and 2010 were each approximately $13.3 million, which were declared based on estimates of net investment income for the respective fiscal years. Distributions declared for the fiscal year ended September 30, 2010 were comprised of 95.6% from ordinary income and 4.4% from a return of capital. The characterization of the distributions declared and paid for the fiscal year ending September 30, 2011 will be determined at year end and cannot be determined at this time.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from GAAP. These differences primarily relate to items recognized as income for financial statement purposes and realized gains for tax purposes. As a result, net investment

income and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Company may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Company.

NOTE 9. COMMITMENTS AND CONTINGENCIES

At June 30, 2011, the Company was not party to any signed commitments for potential investments. However, the Company has certain lines of credit and capital commitments with its portfolio companies that have not been fully drawn or called, respectively. Since these commitments have expiration dates and the Company expects many will never be fully drawn or called, the total commitment amounts do not necessarily

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

represent future cash requirements. The Company estimated the fair value of these unused and uncalled commitments as of June 30, 2011 and September 30, 2010 to be nominal.

In July 2009, the Company executed a guaranty (the Guaranty) of a line of credit agreement between Comerica Bank and Defiance Integrated Technologies, Inc. (Defiance), one of its Control investments. Pursuant to the Guaranty, if Defiance had a payment default, the Guaranty was callable once the bank had reduced its claim by using commercially reasonable efforts to collect through disposition of the Defiance collateral. The Guaranty was limited to $0.3 million plus interest on that amount accrued from the date demand payment was made under the Guaranty, and all costs incurred by the bank in its collection efforts. On March 1, 2011, the Company and Comerica Bank terminated the Guaranty.

NOTE 10. FINANCIAL HIGHLIGHTS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Per Share Data(A)				
Net asset value at beginning of period	**$ 11.18**	$ 12.10	**$ 11.85**	$ 11.81
Income from investment operations:				
Net investment income(B)	**0.22**	0.21	**0.65**	0.63
Net realized gain on investments(B)		(0.14)		(0.14)
Net unrealized (depreciation) appreciation on investments(B)	**(0.90)**	(0.07)	**(1.66)**	0.17
Net unrealized (appreciation) depreciation on borrowings(B)		(0.08)	**0.03**	(0.07)
Total from investment operations	**(0.68)**	(0.08)	**(0.98)**	0.59
Distributions to stockholders(C)	**(0.21)**	(0.21)	**(0.63)**	(0.63)
Conversion of former employee stock option loans from recourse to non-recourse				(0.02)
Reclassification of principal on employee note				0.02
Repayment of principal on employee note	**0.05**		**0.10**	
Anti-dilutive effect from retirement of employee loan shares				0.04
Net asset value at end of period	**$ 10.34**	$ 11.81	**$ 10.34**	$ 11.81
Per share market value at beginning of period	**$ 11.31**	$ 11.80	**$ 11.27**	$ 8.93

Per share market value at end of period	**9.24**	10.81	**9.24**	10.81
Total return(D)(E)	**(16.66)%**	(6.74)%	**(13.24)%**	29.42%
Shares outstanding at end of period	**21,039,242**	21,039,242	**21,039,242**	21,039,242
Statement of Assets and Liabilities Data:				
Net assets at end of period	**$ 217,536**	$ 248,429	**$ 217,536**	$ 248,429
Average net assets(F)	**228,291**	251,463	**242,754**	250,483
Senior Securities Data:				
Total borrowings at fair value	**92,700**	30,656	**92,700**	30,656
Asset coverage ratio(G)(H)	**336%**	893%	**336%**	893%
Asset coverage per unit(H)	**$ 3,358**	$ 8,931	**$ 3,358**	$ 8,931
Ratios/Supplemental Data:				
Ratio of expenses to average net assets-annualized(I)	**8.13%**	5.77%	**6.66%**	7.65%
Ratio of net expenses to average net assets-annualized(J)	**7.79**	5.63	**6.47**	7.59
Ratio of net investment income to average net assets-annualized	**7.94**	7.04	**7.47**	7.10

GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

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

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

(D) Total return equals the change in the ending market value of the Company s common stock from the beginning of the period taking into account distributions reinvested in accordance with the terms of the Company s dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of the Company s distributions please refer to Note 8.

(E) Amounts were not annualized.

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

(G) As a business development company, the Company is generally required to maintain a ratio of at least 200% of total assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings and guaranty commitments.

(H) Asset coverage ratio is the ratio of the carrying value of the Company s total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness (including interest payable and guarantees). Asset Coverage per unit is the Asset Coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

(I) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser to the base management and incentive fees, but includes income tax expense.

(J) Ratio of net expenses to average net assets is computed using total expenses net of credits from the Adviser to the base management and incentive fees, but includes income tax expense.

NOTE 11. SUBSEQUENT EVENTS

Distributions

In July 2011, the Company s Board of Directors declared the following monthly cash distributions to stockholders:

Record Date	Payment Date		Distribution per Share
July 22, 2011	July 29, 2011	$	**0.07**
August 19, 2011	August 31, 2011		**0.07**

September 22, 2011	September 30, 2011		**0.07**
	Total	**$**	**0.21**

Investment Activity

Subsequent to June 30, 2011, the Company extended an aggregate amount of approximately $0.4 million in revolver draws and additional investments to existing portfolio companies. Additionally, the Company received scheduled repayments of $1.9 million.

Appendix A

GLADSTONE CAPITAL CORPORATION

ARTICLES SUPPLEMENTARY
ESTABLISHING AND FIXING THE RIGHTS AND PREFERENCES
OF TERM PREFERRED SHARES

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GLADSTONE CAPITAL CORPORATION

ARTICLES SUPPLEMENTARY
ESTABLISHING AND FIXING THE RIGHTS AND PREFERENCES
OF TERM PREFERRED SHARES

Gladstone Capital Corporation (the Corporation), a Maryland corporation, certifies to the State Department of Assessments and Taxation of Maryland that:

RECITALS

FIRST: The Corporation is authorized under Article FOURTH of the Corporation s Articles of Amendment and Restatement to the Articles of Incorporation of the Corporation (which, as amended or hereafter restated or amended from time to time, are herein called the Articles), to issue up to Fifty Million (50,000,000) shares of capital stock, with a par value of one tenth of one cent ($0.001) per share (Capital Stock).

SECOND: Pursuant to Article FOURTH of the Articles, all 50,000,000 such shares of Capital Stock were initially classified as Common Stock (as defined in the Articles); and

THIRD: Pursuant to the authority expressly vested in the Board of Directors of the Corporation (the Board of Directors which term as used herein shall include any duly authorized committee of the Board of Directors) by Article FOURTH of the Articles, the Board of Directors has, by resolution, reclassified from the unissued Common Stock and authorized the issuance of 4,000,000 Preferred Shares, par value $0.001 per share, such class of stock to be classified as Term Preferred Shares, and such Term Preferred Shares to be issued in one or more series.

FOURTH: The preferences, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption, of each Series of Term Preferred Shares are set forth in these Articles Supplementary, as modified, amended or supplemented from time to time in any Appendix (each an Appendix and collectively the Appendices) to these Articles Supplementary specifically relating to such Series (each such Series being referred to herein as a Series of Term Preferred Shares , Term Preferred Shares of a Series or a Series and shares of all such Seri being referred to herein individually as a Term Preferred Share and collectively as the Term Preferred Shares).

FIFTH: These Articles Supplementary shall become effective as of 4:59 p.m. Eastern time on October 31, 2011.

DEFINITIONS

1.1 *Definitions*. Unless the context or use indicates another or different meaning or intent and except with respect to any Series as specifically provided in the Appendix applicable to such Series, each of the following terms when used in these Articles Supplementary shall have the meaning ascribed to it below, whether such term is used in the singular or plural and regardless of tense:

1940 Act means the Investment Company Act of 1940, as amended, or any successor statute.

1940 Act Asset Coverage means asset coverage, as defined for purposes of Sections 18(h) and 61 of the 1940 Act, of at least 200% with respect to all outstanding senior securities of the Corporation, including all outstanding Term Preferred Shares (or such other asset coverage as may in the future be specified in or under the 1940 Act or by rule, regulation or order of United States Securities and Exchange Commission as the minimum asset coverage for senior securities of a Business Development Company).

Adviser means Gladstone Management Corporation, a Delaware corporation, or such other entity as shall be then serving as the investment adviser of the Corporation, and shall include, as appropriate, any sub-adviser duly appointed by the Adviser.

Appendices and *Appendix* shall have the respective meanings as set forth in the Recitals of these Articles Supplementary.

Articles shall have the meaning as set forth in the Recitals of these Articles Supplementary.

Articles Supplementary means these Gladstone Capital Corporation Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares, as they may be amended from time to time in accordance with their terms.

Asset Coverage means asset coverage of a class of senior security, as defined for purposes of Sections 18(h) and 61 of the 1940 Act as in effect on the date hereof, determined for the Corporation and its majority-owned subsidiaries (as such term is defined in the 1940 Act) on a consolidated basis and on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of such determination.

Asset Coverage Cure Date means, with respect to the failure by the Corporation to maintain Asset Coverage as of the close of business on the last Business Day of a Calendar Quarter (as required by Section 2.4(a)), the date that is thirty (30) calendar days following the Filing Date with respect to such Calendar Quarter.

Board of Directors shall have the meaning as set forth in the Recitals of these Articles Supplementary.

Business Day means any calendar day on which the New York Stock Exchange is open for trading.

Business Development Company shall have the meaning set forth in Section 2(a)(48) of the 1940 Act, or any successor provision.

By-Laws means the By-Laws of the Corporation as amended or restated from time to time.

Calendar Quarter shall mean any of the three month periods ending March 31, June 30, September 30, or December 31, of each year.

Capital Stock shall have the meaning as set forth in the Recitals of these Articles Supplementary.

Code means the Internal Revenue Code of 1986, as amended.

Common Stock means the shares of common stock, with a par value of one tenth of one cent ($0.001) per share, of the Corporation.

Corporation shall have the meaning as set forth in the Preamble to these Articles Supplementary.

Custodian means a bank, as defined in Section 2(a)(5) of the 1940 Act, that has the qualifications prescribed in paragraph 1 of Section 26(a) of the 1940 Act, or such other entity as shall be providing custodian services to the Corporation as permitted by the 1940 Act or any rule, regulation, or order thereunder, and shall include, as appropriate, any similarly qualified sub-custodian duly appointed by the Custodian.

Custodian Agreement means, with respect to any Series, the Custodian Agreement by and among the Custodian and the Corporation with respect to such Series.

Date of Original Issue means, with respect to any Series, the date specified as the Date of Original Issue for such Series in the Appendix for such Series.

Default shall have the meaning as set forth in Section 2.2(g)(i).

Default Period shall have the meaning as set forth in Section 2.2(g)(i).

Default Rate shall have the meaning as set forth in Section 2.2(g)(i).

Deposit Securities means, as of any date, any United States dollar-denominated security or other investment of a type described below that either (i) is a demand obligation payable to the holder thereof on any Business Day or (ii) has a maturity date, mandatory redemption date or mandatory payment date, on its face or at the option of the holder, preceding the relevant Redemption Date, Dividend Payment Date or other

payment date in respect of which such security or other investment has been deposited or set aside as a Deposit Security:

(i) cash or any cash equivalent;

(ii) any U.S. Government Obligation;

(iii) any Short-Term Money Market Instrument;

(iv) any investment in any money market fund registered under the 1940 Act that qualifies under Rule 2a-7 under the 1940 Act, or similar investment vehicle described in Rule 12d1-1(b)(2) under the 1940 Act, that invests principally in Short-Term Money Market Instruments or U.S. Government Obligations or any combination thereof; or

(v) any letter of credit from a bank or other financial institution that has a credit rating from at least one rating agency that is the highest applicable rating generally ascribed by such rating agency to bank deposits or short-term debt of similar banks or other financial institutions as of the date of these Articles Supplementary (or such rating s future equivalent).

Dividend Default shall have the meaning as set forth in Section 2.2(g)(i).

Dividend Payment Date means, with respect to any Series, each of the Dividend Payment Dates for such Series set forth in the Appendix for such Series.

Dividend Period means, with respect to any Series, the Dividend Period for such Series set forth in the Appendix for such Series.

Dividend Rate means, with respect to any Series and as of any date, the Fixed Dividend Rate for that Series as adjusted, if a Default Period shall be in existence on such date, in accordance with the provisions of Section 2.2(g).

Electronic Means means email transmission, facsimile transmission or other similar electronic means of communication providing evidence of transmission (but excluding online communications systems covered by a separate agreement) acceptable to the sending party and the receiving party, in any case if operative as between any two parties, or, if not operative, by telephone (promptly confirmed by any other method set forth in this definition), which, in the case of notices to the Redemption and Paying Agent and the Custodian, shall be sent by such means to each of its representatives set forth in the Redemption and Paying Agent Agreement and the Custodian Agreement, respectively.

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

Filing Date means, with respect to any Calendar Quarter, the date of filing of the Corporation s SEC Report with respect to such Calendar Quarter.

Fixed Dividend Rate means, with respect to any Series, the rate per annum specified as the Fixed Dividend Rate for such Series in the Appendix for such Series.

Holder means, with respect to the Term Preferred Shares of any Series or any other security issued by the Corporation, a Person in whose name such security is registered in the registration books of the Corporation maintained by the Redemption and Paying Agent or otherwise.

Liquidation Preference means, with respect to any Series, the amount specified as the liquidation preference per share for that Series in the Appendix for such Series.

Mandatory Redemption Price shall have the meaning as set forth in Section 2.5(b)(i)(A).

Market Value of any asset of the Corporation means, for securities for which market quotations are readily available, the market value thereof determined by an independent third-party pricing service designated from time to time by the Board of Directors. Market Value of any asset shall include any interest accrued thereon. The pricing service values portfolio securities at the mean between the quoted bid and asked price or the yield equivalent when quotations are readily available. Securities for which quotations are not readily

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available are valued at fair value as determined by the pricing service using methods that include consideration of: yields or prices of securities of comparable quality, type of issue, coupon, maturity and rating; indications as to value from dealers; and general market conditions. The pricing service may employ electronic data processing techniques or a matrix system, or both, to determine recommended valuations.

Non-Call Period means, with respect to any Series, the period (if any) during which such Series shall not be subject to redemption at the option of the Corporation, as set forth in the Appendix for such Series.

Notice of Redemption shall have the meaning as set forth in Section 2.5(d).

Optional Redemption Date shall have the meaning as set forth in Section 2.5(c)(i).

Optional Redemption Premium means, with respect to any Series, the premium (expressed as a percentage of the Liquidation Preference of the shares of such Series), if any, payable by the Corporation upon the redemption of Term Preferred Shares of such Series at the option of the Corporation, as set forth in the Appendix for such Series.

Optional Redemption Price shall have the meaning as set forth in Section 2.5(c)(i).

Outstanding means, as of any date with respect to Term Preferred Shares of any Series, the number of Term Preferred Shares of such Series theretofore issued by the Corporation except (without duplication):

(i) any shares of such Series theretofore cancelled or redeemed or delivered to the Redemption and Paying Agent for cancellation or redemption in accordance with the terms hereof;

(ii) any shares of such Series as to which the Corporation shall have given a Notice of Redemption and irrevocably deposited with the Redemption and Paying Agent sufficient Deposit Securities to redeem such shares in accordance with Section 2.5 hereof;

(iii) any shares of such Series as to which the Corporation shall be the Holder or the beneficial owner; and

(iv) any shares of such Series represented by any certificate in lieu of which any new certificate has been executed and delivered by the Corporation.

Person means and includes an individual, a partnership, a trust, a corporation, a limited liability company, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

Preferred Stock means any Capital Stock of the Corporation classified as preferred stock, including shares of each Series of Term Preferred Shares, shares of any other series of such preferred stock now or hereafter issued by the Corporation, and any other shares of Capital Stock hereafter authorized and issued by the Corporation of a class having priority over any other class as to distribution of assets or payments of dividends.

Redemption and Paying Agent means, with respect to any Series, BNY Mellon Shareowner Services, LLC and its successors or any other redemption and paying agent appointed by the Corporation with respect to such Series.

Redemption and Paying Agent Agreement means, with respect to any Series, the Redemption and Paying Agent Agreement or other similarly titled agreement by and among the Redemption and Paying Agent for such Series and the Corporation with respect to such Series.

Redemption Date shall have the meaning as set forth in Section 2.5(d).

Redemption Default shall have the meaning as set forth in Section 2.2(g)(i).

Redemption Price shall mean the Term Redemption Price, the Mandatory Redemption Price or the Optional Redemption Price, as applicable.

SEC Report means, with respect to any Calendar Quarter, the Corporation s Annual Report on Form 10-K or Quarterly Report on Form 10-Q filed by the Corporation with the Securities and Exchange

Commission with respect to such Calendar Quarter (or, in the case of the Calendar Quarter that is the last Calendar Quarter in the Corporation s fiscal year, with respect to the fiscal year that includes such Calendar Quarter).

Securities Depository shall mean The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation that agrees to follow the procedures required to be followed by such securities depository as set forth in these Articles Supplementary with respect to the Term Preferred Shares.

Series shall have the meaning as set forth in the Recitals of these Articles Supplementary.

Short-Term Money Market Instruments means the following types of instruments if, on the date of purchase or other acquisition thereof by the Corporation, the remaining term to maturity thereof is not in excess of 180 days:

(i) commercial paper rated A-1 if such commercial paper matures in 30 days or A-1+ if such commercial paper matures in over 30 days;

(ii) demand or time deposits in, and banker s acceptances and certificates of deposit of (A) a depository institution or trust company incorporated under the laws of the United States of America or any state thereof or the District of Columbia or (B) a United States branch office or agency of a foreign depository institution (provided that such branch office or agency is subject to banking regulation under the laws of the United States, any state thereof or the District of Columbia); and

(iii) overnight funds.

Term Preferred Shares shall have the meaning as set forth in the Recitals of these Articles Supplementary.

Term Redemption Date means, with respect to any Series, the date specified as the Term Redemption Date in the Appendix for such Series.

Term Redemption Price shall have the meaning as set forth in Section 2.5(a).

U.S. Government Obligations means direct obligations of the United States or of its agencies or instrumentalities that are entitled to the full faith and credit of the United States and that, other than United States Treasury Bills, provide for the periodic payment of interest and the full payment of principal at maturity or call for redemption.

Voting Period shall have the meaning as set forth in Section 2.6(b)(i).

With respect to any Series, any additional definitions specifically set forth in the Appendix relating to such Series and any amendments to any definitions specifically set forth in the Appendix relating to such Series, as such Appendix may be amended from time to time, shall be incorporated herein and made part hereof by reference thereto, but only with respect to such Series.

1.2 *Interpretation*. The headings preceding the text of Articles and Sections included in these Articles Supplementary are for convenience only and shall not be deemed part of these Articles Supplementary or be given any effect in interpreting these Articles Supplementary. The use of the masculine, feminine or neuter gender or the singular or plural form of words herein shall not limit any provision of these Articles Supplementary. The use of the terms including or include shall in all cases herein mean including, without limitation or include, without limitation, respectively. Reference to any Person includes such Person s successors and assigns to the extent such successors and assigns are permitted by the terms of any applicable agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually. Reference to any agreement (including these

Articles Supplementary), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof. Except as otherwise expressly set forth herein, reference to any law means such law as amended, modified, codified, replaced or re-enacted, in whole or in part, including rules, regulations, enforcement procedures and any interpretations promulgated thereunder.

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Underscored references to Articles or Sections shall refer to those portions of these Articles Supplementary. The use of the terms hereunder, hereof, hereto and words of similar import shall refer to these Articles Supplementary as a whole and not to any particular Article, Section or clause of these Articles Supplementary.

TERMS APPLICABLE TO ALL SERIES OF TERM PREFERRED SHARES

Except for such changes and amendments hereto with respect to a Series of Term Preferred Shares that are specifically contemplated by the Appendix relating to such Series, each Series of Term Preferred Shares shall have the following terms:

2.1 *Number of Shares; Ranking*.

(a) The number of authorized shares constituting any Series of Term Preferred Shares shall be as set forth with respect to such Series in the Appendix hereto relating to such Series. No fractional Term Preferred Shares shall be issued.

(b) The Term Preferred Shares of each Series shall rank on parity with shares of each other Series of Term Preferred Shares and with shares of any other series of Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Corporation. The Term Preferred Shares of each Series shall have preference with respect to the payment of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Corporation over the Common Stock as set forth herein.

(c) No Holder of Term Preferred Shares shall have, solely by reason of being such a Holder, any preemptive or other right to acquire, purchase or subscribe for any Term Preferred Shares or shares of Common Stock or other securities of the Corporation which it may hereafter issue or sell.

2.2 *Dividends and Distributions*.

(a) The Holders of any Term Preferred Shares of any Series shall be entitled to receive, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds legally available therefor and in preference to dividends and distributions on the Common Stock, cumulative cash dividends and distributions on each share of such Series, calculated separately for each Dividend Period for such Series at the Dividend Rate in effect from time to time for such Series during such Dividend Period, computed on the basis of a 360-day year consisting of twelve 30-day months, on an amount equal to the Liquidation Preference for a share of such Series, and no more. Dividends and distributions on the Term Preferred Shares of any Series shall accumulate from the Date of Original Issue with respect to such Series and shall be payable monthly in arrears as provided in Section 2.2(f). Dividends payable on any Term Preferred Shares of any Series for any period of less than a full monthly Dividend Period, upon any redemption of such shares on any Redemption Date other than on a Dividend Payment Date, or, in the case of the first Dividend Period, more than a full monthly period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed for any period of less than, or, in the case of the first Dividend Period, greater than, one month.

(b) Dividends on shares of each Series of Term Preferred Shares with respect to any Dividend Period shall be declared to the Holders of record of such shares as their names shall appear on the registration books of the Corporation at the close of business on the applicable record date, which shall be such date designated by the Board of Directors that is not more than twenty (20) nor less than ten (10) calendar days prior to the Dividend Payment Date with respect to such Dividend Period, and shall be paid as provided further in Section 2.2(f) hereof.

(c) (i) No full dividends and distributions shall be declared or paid on shares of a Series of Term Preferred Shares for any Dividend Period or part thereof unless full cumulative dividends and distributions due through the most recent dividend payment dates therefor for all outstanding shares of Preferred Stock (including shares of other Series of Term Preferred Shares) have been or contemporaneously are declared and

paid through the most recent dividend payment dates therefor. If full cumulative dividends and distributions due have not been declared and paid on all outstanding Preferred Stock of any series, any dividends and distributions being declared and paid on a Series of Term Preferred Shares will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on each such series of Preferred Stock on the relevant dividend payment date for such series. No Holders of Term Preferred Shares shall be entitled to any dividends and distributions, whether payable in cash, property or shares, in excess of full cumulative dividends and distributions as provided in this Section 2.2(c)(i) on such Term Preferred Shares.

(ii) For so long as any Term Preferred Shares are Outstanding, the Corporation shall not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in shares of Common Stock) in respect of the Common Stock, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any Common Stock, or (z) pay any proceeds of the liquidation of the Corporation in respect of the Common Stock, unless, in each case, (A) immediately thereafter, the Corporation shall have 1940 Act Asset Coverage after deducting the amount of such dividend or distribution or redemption or purchase price or liquidation proceeds, (B) all cumulative dividends and distributions on all Term Preferred Shares and all other Preferred Stock ranking on a parity with the Term Preferred Shares due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment thereof shall have been deposited irrevocably with the paying agent for such Preferred Stock) and (C) the Corporation shall have deposited Deposit Securities pursuant to and in accordance with the requirements of Section 2.5(d)(ii) hereof with respect to Outstanding Term Preferred Shares of any Series to be redeemed pursuant to Section 2.5(a) or Section 2.5(b) hereof for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms hereof on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

(iii) Any dividend payment made on shares of a Series of Term Preferred Shares shall first be credited against the dividends and distributions accumulated with respect to the earliest Dividend Period for such Series for which dividends and distributions have not been paid.

(d) Not later than 12:00 noon, New York City time, on the Dividend Payment Date for a Series of Term Preferred Shares, the Corporation shall deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on such date sufficient to pay the dividends and distributions that are payable on such Dividend Payment Date in respect of such Series. The Corporation may direct the Redemption and Paying Agent with respect to the investment or reinvestment of any such Deposit Securities prior to the Dividend Payment Date, provided that such investment consists exclusively of Deposit Securities and provided further that the proceeds of any such investment will be available as same day funds at the opening of business on such Dividend Payment Date.

(e) All Deposit Securities paid to the Redemption and Paying Agent for the payment of dividends payable on a Series of Term Preferred Shares shall be held in trust for the payment of such dividends by the Redemption and Paying Agent for the benefit of the Holders of such Series entitled to the payment of such dividends pursuant to Section 2.2(f). Any moneys paid to the Redemption and Paying Agent in accordance with the foregoing but not applied by the Redemption and Paying Agent to the payment of dividends, including interest earned on such moneys while so held, will, to the extent permitted by law, be repaid to the Corporation as soon as possible after the date on which such moneys were to have been so applied, upon request of the Corporation.

(f) Dividends on shares of a Series of Term Preferred Shares shall be paid on each Dividend Payment Date for such Series to the Holders of shares of such Series as their names appear on the registration books of the Corporation at the close of business on the applicable record date for such dividend, which record date shall be determined as set forth in Section 2.2(b) Dividends in arrears on shares of a Series of Term Preferred Shares for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the Holders of shares of

such Series as their names appear on the registration books of the Corporation on such date, not exceeding twenty (20) nor less than ten (10) calendar days

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preceding the payment date thereof, as may be fixed by the Board of Directors. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on shares of any Series of Term Preferred Shares which may be in arrears.

(g) (i) The Dividend Rate on a Series of Term Preferred Shares shall be adjusted to the Default Rate (as defined below) in the following circumstances. Subject to the cure provisions below, a Default Period with respect to a Series of Term Preferred Shares shall commence on any date the Corporation fails to deposit with the Redemption and Paying Agent by 12:00 noon, New York City time, on (A) a Dividend Payment Date for such Series, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Dividend Payment Date sufficient to pay the full amount of any dividend on such Series payable on such Dividend Payment Date (a Dividend Default) or (B) an applicable Redemption Date for such Series, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Redemption Date sufficient to pay the full amount of the Redemption Price payable in respect of such Series on such Redemption Date (a Redemption Default and together with a Dividend Default, hereinafter referred to as Default). Subject to the cure provisions of Section 2.2(g)(ii) below, a Default Period with respect to a Dividend Default or a Redemption Default on a Series of Term Preferred Shares shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends on such Series and any unpaid Redemption Price on such Series shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of any Default on a Series of Term Preferred Shares, the Dividend Rate for such Series for each calendar day during the Default Period will be equal to the Default Rate. The Default Rate on a Series of Term Preferred Shares for any calendar day shall be equal to the Fixed Dividend Rate for such Series plus two percent (2%) per annum.

(ii) No Default Period for a Series of Term Preferred Shares with respect to any Default on such Series shall be deemed to commence if the amount of any dividend or any Redemption Price due in respect of such Series (if such Default is not solely due to the willful failure of the Corporation) is deposited irrevocably in trust, in same-day funds, with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three (3) Business Days after the applicable Dividend Payment Date or Redemption Date for such Series with respect to which such Default occurred, together with an amount equal to the Default Rate on such Series applied to the amount and period of such non-payment on such Series, based on the actual number of calendar days comprising such period divided by 360.

2.3 *Liquidation Rights*.

(a) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the Holders of Term Preferred Shares shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the Common Stock, a liquidation distribution equal to the Liquidation Preference for such shares, plus an amount equal to all unpaid dividends and distributions on such shares accumulated to (but excluding) the date fixed for such distribution or payment on such shares (whether or not earned or declared by the Corporation, but excluding interest thereon), and such Holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

(b) If, upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation available for distribution among the Holders of all Outstanding Term Preferred Shares and any other outstanding Preferred Stock shall be insufficient to permit the payment in full to such Holders of the Liquidation Preference of such Term Preferred Shares plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.3(a) above and the amounts due upon liquidation with respect to such other Preferred Stock, then such available assets shall be distributed among the Holders of such Term Preferred Shares and such other Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which

they are entitled. In connection with any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, unless and until the Liquidation Preference on each Outstanding Term Preferred Share plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.3(a) above have been paid in full to

the Holders of such shares, no dividends, distributions or other payments will be made on, and no redemption, purchase or other acquisition by the Corporation will be made by the Corporation in respect of, shares of the Common Stock.

(c) Neither the sale of all or substantially all of the property or business of the Corporation, nor the merger, consolidation or reorganization of the Corporation into or with any other business or statutory trust, corporation or other entity, nor the merger, consolidation or reorganization of any other business or statutory trust, corporation or other entity into or with the Corporation shall be a dissolution, liquidation or winding up, whether voluntary or involuntary, for the purpose of this Section 2.3.

2.4 *Coverage Test*.

(a) *Asset Coverage Requirement*. For so long as any shares of a Series of Term Preferred Shares are Outstanding, the Corporation shall have Asset Coverage of at least 200% as of the close of business on the last Business Day of a Calendar Quarter, such Asset Coverage to be determined exclusively by reference to the asset coverage ratio reported as of the last Business Day of such Calendar Quarter in the Corporation s SEC Report with respect to such Calendar Quarter. If the Corporation shall fail to maintain such Asset Coverage as of any time as of which such compliance is required to be determined as aforesaid, the provisions of Section 2.5(b)(i) shall be applicable, which provisions shall constitute the sole remedy for the Corporation s failure to comply with the provisions of this Section 2.4(a).

(b) *Calculation of Asset Coverage*. For purposes of determining whether the requirements of Section 2.4(a) are satisfied, (i) no Term Preferred Shares of any Series or other Preferred Stock shall be deemed to be Outstanding for purposes of any computation required by Section 2.4(a) if, prior to or concurrently with such determination, either (x) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Series or other Preferred Stock) to pay the full redemption price for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been deposited in trust with the paying agent for such Series or other Preferred Stock and the requisite notice of redemption for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been given or (y) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Series or other Preferred Stock) to pay the full redemption price for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been segregated by the Custodian and the Corporation from the assets of the Corporation, by means of appropriate identification on the Custodian s books and records or otherwise in accordance with the Custodian s normal procedures, and (ii) the Deposit Securities or other sufficient funds that shall have been deposited with the applicable paying agent and/or segregated by the Custodian, as applicable, as provided in clause (i) of this sentence shall not be included as assets of the Corporation for purposes of such computation.

2.5 *Redemption*. Each Series of Term Preferred Shares shall be subject to redemption by the Corporation as provided below:

(a) *Term Redemption*. The Corporation shall redeem all shares of a Series of Term Preferred Shares on the Term Redemption Date for such Series, at a price per share equal to the Liquidation Preference per share of such Series plus an amount equal to all unpaid dividends and distributions on such share of such Series accumulated to (but excluding) the Term Redemption Date for such Series (whether or not earned or declared by the Corporation, but excluding interest thereon) (the Term Redemption Price).

(b) *Asset Coverage Mandatory Redemption*.

(i) If the Corporation fails to comply with the Asset Coverage requirement as provided in Section 2.4(a) as of the last Business Day of any Calendar Quarter and such failure is not cured as of the Asset Coverage Cure Date, the Corporation shall, to the extent permitted by the 1940 Act and Maryland law, by the close of business on such Asset

Coverage Cure Date, fix a redemption date and proceed to redeem in accordance with the terms of such Preferred Stock, a sufficient number of shares of Preferred Stock, which at the Corporation s sole option (to the extent permitted by the 1940 Act and Maryland law) may include any number or proportion of Term Preferred Shares of any Series, to enable it to meet the requirements of Section 2.5(b)(ii). In the event that any shares of a Series of Term Preferred Shares then

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Outstanding are to be redeemed pursuant to this Section 2.5(b)(i), the Corporation shall redeem such shares at a price per share equal to the Liquidation Preference per share of such Series plus an amount equal to all unpaid dividends and distributions on such share of such Series accumulated to (but excluding) the date fixed for such redemption by the Board of Directors (whether or not earned or declared by the Corporation, but excluding interest thereon) (the Mandatory Redemption Price).

(ii) On the Redemption Date for a redemption contemplated by Section 2.5(b)(i), the Corporation shall redeem, out of funds legally available therefor, such number of shares of Preferred Stock (which may include at the sole option of the Corporation any number or proportion of Term Preferred Shares of any Series) as shall be equal to the lesser of (x) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in the Corporation having Asset Coverage on such Asset Coverage Cure Date of at least 200% (provided, however, that if there is no such minimum number of Term Preferred Shares and other shares of Preferred Stock the redemption or retirement of which would have such result, all Term Preferred Shares and other shares of Preferred Stock then outstanding shall be redeemed), and (y) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available therefor in accordance with the Articles and applicable law. Notwithstanding the foregoing, in the event that shares of Preferred Stock are redeemed pursuant to this Section 2.5(b), the Corporation may at its sole option, but is not required to, redeem a sufficient number of shares of any Series of Term Preferred Shares pursuant to this Section 2.5(b) that, when aggregated with other shares of Preferred Stock redeemed by the Corporation, would result, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, in the Corporation having Asset Coverage on such Asset Coverage Cure Date of up to and including 285%. The Corporation shall effect such redemption on the date fixed by the Corporation therefor, which date shall not be later than ninety (90) calendar days after such Asset Coverage Cure Date, except that if the Corporation does not have funds legally available for the redemption of all of the required number of Term Preferred Shares and other shares of Preferred Stock which have been designated to be redeemed or the Corporation otherwise is unable to effect such redemption on or prior to ninety (90) calendar days after such Asset Coverage Cure Date, the Corporation shall redeem those Term Preferred Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption. If fewer than all of the Outstanding Term Preferred Shares of a Series are to be redeemed pursuant to this Section 2.5(b), the number of Term Preferred Shares of such Series to be redeemed shall be redeemed (A) pro rata among the Outstanding shares of such Series, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable.

(c) *Optional Redemption*.

(i) Subject to the provisions of Section 2.5(c)(ii), on any Business Day following the expiration of the Non-Call Period (if any) for a Series of Term Preferred Shares (any such Business Day referred to in this sentence, an Optional Redemption Date), the Corporation may redeem in whole or from time to time in part the Outstanding Term Preferred Shares of such Series, at a redemption price per Term Preferred Share (the Optional Redemption Price) equal to (x) the Liquidation Preference per Term Preferred Share of such Series plus (y) an amount equal to all unpaid dividends and distributions on such Term Preferred Share of such Series accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by the Corporation, but excluding interest thereon) plus (z) the Optional Redemption Premium per share (if any) with respect to an optional redemption of Term Preferred Shares of such Series that is effected on such Optional Redemption Date.

(ii) If fewer than all of the outstanding shares of a Series of Term Preferred Shares are to be redeemed pursuant to Section 2.5(c)(i), the shares of such Series to be redeemed shall be selected either (A) pro rata among such Series, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable. Subject to the provisions of these Articles Supplementary and applicable law, the Board of Directors will have the full power and authority to prescribe the terms and conditions upon which Term Preferred Shares will be redeemed pursuant to this

Section 2.5(c) from time to time.

(iii) The Corporation may not on any date deliver a Notice of Redemption pursuant to Section 2.5(d) in respect of a redemption contemplated to be effected pursuant to this Section 2.5(c) unless on such date the Corporation has available Deposit Securities for the Optional Redemption Date contemplated by such Notice of Redemption having a Market Value not less than the amount (including any applicable premium) due to Holders of Term Preferred Shares by reason of the redemption of such Term Preferred Shares on such Optional Redemption Date.

(d) *Procedures for Redemption*.

(i) If the Corporation shall determine or be required to redeem, in whole or in part, Term Preferred Shares of a Series pursuant to Section 2.5(a), (b) or (c), the Corporation shall deliver a notice of redemption (the Notice of Redemption), by overnight delivery, by first class mail, postage prepaid or by Electronic Means to Holders thereof, or request the Redemption and Paying Agent, on behalf of the Corporation, to promptly do so by overnight delivery, by first class mail, postage prepaid or by Electronic Means. A Notice of Redemption shall be provided not more than forty-five (45) calendar days prior to the date fixed for redemption in such Notice of Redemption (the Redemption Date). Each such Notice of Redemption shall state: (A) the Redemption Date; (B) the Series and number of Term Preferred Shares to be redeemed; (C) the CUSIP number for Term Preferred Shares of such Series; (D) the applicable Redemption Price on a per share basis; (E) if applicable, the place or places where the certificate(s) for such shares (properly endorsed or assigned for transfer, if the Board of Directors requires and the Notice of Redemption states) are to be surrendered for payment of the Redemption Price; (F) that dividends on the Term Preferred Shares to be redeemed will cease to accumulate from and after such Redemption Date; and (G) the provisions of these Articles Supplementary under which such redemption is made. If fewer than all Term Preferred Shares held by any Holder are to be redeemed, the Notice of Redemption delivered to such Holder shall also specify the number of Term Preferred Shares to be redeemed from such Holder or the method of determining such number. The Corporation may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to these Articles Supplementary that such redemption is subject to one or more conditions precedent and that the Corporation shall not be required to effect such redemption unless each such condition has been satisfied at the time or times and in the manner specified in such Notice of Redemption. No defect in the Notice of Redemption or delivery thereof shall affect the validity of redemption proceedings, except as required by applicable law.

(ii) If the Corporation shall give a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by the Corporation), the Corporation shall (A) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on the date thereof no less than the Redemption Price of the Term Preferred Shares to be redeemed on the Redemption Date and (B) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable Redemption Price to the Holders of the Term Preferred Shares called for redemption on the Redemption Date. The Corporation may direct the Redemption and Paying Agent with respect to the investment of any Deposit Securities consisting of cash so deposited prior to the Redemption Date, provided that the proceeds of any such investment shall be available at the opening of business on the Redemption Date as same day funds.

(iii) Upon the date of the deposit of such Deposit Securities, all rights of the Holders of the Term Preferred Shares so called for redemption shall cease and terminate except the right of the Holders thereof to receive the Redemption Price thereof and such Term Preferred Shares shall no longer be deemed Outstanding for any purpose whatsoever (other than (A) the transfer thereof prior to the applicable Redemption Date and (B) the accumulation of dividends thereon in accordance with the terms hereof up to (but excluding) the applicable Redemption Date, which accumulated dividends, unless previously or contemporaneously declared and paid as contemplated by the last sentence of Section 2.5(d)(vi) below, shall be payable only as part of the applicable Redemption Price on the Redemption Date). The Corporation shall be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of

the aggregate Redemption Price of the Term Preferred Shares called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of ninety

(90) calendar days from the Redemption Date shall, to the extent permitted by law, be repaid to the Corporation, after which the Holders of the Term Preferred Shares so called for redemption shall look only to the Corporation for payment of the Redemption Price thereof. The Corporation shall be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

(iv) On or after the Redemption Date, each Holder of Term Preferred Shares in certificated form (if any) that are subject to redemption shall surrender the certificate(s) evidencing such Term Preferred Shares to the Corporation at the place designated in the Notice of Redemption and shall then be entitled to receive the Redemption Price for such Term Preferred Shares, without interest, and in the case of a redemption of fewer than all the Term Preferred Shares represented by such certificate(s), a new certificate representing the Term Preferred Shares that were not redeemed.

(v) Notwithstanding the other provisions of this Section 2.5, except as otherwise required by law, the Corporation shall not redeem any Term Preferred Shares unless all accumulated and unpaid dividends and distributions on all Outstanding Term Preferred Shares and other series of Preferred Shares ranking on a parity with the Term Preferred Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Corporation) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent for such Preferred Stock in accordance with the terms of such Preferred Stock, provided, however, that the foregoing shall not prevent the purchase or acquisition of Outstanding Term Preferred Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to Holders of all Outstanding Term Preferred Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

(vi) To the extent that any redemption for which Notice of Redemption has been provided is not made by reason of the absence of legally available funds therefor in accordance with the Articles and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default shall be deemed to have occurred if the Corporation shall fail to deposit in trust with the Redemption and Paying Agent the Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any Term Preferred Shares, dividends may be declared and paid on such Term Preferred Shares in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such Term Preferred Shares shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

(e) *Redemption and Paying Agent as Trustee of Redemption Payments by Corporation*. All Deposit Securities transferred to the Redemption and Paying Agent for payment of the Redemption Price of Term Preferred Shares called for redemption shall be held in trust by the Redemption and Paying Agent for the benefit of Holders of Term Preferred Shares so to be redeemed until paid to such Holders in accordance with the terms hereof or returned to the Corporation in accordance with the provisions of Section 2.5(d)(iii) above.

(f) *Compliance With Applicable Law*. In effecting any redemption pursuant to this Section 2.5, the Corporation shall use its best efforts to comply with all applicable conditions precedent to effecting such redemption under the 1940 Act and any applicable Maryland law, but shall effect no redemption except in accordance with the 1940 Act and any applicable Maryland law.

(g) *Modification of Redemption Procedures*. Notwithstanding the foregoing provisions of this Section 2.5, the Corporation may, in its sole discretion and without a shareholder vote, modify the procedures set forth above with

respect to notification of redemption for the Term Preferred Shares, provided that such modification does not materially and adversely affect the Holders of the Term Preferred Shares or cause the Corporation to violate any applicable law, rule or regulation; and provided

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further that no such modification shall in any way alter the rights or obligations of the Redemption and Paying Agent without its prior consent.

2.6 *Voting Rights*.

(a) *One Vote Per Term Preferred Share*. Except as otherwise provided in the Articles or as otherwise required by law, (i) each Holder of Term Preferred Shares shall be entitled to one vote for each Term Preferred Share held by such Holder on each matter submitted to a vote of shareholders of the Corporation, and (ii) the holders of outstanding shares of Preferred Stock, including Outstanding Term Preferred Shares, and of outstanding shares of Common Stock shall vote together as a single class; provided, however, that the holders of outstanding shares of Preferred Stock, including Outstanding Term Preferred Shares, shall be entitled, as a class, to the exclusion of the Holders of all other securities and classes of Capital Stock of the Corporation, to elect two Directors of the Corporation at all times. Subject to Section 2.6(b), the Holders of outstanding shares of Common Stock and Preferred Stock, including Term Preferred Shares, voting together as a single class, shall elect the balance of the Directors.

(b) *Voting For Additional Directors*.

(i) *Voting Period*. During any period in which any one or more of the conditions described in clauses (A) or (B) of this Section 2.6(b)(i) shall exist (such period being referred to herein as a Voting Period), the number of Directors constituting the Board of Directors shall be automatically increased by the smallest number that, when added to the two Directors elected exclusively by the Holders of Preferred Stock, including Term Preferred Shares, would constitute a majority of the Board of Directors as so increased by such smallest number; and the Holders of Preferred Shares, including Term Preferred Shares, shall be entitled, voting as a class on a one-vote-per-share basis (to the exclusion of the Holders of all other securities and classes of capital stock of the Corporation), to elect such smallest number of additional Directors, together with the two Directors that such Holders are in any event entitled to elect. A Voting Period shall commence:

(A) if, at the close of business on any dividend payment date for any outstanding Preferred Share including any Outstanding Term Preferred Share, accumulated dividends (whether or not earned or declared) on such outstanding share of Preferred Stock equal to at least two (2) full years dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or

(B) if at any time Holders of shares of Preferred Stock are otherwise entitled under the 1940 Act to elect a majority of the Board of Directors.

Upon the termination of a Voting Period, the voting rights described in this Section 2.6(b)(i) shall cease, subject always, however, to the revesting of such voting rights in the Holders of shares of Preferred Stock upon the further occurrence of any of the events described in this Section 2.6(b)(i).

(ii) *Notice of Special Meeting*. As soon as practicable after the accrual of any right of the Holders of shares of Preferred Stock to elect additional Directors as described in Section 2.6(b)(i), the Corporation shall call a special meeting of such Holders and notify the Redemption and Paying Agent and/or such other Person as is specified in the terms of such Preferred Stock to receive notice (i) by mailing or delivery by Electronic Means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such Holders, such meeting to be held not less than ten (10) nor more than thirty (30) calendar days after the date of the delivery by Electronic Means or mailing of such notice. If the Corporation fails to call such a special meeting, it may be called at the expense of the Corporation by any such Holder on like notice. The record date for determining the Holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of

business on the fifth (5th) Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of Holders of shares of Preferred Stock held during a Voting Period at which Directors are to be elected, such Holders, voting together as a class (to the exclusion of the Holders of all other securities and classes of capital stock of the Corporation), shall be entitled to elect the number of Directors prescribed in Section 2.6(b)(i) on a one-vote-per-share basis.

(iii) *Terms of Office of Existing Directors*. The terms of office of the incumbent Directors of the Corporation at the time of a special meeting of Holders of the shares of Preferred Stock to elect additional Directors in accordance with Section 2.6(b)(i) shall not be affected by the election at such meeting by the Holders of Term Preferred Shares and such other Holders of shares of Preferred Stock of the number of Directors that they are entitled to elect, and the Directors so elected by the Holders of Term Preferred Shares and such other Holders of shares of Preferred Stock, together with the two (2) Directors elected by the Holders of shares of Preferred Stock in accordance with Section 2.6(a) hereof and the remaining Directors elected by the holders of the shares of Common Stock and Preferred Stock, shall constitute the duly elected Directors of the Corporation.

(iv) *Terms of Office of Certain Directors to Terminate Upon Termination of Voting Period*. Simultaneously with the termination of a Voting Period, the terms of office of the additional Directors elected by the Holders of the shares of Preferred Stock pursuant to Section 2.6(b)(i) shall terminate, the remaining Directors shall constitute the Directors of the Corporation and the voting rights of the Holders of shares of Preferred Stock to elect additional Directors pursuant to Section 2.6(b)(i) shall cease, subject to the provisions of the last sentence of Section 2.6(b)(i).

(c) *Holders of Term Preferred Shares to Vote on Certain Matters*.

(i) *Certain Amendments Requiring Approval of Term Preferred Shares*. Except as otherwise permitted by the terms of these Articles Supplementary, so long as any Term Preferred Shares are Outstanding, the Corporation shall not, without the affirmative vote or consent of the Holders of at least two-thirds (2/3) of the Term Preferred Shares of all Series Outstanding at the time, voting together as a separate class, amend, alter or repeal the provisions of the Articles, or these Articles Supplementary, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of such Term Preferred Shares or the Holders thereof; provided, however, that (i) a change in the capitalization of the Corporation in accordance with Section 2.8 hereof shall not be considered to materially and adversely affect the rights and preferences of the Term Preferred Shares, and (ii) a division of a Term Preferred Share shall be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the Holders of the Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a Term Preferred Share of such Series or the Holder thereof unless such matter (i) alters or abolishes any preferential right of such Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such Term Preferred Share (other than as a result of a division of a Term Preferred Share). So long as any Term Preferred Shares are Outstanding, the Corporation shall not, without the affirmative vote or consent of at least 662/3% of the Holders of the Term Preferred Shares Outstanding at the time, voting as a separate class, file a voluntary application for relief under Federal bankruptcy law or any similar application under state law for so long as the Corporation is solvent and does not foresee becoming insolvent.

(ii) *1940 Act Matters*. Unless a higher percentage is provided for in the Articles, the affirmative vote of the Holders of at least a majority of the outstanding shares of Preferred Stock, including Term Preferred Shares Outstanding at the time, voting as a separate class, shall be required (A) to approve the Corporation ceasing to be a Businesses Development Company, or to approve the Corporation s withdrawal of its election as a Businesses Development Company, or (B) to approve any plan of reorganization (as such term is used in the 1940 Act) adversely affecting such shares. For purposes of the foregoing, the vote of a majority of the outstanding shares of Preferred Stock means the vote at an annual or special meeting duly called of (i) sixty-seven percent (67%) or more of such shares present at a meeting, if the Holders of more than fifty percent (50%) of such shares are present or represented by proxy at such meeting, or (ii) more than fifty percent (50%) of such shares, whichever is less.

(iii) *Certain Amendments Requiring Approval of Specific Series of Term Preferred Shares*. Except as otherwise permitted by the terms of these Articles Supplementary, so long as any Term Preferred Shares of a Series are

Outstanding, the Corporation shall not, without the affirmative vote or consent of the Holders of at least two-thirds (2/3) of the Term Preferred Shares of such Series, Outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the Appendix relating to such Series, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power set forth in such Appendix of the Term Preferred Shares of such Series or the Holders thereof; provided, however, that

(i) a change in the capitalization of the Corporation in accordance with Section 2.8 hereof shall not be considered to materially and adversely affect the rights and preferences of the Term Preferred Shares of such Series, and (ii) a division of a Term Preferred Share shall be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the Holders of the Term Preferred Shares of such Series; and provided, further, that no amendment, alteration or repeal of the obligation of the Corporation to (x) pay the Term Redemption Price on the Term Redemption Date for a Series, or (y) accumulate dividends at the Dividend Rate (as set forth in these Articles Supplementary and the applicable Appendix hereto) for a Series shall be effected without, in each case, the prior unanimous vote or consent of the Holders of such Series of Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a Term Preferred Share of a Series or the Holder thereof unless such matter (i) alters or abolishes any preferential right of such Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such Term Preferred Share.

(d) *Voting Rights Set Forth Herein Are Sole Voting Rights*. Unless otherwise required by law or the Articles, the Holders of Term Preferred Shares shall not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in this Section 2.6.

(e) *No Cumulative Voting*. The Holders of Term Preferred Shares shall have no rights to cumulative voting.

(f) *Voting for Directors Sole Remedy for Corporation s Failure to Declare or Pay Dividends*. In the event that the Corporation fails to declare or pay any dividends on any Series of Term Preferred Shares on the Dividend Payment Date therefor, the exclusive remedy of the Holders of the Term Preferred Shares shall be the right to vote for Directors pursuant to the provisions of this Section 2.6. Nothing in this Section 2.6(f) shall be deemed to affect the obligation of the Corporation to accumulate and, if permitted by applicable law, the Articles and these Articles Supplementary, pay dividends at the Default Rate in the circumstances contemplated by Section 2.2(g) hereof.

(g) *Holders Entitled to Vote*. For purposes of determining any rights of the Holders of Term Preferred Shares to vote on any matter, whether such right is created by these Articles Supplementary, by the Articles, by statute or otherwise, no Holder of Term Preferred Shares shall be entitled to vote any Term Preferred Share and no Term Preferred Share shall be deemed to be Outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such Term Preferred Share shall have been given in accordance with these Articles Supplementary and Deposit Securities for the payment of the Redemption Price of such Term Preferred Share shall have been deposited in trust with the Redemption and Paying Agent for that purpose. No Term Preferred Share held by the Corporation shall have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

2.7 *Issuance of Additional Preferred Stock*.

So long as any Term Preferred Shares are Outstanding, the Corporation may, without the vote or consent of the Holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of senior securities of the Corporation representing stock under Sections 18 and 61 of the 1940 Act, ranking on a parity with Term Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or the winding up of the affairs of the Corporation, in addition to then Outstanding Series of Term Preferred Shares, including additional Series of Term Preferred Shares, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, including additional Term Preferred Shares of any Series, in each case in accordance with applicable law, provided that the Corporation shall, immediately after giving effect to the issuance of such additional shares of Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of shares of Preferred Stock with such proceeds, have Asset Coverage (calculated in the same manner as is contemplated by Section 2.4(b) hereof) of at least 200%.

2.8 *Status of Redeemed or Repurchased Term Preferred Shares*.

Term Preferred Shares that at any time have been redeemed or purchased by the Corporation shall, after such redemption or purchase, have the status of authorized but unissued shares of Capital Stock.

2.9 *Global Certificate*.

Prior to the commencement of a Voting Period, (i) all shares of any Series of Term Preferred Shares Outstanding from time to time shall be represented by one global certificate for such Series registered in the name of the Securities Depository or its nominee and (ii) no registration of transfer of shares of such Series of Term Preferred Shares shall be made on the books of the Corporation to any Person other than the Securities Depository or its nominee. The foregoing restriction on registration of transfer shall be conspicuously noted on the face or back of the global certificates.

2.10 *Notice*.

All notices or communications hereunder, unless otherwise specified in these Articles Supplementary, shall be sufficiently given if in writing and delivered in person, by telecopier, by Electronic Means or by overnight mail or delivery or mailed by first-class mail, postage prepaid. Notices delivered pursuant to this Section 2.10 shall be deemed given on the date received or, if mailed by first class mail, on the date five (5) calendar days after which such notice is mailed.

2.11 *Termination*.

In the event that no shares of a Series of Term Preferred Shares are Outstanding, all rights and preferences of the shares of such Series established and designated hereunder shall cease and terminate, and all obligations of the Corporation under these Articles Supplementary with respect to such Series shall terminate.

2.12 *Appendices*.

The designation of each Series of Term Preferred Shares shall be set forth in an Appendix to these Articles Supplementary. The Board of Directors may, by resolution duly adopted, without shareholder approval (except as otherwise provided by these Articles Supplementary or required by applicable law) (1) amend the Appendix to these Articles Supplementary relating to a Series so as to reflect any amendments to the terms applicable to such Series including an increase in the number of authorized shares of such Series and (2) add additional Series of Term Preferred Shares by including a new Appendix to these Articles Supplementary relating to such Series.

2.13 *Actions on Other than Business Days*.

Unless otherwise provided herein, if the date for making any payment, performing any act or exercising any right, in each case as provided for in these Articles Supplementary, is not a Business Day, such payment shall be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount shall accrue for the period between such nominal date and the date of payment.

2.14 *Modification*.

The Board of Directors, without the vote of the Holders of Term Preferred Shares, may interpret, supplement or amend the provisions of these Articles Supplementary or any Appendix hereto to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Capital Stock of the Corporation.

2.15 *No Additional Rights*.

Unless otherwise required by law or the Articles, the Holders of Term Preferred Shares shall not have any relative rights or preferences or other special rights other than those specifically set forth in these Articles Supplementary.

[Signature Page Begins on the Following Page]

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In Witness Whereof, Gladstone Capital Corporation has caused these presents to be signed as of October 31, 2011 in its name and on its behalf by its President or a Vice President and witnessed by its Secretary or Assistant Secretary.

Gladstone Capital Corporation

/s/ George Stelljes III
Name: George Stelljes III
Title: President and Chief Investment Officer

Witness:

/s/ Terry Lee Brubaker
Name: Terry Lee Brubaker
Title: Secretary and Chief Operating Officer

The undersigned President or a Vice President of Gladstone Capital Corporation, who executed on behalf of the Corporation the foregoing Articles Supplementary of which this Certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Articles Supplementary to be the corporate act of the Corporation, and states under penalties of perjury that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects.

/s/ George Stelljes III
Name: George Stelljes III
Title: President and Chief Investment Officer

[Signature Page to the Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares]

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APPENDIX A

GLADSTONE CAPITAL CORPORATION

TERM PREFERRED SHARES, 7.125% SERIES 2016

This Appendix establishes a Series of Term Preferred Shares of Gladstone Capital Corporation. Except as set forth below, this Appendix incorporates by reference the terms set forth with respect to all Series of such Term Preferred Shares in those Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares dated October 31, 2011 (the TP Articles Supplementary). This Appendix has been adopted by resolution of the Board of Directors of Gladstone Capital Corporation. Capitalized terms used herein but not defined herein have the respective meanings therefor set forth in the TP Articles Supplementary.

Section 1. *Designation as to Series*.

Term Preferred Shares, 7.125% Series 2016: A series of 1,610,000 shares of Capital Stock classified as Term Preferred Shares is hereby designated as the Term Preferred Shares, 7.125% Series 2016 (the Series 2016 TP Shares). Each share of such Series shall have such preferences, voting powers, restrictions, limitations as to dividends and distributions, qualifications and terms and conditions of redemption, in addition to those required by applicable law and those that are expressly set forth in the Articles and the TP Articles Supplementary (except as the TP Articles Supplementary may be expressly modified by this Appendix), as are set forth in this Appendix A. The Series 2016 TP Shares shall constitute a separate series of Capital Stock and of the Term Preferred Shares and each Series 2016 TP Share shall be identical. The following terms and conditions shall apply solely to the Series 2016TP Shares:

Section 2. *Number of Authorized Shares of Series*.

The number of authorized shares is 1,610,000.

Section 3. *Date of Original Issue with respect to Series*.

The Date of Original Issue is November 4, 2011.

Section 4. *Fixed Dividend Rate Applicable to Series*.

The Fixed Dividend Rate is 7.125%.

Section 5. *Liquidation Preference Applicable to Series*.

The Liquidation Preference is $25.00 per share.

Section 6. *Term Redemption Date Applicable to Series*.

The Term Redemption Date is December 31, 2016.

Section 7. *Dividend Payment Dates Applicable to Series*.

The Dividend Payment Dates are the last Business Day of the month of the Dividend Period.

Section 8. *Non-Call Period Applicable to Series*.

The Non-Call Period is the period beginning on the Date of Original of Issue and ending at the close of business on December 30, 2012.

Section 9. *Exceptions to Certain Definitions Applicable to the Series*.

The following definitions contained under the heading Definitions in the TP Articles Supplementary are hereby amended as follows:

Not applicable.

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Section 10. *Additional Definitions Applicable to the Series*.

The following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

Dividend Period means, with respect to each Series 2016 TP Share, in the case of the first Dividend Period, the period beginning on the Date of Original Issue for such Series and ending on and including December 31, 2011 and for each subsequent Dividend Period, the period beginning on and including the first calendar day of the month following the month in which the previous Dividend Period ended and ending on and including the last calendar day of such month.

Optional Redemption Premium means with respect to each Series 2016 TP Share an amount equal to:

(A) if the Optional Redemption Date for the Series 2016 TP Share occurs on or after December 31, 2012 and prior to December 31, 2013, 1.0% of the Liquidation Preference for such Series 2016 TP Share;

(B) if the Optional Redemption Date for the Series 2016 TP Share occurs on a date that is on or after December 31, 2013, and prior to December 31, 2014, 0.5% of the Liquidation Preference for such Series 2016 TP Share; or

(C) if the Optional Redemption Date for the Series 2016 TP Share occurs on a date that is on or after December 31, 2014, 0.0% of the Liquidation Preference for such Series 2016 TP Share.

Section 11. *Amendments to Terms of Term Preferred Shares Applicable to the Series*.

The following provisions contained under the heading Terms of the Term Preferred Shares in the TP Articles Supplementary are hereby amended as follows:

Not applicable.

Section 12. *Additional Terms and Provisions Applicable to the Series*.

The following provisions shall be incorporated into and be deemed part of the TP Articles Supplementary:

Not applicable.

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IN WITNESS WHEREOF, Gladstone Capital Corporation has caused this Appendix to the Corporation s TP Articles Supplementary to be signed on October 31, 2011 in its name and on its behalf by a duly authorized officer. The Articles and the TP Articles Supplementary are on file with the Secretary of State of the State of Maryland.

Gladstone Capital Corporation

/s/ George Stelljes III
Name: George Stelljes III
Title: President and Chief Investment Officer

Witness:

/s/ Terry Lee Brubaker
Name: Terry Lee Brubaker
Title: Secretary and Chief Operating Officer

The undersigned duly authorized officer of Gladstone Capital Corporation, who executed on behalf of the Corporation the foregoing Appendix to the Corporation s TP Articles Supplementary of which this Certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Appendix to the Articles Supplementary to be the corporate act of the Corporation, and states under penalties of perjury that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects.

/s/ George Stelljes III
Name: George Stelljes III
Title: President and Chief Investment Officer

[Signature Page to the Appendix Establishing and Fixing the Rights and Preferences of Term Preferred Shares]

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PROSPECTUS

$300,000,000

COMMON STOCK
PREFERRED STOCK
SUBSCRIPTION RIGHTS
WARRANTS
DEBT SECURITIES

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

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The Nasdaq Global Select Market under the symbol GLAD. As of July 14, 2011, the last reported sales price for our common stock was $9.50.

This prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference. Additional information about us, including our annual, quarterly and current reports, has been filed with the Securities and Exchange Commission. This information is available free of charge on our corporate website located at *http://www.gladstonecapital.com*. See Additional Information. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

An investment in our Securities involves certain risks, including, among other things, risks relating to investments in securities of small, private and developing businesses. We describe some of these risks in the section entitled Risk Factors, which begins on page 8. Shares of closed-end investment companies frequently trade at a discount to their net asset value and this may increase the risk of loss to purchasers of our Securities. You should carefully consider these risks together with all of the other information contained in this prospectus and any prospectus supplement before making a decision to purchase our Securities.

The Securities being offered have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state

securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

July 15, 2011

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

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PROSPECTUS 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. Except where the context suggests otherwise, the terms we, us, our, the Company and Gladstone Capital refer to Gladstone Capital Corporation; Adviser refers to Gl Management Corporation; Administrator refers to Gladstone Administration, LLC; Gladstone Commercial refers to Gladstone Commercial Corporation; Gladstone Investment refers to Gladstone Investment Corporation; Gladstone Land refers to Gladstone Land Corporation; Gladstone Securities refers to Gladstone Securities, LLC; and Gladstone Companies refers to 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, individual investors or are family-owned businesses, with a particular focus on senior notes. In addition, we may acquire from other funds 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 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 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. Because we expect that the majority of our portfolio loans will consist of term debt of private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most of the debt securities we acquire will be unrated. We cannot accurately predict what ratings these loans might receive if they were rated, and thus cannot determine whether or not they could be considered investment grade quality. However, for loans that lack a rating by a credit rating agency, investors should assume that these loans will be below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds, and may be considered high risk compared to investment grade debt instruments.

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 BDC and RIC; our Adviser; and our Administrator. Our treasurer is also an executive officer of Gladstone Securities, a broker-dealer registered with the Financial Industry Regulatory Authority, or FINRA. 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 Administrator also provide investment advisory and administrative services, respectively, to our affiliates Gladstone Commercial; Gladstone Investment; Gladstone Partners Fund, L.P., or Gladstone Partners, a private partnership fund formed primarily to co-invest with us and Gladstone Investment; Gladstone Land, a private agricultural real estate company owned by David Gladstone, our chairman and chief executive officer; and Gladstone Lending Corporation, or Gladstone Lending, a proposed fund that would primarily invest in first and second lien term loans that has filed a registration statement on Form N-2 with the Securities and Exchange Commission, or SEC. In the future, our Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds, both public and private.

We have been externally managed by our Adviser pursuant to a contractual investment advisory arrangement since October 1, 2004. 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, Illinois and Virginia.

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. 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 loans of private companies:

Senior Loans. We seek to invest a portion of our assets in senior notes of borrowers. Using its assets and cash flow as collateral, the 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 and assets of the borrower. 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.

Senior Subordinated Loans. 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 (assets of the borrower), 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 loans and syndicated second lien loans.

Junior Subordinated Loans. 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 and assets of 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.

We may also receive yield enhancements in connection with many of our loans, which may include warrants to purchase stock, stock or success fees.

THE OFFERING

We may offer, from time to time, up to $300,000,000 of our Securities, on terms to be determined at the time of the offering. Our Securities may be offered at prices and on terms to be disclosed in one or more prospectus

supplements. In the case of offering of our common stock and warrants or rights to acquire such common stock hereunder in any offering, the offering price per share, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders, or (iii) under such other circumstances as the SEC may permit. If we were to sell shares of our common stock below our then current 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.

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

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

The Nasdaq Global Select Market Symbol	GLAD
Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our Securities first to pay down existing short-term debt, then to make investments in small and mid-sized companies in accordance with our investment objective, with any remaining proceeds to be used for other general corporate purposes. See Use of Proceeds.
Dividends and Distributions	We have paid monthly distributions to the holders of our common stock and generally intend to continue to do so. The amount of the monthly distributions is determined by our Board of Directors on a quarterly basis and is based on our estimate of our annual investment company taxable income and net short-term taxable capital gains, if any. See Price Range of Common Stock and Distributions. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of securities we might offer will likely pay distributions in accordance with their terms.
Taxation	We intend to continue to elect to be treated for federal income tax purposes as a RIC. So long as we continue to qualify, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. See Material U.S. Federal Income Tax Considerations.

Trading at a Discount	Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value,

	although during the past two years, our common stock has traded consistently, and at times significantly, below net asset value.
Certain Anti-Takeover Provisions	Our Board of Directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain provisions of Maryland law and other measures we have adopted. See Certain Provisions of Maryland Law and of Our Articles of Incorporation and Bylaws.
Dividend Reinvestment Plan	We have a dividend reinvestment plan for our stockholders. This is an opt in dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Stockholders who do not so elect will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.
Management Arrangements	Gladstone Management Corporation serves as our investment adviser, and Gladstone Administration, LLC serves as our administrator. For a description of our Adviser, our Administrator, the Gladstone Companies and our contractual arrangements with these companies, see Management Certain Transactions Investment Advisory and Management Agreement, Management Certain Transactions Administration Agreement and Management Certain Transactions Loan Servicing Agreement.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Capital, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital. The following percentages were calculated based on actual expenses incurred in the quarter ended March 31, 2011 and average net assets for the quarter ended March 31, 2011.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)	%
Dividend reinvestment plan expenses[1]	None
Annual expenses (as a percentage of net assets attributable to common stock):	
Management fees[2]	2.18%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)[3]	0.44%
Interest payments on borrowed funds[4]	1.36%
Other expenses[5]	1.23%
Total annual expenses[2][3][5]	5.21%

(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 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 six months ended March 31, 2011, 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 2.05% and the total estimated annual expenses as a percentage of net assets attributable to common stock were 5.07%. See Management Certain Transactions Investment Advisory and Management Agreement 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, 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:

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

$= 20\% \times 5\%$

$= 1\%$

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

(4) Includes deferred financing costs. We entered into a revolving credit facility, effective November 22, 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 5.25% plus an additional fee related to borrowings of 1.16%, for an aggregate rate of 6.41%, interest payments and amortization of deferred financing costs on borrowed funds would have been 3.28% of our average net assets for the quarter ended March 31, 2011.

(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.

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 Securities. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above. In the event that securities to which this prospectus related are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 55	$ 163	$ 271	$ 536

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Additionally, we have assumed that the entire amount of such 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of 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, $64; 3 years, $190; 5 years, $312; and 10 years, $603. 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 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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ADDITIONAL INFORMATION

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

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Such reports, proxy statements and other information, as well as the registration statement and the amendments, exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC s website is *http://www.sec.gov*. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on The Nasdaq 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.

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

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

RISK FACTORS

You should carefully consider the risks described below and all other information provided and incorporated by reference in this prospectus (or any prospectus supplement) before making a decision to purchase our Securities. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our Securities could decline, and you may lose all or part of your investment.

Risks Related to the Economy

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 is beginning to recover from the recession that largely began in late 2007. Despite signs of economic improvement and stabilization in both the equity and debt markets, however, conditions within the global credit markets generally continue to experience dislocation and stress. As a result, we do not know if adverse conditions will again intensify, and we are unable to gauge the full extent to which the disruptions will affect us. The longer these uncertain conditions persist, the greater the probability that these factors could continue to increase our costs of, and significantly limit our access to, debt and equity capital and, thus, have an adverse effect on our operations and financial results. Many of our portfolio companies, as well as those companies that we evaluate for investment, are impacted by these economic conditions, and if these conditions persist, it may affect their ability to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering.

The uncertain economic conditions have affected the availability of credit generally. Our current credit facility limits our distributions to stockholders and as a result we decreased our monthly cash distribution rate by 50% starting with the April 2009 distributions in an effort to more closely align our distributions to our net investment income. We do not know when market conditions will stabilize, if adverse conditions will intensify or the full extent to which the disruptions will continue to affect us. Also, it is possible that persistent instability of the financial markets could have other unforeseen material effects on our business.

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 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 objectives.

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 Agreements Management services and fees under the Advisory Agreement.

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 objectives 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 and the sole stockholder of Gladstone Land. 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, 2011, 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.

Additionally, pursuant to an exemptive order granted by the Securities and Exchange Commission, our Adviser may sponsor a private investment fund to co-invest with us or Gladstone Investment in accordance with the terms and conditions of the order.

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. In addition, as a business development company, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Although, neither we nor our Adviser currently receives fees in connection with managerial assistance, our Adviser provides other services to our portfolio companies and receives fees for these other services. For example, certain of our portfolio companies contract directly with our Adviser for the provision of consulting services. In addition, Gladstone Securities provides investment banking and due diligence services to certain of our portfolio companies.

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

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 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 March 31, 2011, we had $33.2 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.

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 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 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. At our most recent annual meeting, our stockholders approved such an offering for a period of one year. 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 issue and 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 two years.

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.

Ultimately, we expect approximately 80% of the loans in our portfolio to be at variable rates determined on the basis of the LIBOR, and approximately 20% to be at fixed rates. As of March 31, 2011, our portfolio had approximately 85.4% of the total loan cost value at variable rates with floors, approximately 5.2% of the total of the loan cost value at variable rates without a floor or ceiling and approximately 9.4% of the total loan portfolio cost basis 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 revolving credit line facility of $127.0 million, of which $63.9 million was available for borrowings as of March 31, 2011. 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. These are not realized losses, but 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, 2011, 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, 2010, net unrealized appreciation on our investments was approximately $2.3 million, compared to $9.5 million unrealized appreciation during the prior fiscal year. 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.

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. Therefore, current uncertain economic conditions and any future economic downturns or recessions are more likely to have a material adverse effect on them. If one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan or engage in a liquidity event, such as a sale, recapitalization or initial public offering, would be diminished.

Small and medium-sized businesses may have limited financial resources and may not be able to repay the loans we make to them. Our strategy includes providing financing to portfolio companies that typically 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 a 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. As of March 31, 2011, 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. Although we will sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender s security interest.

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

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

We may not be able to replace lost income due to the reduction in the size of our portfolio and as a result, we may have to reduce our distributions to stockholders.

Since September 30, 2009, the cost basis of our portfolio has experienced a net decrease of 13.8%. The decrease in the size of our portfolio was driven predominantly by repayments and sales during the year ended September 30, 2010 totaling approximately $85.6 million. The decrease in our portfolio has resulted in a reduction of income-producing

assets which has reduced our income and may result in reduced income in future periods if we are unable to reinvest our cash in comparable income producing assets. Even though this lost income is partially offset by a reduction in interest expense due to reduced borrowings outstanding under our Credit Facility and, to a lesser extent, reduced operating expenses, we still have experienced a net decrease in our net investment income as a result of these sales. While we intend to reinvest our cash as quickly as possible into income and capital gain-generating assets, there is no guarantee that that we will be able to do so or that we will able to do so at yields

comparable to the assets that we have recently sold. If we are unable to reinvest our cash and replace our lost income, we may need to reduce our distributions to stockholders.

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 applied 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 Securities Evaluations, 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.

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. We may also 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.

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, 2010, we received principal payments prior to maturity of $59.7 million. 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, 2011 we had loans outstanding to 45 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 25.0% or more of our total investments in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25.0% of the value of our total investments. As of March 31, 2011, 12.8% were invested in healthcare, education and childcare companies, 12.9% of our total investments were invested in broadcast companies, and 9.7% were invested in electronics 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.

The disposition of our investments may result in contingent liabilities.

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

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

Even though we have structured some of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investments and subordinate all, or a portion, of our claims to that of other creditors. Holders of debt instruments ranking senior to our investments

typically would be entitled to receive payment in full before we receive any distributions. After repaying such senior creditors, such portfolio company may not have any remaining assets to use to repay its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower s business or in instances in which we exercised control over the borrower. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken in rendering significant managerial assistance.

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

In the course of providing significant managerial assistance to certain of our portfolio companies, our executive officers sometimes serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, such executive officers may be named as defendants in such litigation, which could result in additional costs and the diversion of management time and resources.

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

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

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

As a 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.

Hedging strategies can pose risks to us and our stockholders.

If one of our portfolio companies goes public in the future, we may undertake hedging strategies with regard to any equity interests that we may have in that company. We may seek to mitigate risks associated with the volatility of publicly traded securities by, for example, selling securities short or writing or buying call or put options. It is possible, however, that utilizing short-selling transactions, derivative instruments and hedging strategies of the type we may use might not perform as intended or expected, resulting in higher realized losses and unforeseen cash needs. In addition, these transactions depend on the performance of various counterparties. Due to the challenging conditions in the financial markets, these counterparties may fail to perform, thus rendering our transactions ineffective, which would likely result in significant losses. In addition, hedging transactions would also limit our opportunity to gain from an increase in the value of our investment in the public company.

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.

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.

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

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

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

- any person who beneficially owns 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 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. Preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction

(such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

Risks Related to an Investment in Our 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. On an annual basis, we intend to distribute net long-term capital gains, after giving effect to any prior year realized losses that are carried forward, by paying a one-time distribution. However, our Board of Directors may determine in certain cases to retain net realized long-term capital gains through a deemed distribution to supplement our equity capital and support the growth of our portfolio.

Distributions by us have included and may in the future 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.

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.

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 the rights offering, own a smaller proportional interest in the Company than would otherwise be the case if they fully exercised their subscription rights. In addition, because the subscription price of the rights offering is likely to be less than the Company s 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.

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. During the past two years, our common stock has traded consistently, and at times significantly, below net asset value. Subsequent to March 31, 2011, our stock has traded at discounts of up to 17% of our net asset value as of March 31, 2011. 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, 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.

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, provided that the number of shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to such sale. During the past two years, 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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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, grow expect, should, would, if, seek, possible, potential, likely or the negative of such terms or comparable t 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) further adverse changes in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker or George Stelljes III; (4) changes in our business strategy; (5) availability, terms and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; and (8) those factors described in the Risk Factors section of this 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.

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of the Securities for general corporate purposes. We expect the proceeds to be used first to pay down existing short-term debt, 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 5.25% and matures on March 15, 2012. We anticipate that substantially all of the net proceeds of any offering of Securities will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of any offering of Securities primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash dividends, a minimum of 90% of our 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 Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations.

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 July 11, 2011, we had 66 stockholders of record, meaning individuals or entities that we carry in our records as the registered holder (although not necessarily the beneficial owner) of our common stock.

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The following table sets forth the range of high and low 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 July 11, 2011.

SHARE PRICE DATA

	NAV[1]	Closing Sales Price High	Closing Sales Price Low	Dividend Declared	Premium (Discount) of High Sales Price to NAV[2]	Discount of Low Sales Price to NAV[2]
Fiscal Year ended September 30, 2009						
First Quarter	$ 12.04	$ 15.38	$ 5.50	$ 0.42	28%	(54)%
Second Quarter	$ 12.10	$ 10.28	$ 5.01	$ 0.42	(15)%	(59)%
Third Quarter	$ 11.86	$ 7.80	$ 5.49	$ 0.21	(34)%	(54)%
Fourth Quarter	$ 11.81	$ 10.40	$ 7.17	$ 0.21	(12)%	(39)%
Fiscal Year ended September 30, 2010						
First Quarter	$ 11.92	$ 9.49	$ 7.50	$ 0.21	(20)%	(37)%
Second Quarter	$ 12.10	$ 12.19	$ 7.19	$ 0.21	1%	(41)%
Third Quarter	$ 11.81	$ 13.94	$ 10.09	$ 0.21	18%	(15)%
Fourth Quarter	$ 11.85	$ 12.34	$ 10.30	$ 0.21	4%	(13)%
Fiscal Year ending September 30, 2011						
First Quarter	$ 11.74	$ 12.00	$ 10.91	$ 0.21	2%	(7)%
Second Quarter	$ 11.18	$ 12.05	$ 10.54	$ 0.21	6%	(8)%
Third Quarter	$ *	$ 11.59	$ 9.24	$ 0.21	*%	*%
Fourth Quarter (through July 11, 2011)	$ *	$ 9.69	$ 9.30	$ 0.21	*%	*%

(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 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 of such quarter, and therefore may not reflect the premium 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.

CONSOLIDATED SELECTED FINANCIAL DATA

The following table summarizes our consolidated selected financial data and other data. The consolidated selected financial data as of September 30, 2010 and 2009 and for the fiscal years ended September 30, 2010, 2009 and 2008 is derived from our audited consolidated financial statements included in this prospectus. The consolidated selected financial data as of and for the six months ended March 31, 2011 and 2010 is derived from our unaudited consolidated financial statements included in this prospectus. The consolidated selected financial data as of September 30, 2008, 2007 and 2006 and for the fiscal years ended September 30, 2007 and 2006 is derived from our audited consolidated financial statements that are not included in this prospectus. The other data included in the second table is unaudited. You should read this data together with our consolidated financial statements and notes thereto presented elsewhere in this prospectus and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations for more information.

	Six Months Ended March 31,		Year Ended September 30,				
	2011 (unaudited)	**2010 (unaudited)**	**2010**	**2009**	**2008**	**2007**	**2006**
ement of ations :							
l stment me	**$ 16,405**	$ 19,618	$ 35,539	$ 42,618	$ 45,725	$ 36,687	$ 26,90
l enses net redits n iser	**7,339**	10,716	17,780	21,587	19,172	14,426	7,44
stment me	**9,066**	8,902	17,759	21,031	26,553	22,261	19,35
(loss) on stments	**(15,316)**	5,404	(1,365)	(17,248)	(47,815)	(7,309)	5,07
rease) ease in assets lting n ations	**$ (6,250)**	$ 14,306	$ 16,394	$ 3,783	$ (21,262)	$ 14,952	$ 24,43

share (1):							
rease) ease in assets lting n ations common e							
c	**$ (0.30)**	$ 0.68	$ (0.78)	$ (0.18)	$ (1.08)	$ 1.13	$ 2.1
ted	**(0.30)**	0.68	(0.78)	(0.18)	(1.08)	1.13	2.1
stment me re net) gain stments common e							
c	**0.43**	0.42	0.84	1.00	1.35	1.69	1.7
ted	**0.43**	0.42	0.84	1.00	1.35	1.69	1.6
n ibutions ared per e	**(0.42)**	(0.42)	(0.84)	(1.26)	(1.68)	(1.68)	(1.6
ement of ts and lities :							
l assets	**$ 272,536**	$ 311,638	$ 270,518	$ 335,910	$ 425,698	$ 367,729	$ 225,78
assets	**235,215**	254,549	249,246	249,076	271,748	220,959	172,57
asset e per e	**11.18**	12.10	11.85	11.81	12.89	14.97	14.0
mon es tanding	**21,039,242**	21,039,242	21,039,242	21,087,574	21,087,574	14,762,574	12,305,00
ghted mon es tanding							
c	**21,039,242**	21,081,576	21,060,351	21,087,574	19,699,796	13,173,822	11,381,37
ted	**21,039,242**	21,081,576	21,060,351	21,087,574	19,699,796	13,173,822	11,615,92
or rities :							
rowings er line of	**$ 33,646**	$ 53,000	$ 17,940	$ 83,350	$ 151,030	$ 144,440	$ 49,99

it[2]							
et erage [3][4]	**797%**	575%	1,419%	396%	279%	252%	44
et erage per [4]	**$ 7,966**	$ 5,754	$ 14,187	$ 3,963	$ 2,792	$ 2,294	$ 4,43

(1) Per share data for net (decrease) increase in net assets resulting from operations is based on the weighted common stock outstanding for both basic and diluted.

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

(3) As a business development company, we are generally required to maintain an asset coverage ratio of 200% of total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings and guaranty commitments.

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

	Six Months Ended March 31,		Year Ended September 30,				
	2011	2010	2010	2009	2008	2007	2006
	(Dollar amounts in thousands, except per unit data)						
Other unaudited data:							
Number of portfolio companies	**45**	41	39	48	63	56	32
Average size of portfolio company investment at cost	**$ 6,983**	$ 8,051	$ 7,647	$ 7,592	$ 7,315	$ 6,352	$ 6,756
Principal amount of new investments	**(52,424)**	(6,880)	(23,245)	(24,911)	(176,550)	(261,700)	(135,955)
Proceeds from loan repayments and investments sold	**36,004**	41,537	85,634	96,693	70,482	121,818	124,010
Weighted average yield on investments[1]:	**11.37%**	11.29%	9.88%	9.82%	10.00%	11.22%	12.08%
Total return[2]	**4.12**	38.77	37.46	(30.94)	(13.90)	(4.40)	5.21

(1) Weighted average yield on investments equals interest income on investments divided by the annualized weighted average investment balance throughout the year.

(2) Total return equals the increase (decrease) of the ending market value over the beginning market value plus monthly distributions divided by the monthly beginning market value.

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

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

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 other funds 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 1940 Act. In addition, for tax purposes we have elected to be treated as a RIC under 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 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.

Business Environment

While economic conditions generally appear to be improving, we remain cautious about a long-term economic recovery. The recent recession in general, and the disruptions in the capital markets in particular, have decreased liquidity for us and increased our cost of debt and equity capital. The longer these economic 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 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 have invested, 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 begin to grow again or if adverse conditions will intensify, and we do not know the full extent to which the continued recession 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 trades below net asset value, or NAV, per share, as it has periodically traded for more than two years, our ability to issue equity is constrained by provisions of the 1940 Act which generally prohibit the issuance and sale of our common stock at an issuance price 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 17, 2011, 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 the number of shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale and that our Board of Directors makes certain determinations prior to any such sale. On July 11, 2011, the closing market price of our common stock was $ 9.54, which price represented a 14.7% discount to our March 31, 2011 NAV per share.

Unstable economic conditions may also continue to 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. Additionally, our credit facility contains covenants regarding the maintenance of certain minimum net worth covenants, 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, 2011, we were in compliance with all of our credit facility s covenants.

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. This was demonstrated on January 20, 2011, when we were informed by the United States Small Business Administration that our Northern Virginia SBIC, LP application to obtain a license as a small business investment company, or SBIC, would not be granted. At this time, we do not intend to pursue a SBIC license for the foreseeable future. Despite current market constraints, we believe that our $127.0 million credit facility with a two-year term increases our ability to make new investments consistent with our strategy of making conservative investments in businesses that we believe will weather the current economic conditions and are likely to produce attractive long-term returns for our stockholders.

Investment Highlights

Purchases: During the year ended September 30, 2010, we extended $10,580 of investments to three new portfolio companies and $12,665 of investments to existing portfolio companies through revolver draws or the additions of new term notes, for total investments of $23,245.

Repayments: During the year ended September 30, 2010, eight borrowers made unscheduled full payoffs of $58,731, 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 $22,885, for total principal repayments of $82,566.

Sales: During the year ended September 30, 2010, we sold three syndicated loans (which resulted in our exit from three portfolio companies) for an aggregate of $3,119 in net proceeds. In addition, we wrote off our investment in Western Directories, which had a cost basis of $2,865.

Since our initial public offering in August 2001, we have made 300 different loans to, or investments in, 151 companies for a total of approximately $1,087.0 million, 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, or Business Loan, we entered into a fourth amended and restated credit agreement, which provides for a $127 million revolving line of credit arranged by Key Equipment Finance Inc. as administrative agent, which we refer to as the Credit Facility.

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Branch Banking and Trust Company and ING Capital LLC 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 on March 15, 2012, and, if the facility is not renewed or extended by this date, all unpaid principal and interest will be due and payable one year thereafter on March 15, 2013. Advances under the Credit Facility initially bore 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. However, on November 22, 2010, or the Amendment Date, we amended our Credit Facility such that advances bear interest at the 30-day LIBOR (subject to a minimum rate of 1.5%), plus 3.75% per annum, with a commitment fee of 0.5% per annum on undrawn amounts when the facility is drawn more than 50% and 1.0% per annum on undrawn amounts when the facility is drawn less than 50%.

In addition to the annual interest rate on borrowings outstanding, under the terms of the Credit Facility prior to the Amendment Date, we were obligated to pay an annual minimum earnings shortfall fee to the committed lenders on March 15, 2011, which was calculated as the difference between the weighted average of borrowings outstanding under the Credit Facility and 50% of the commitment amount of the Credit Facility, multiplied by 4.5% per annum, less commitment fees paid during the year. However, as a result of the amendment to the Credit Facility, we are no longer obligated to pay an annual minimum earnings shortfall fee. As of September 30, 2010, we had accrued approximately $590 in minimum earnings shortfall fees. On the Amendment Date, we paid a $665 fee.

During the year ended September 30, 2010, we elected to apply ASC 825, Financial Instruments, specifically to our Credit Facility, which requires us to apply a fair value methodology to the Credit Facility as of September 30, 2010. The Credit Facility was fair valued at $17,940 as of September 30, 2010.

Investment Strategy

Our strategy is to make loans at favorable interest rates to small and medium-sized businesses. 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 fixed or variable rates. Because the majority of our portfolio loans consist of term debt of private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. We cannot accurately predict what ratings these loans might receive if they were rated, and thus cannot determine whether or not they could be considered investment grade quality. However, for loans that lack a rating by a credit rating agency, investors should assume that these loans will be below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds, and may be considered high risk compared to investment grade debt instruments.

Some of our loans may contain a provision that calls for some portion of the interest payments to be deferred and added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called paid in kind, or PIK, interest and, when earned, we record PIK interest as interest income and add the PIK interest to the principal balance of the loans. We seek to avoid PIK interest with all potential investments under review. As of March 31, 2011, we had loans in our portfolio which contained a PIK provision.

To the extent possible, our loans generally are collateralized by a security interest in the borrower s assets. Interest payments are generally made monthly or quarterly (except to the extent of any PIK interest) with amortization of principal generally being deferred for several years. The principal amount of the loans and any accrued but unpaid interest generally become due at maturity at five to seven years. When we receive a warrant to purchase stock in a borrower in connection with a loan, the warrant will typically have an exercise price equal to the fair value of the portfolio company s common stock at the time of the loan and entitle us to purchase a modest percentage of the borrower s stock.

Original issue discount, or OID, arises when we extend a loan and receive an equity interest in the borrower at the same time. To the extent that the price paid for the equity is not at market value, we must allocate part of the price paid for the loan, to the value of the equity. Then the amount allocated to the equity, the OID, must be amortized over the life of the loan. As with PIK interest, the amortization of OID also produces income that must be recognized for purposes of satisfying the distribution requirements for a RIC under Subchapter M of the Code, whereas the cash is received, if at all, when the equity instrument is sold. We seek to avoid OID with all potential investments under review. As of March 31, 2011, we had fifteen loans with OID income.

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In addition, as a BDC under the 1940 Act, we are required to make available significant managerial assistance to our portfolio companies. Our Adviser 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 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 from other investors, turnaround management, merger and acquisition services and recruiting new management personnel. When our Adviser receives fees for these services, 50% or 100% of certain of those fees are credited against the base management fee that we pay to our Adviser. Any services of this nature subsequent to 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. Our Adviser s affiliate, Gladstone Securities, also provides our portfolio companies with investment banking and due diligence services. These fees are recorded as revenue by Gladstone Securities when earned and do not impact the fees we pay our Adviser.

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 consolidated statements of operations.

Prior to making an investment, we ordinarily enter into a non-binding term sheet with the potential borrower. These non-binding term sheets are generally subject to a number of conditions, including, but not limited to, the satisfactory completion of our due diligence investigations of the potential borrower s business, reaching agreement on the legal documentation for the loan, and the receipt of all necessary consents. Upon execution of the non-binding term sheet, the potential borrower generally pays the Adviser a non-refundable fee for services rendered by the Adviser through the date of the non-binding term sheet. These fees are received by the Adviser and are offset against the base management fee payable to the Adviser, which has the effect of reducing our expenses to the extent of any such fees received by the Adviser.

In the event that we expend significant effort in considering and negotiating a potential investment that ultimately is not consummated, we generally will seek reimbursement from the proposed borrower for our reasonable expenses incurred in connection with the transaction, including legal fees. Any amounts collected for expenses incurred by the Adviser in connection with unconsummated investments will be reimbursed to the Adviser. Amounts collected for these expenses incurred by us will be reimbursed to us and will be recognized in the period in which such reimbursement is received, however, there can be no guarantee that we will be successful in collecting any such reimbursements.

Our Adviser and Administrator

Our Adviser is led by a management team which has extensive experience in our lines of business. Our Adviser is controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone is also the chairman and chief

executive officer of our Adviser. Terry Lee Brubaker, our vice chairman, chief operating officer, secretary and director, is a member of the board of directors of our Adviser and its vice chairman and chief operating officer, George Stelljes III, our president, chief investment officer and director, is a member of the board of directors of our Adviser and its president and chief investment officer. Our Administrator, an affiliate of our Adviser, employs our chief financial officer, chief compliance officer, internal counsel, treasurer and their respective staffs.

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Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates, Gladstone Commercial, a publicly traded real estate investment trust; Gladstone Investment, a publicly traded BDC and RIC; Gladstone Lending, a proposed fund that would primarily invest in first and second lien term loans; Gladstone Partners, a private partnership fund formed primarily to co-invest with us and Gladstone Investment; and Gladstone Land, a private agricultural real estate company. Excluding our chief financial officer, all of our executive officers serve as either directors or executive officers, or both, of our Adviser, our Administrator, Gladstone Commercial and Gladstone Investment. Our treasurer is also an executive office of Gladstone Securities, a broker-dealer registered with the Financial Industry Regulatory Authority. 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.

Investment Advisory and Management Agreement

Under the amended and restated investment advisory agreement, or the Advisory Agreement, we pay our Adviser an annual base management fee of 2% of our average gross assets, which is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

We also pay our Adviser a two-part incentive fee under the Advisory Agreement. The first part of the incentive fee is an income-based incentive fee which rewards our Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate). The second part of the incentive fee is a capital gains-based incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to our Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. The Adviser did not earn the capital gains-based portion of the incentive fee for the fiscal year ended September 30, 2010.

We pay our direct expenses including, but not limited to, directors fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance under the Advisory Agreement.

Beginning in April 2006, our Board of Directors has accepted from the Adviser, unconditional and irrevocable voluntarily waivers on a quarterly basis to reduce the annual 2.0% base management fee on senior syndicated loans to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations. In addition to the base management and incentive fees under the Advisory Agreement, 50% or 100% of certain fees received by the Adviser from our portfolio companies are credited against the investment advisory fee and paid to the Adviser.

The Adviser services our loan portfolio pursuant to a loan servicing agreement with Business Loan in return for a 1.5% annual fee, based on the monthly aggregate outstanding loan balance of the loans pledged under our credit facility. All fees received by the Adviser from Business Loan are credited toward the 2% base management fee.

Administration Agreement

We have entered into an administration agreement with our Administrator, or the Administration Agreement, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent and our allocable portion of the salaries and benefits expenses of our

chief financial officer, chief compliance officer, internal counsel, treasurer and their respective staffs. Our allocable portion of expenses is primarily derived by multiplying our Administrator s total expenses by the percentage of our average assets (the total assets at the beginning and end of each quarter) in comparison to the average total assets of all funds that have administration agreements with our Administrator and are also managed by our Adviser under similar agreements. On July 12, 2011, our Board of Directors approved the renewal of this

Administration Agreement through August 31, 2012. We expect that the Board of Directors will consider a further one year renewal in July 2012.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the years reported. Actual results could materially differ from those estimates. Actual results could differ materially from those estimates. We have identified our investment valuation process, which was modified during the year ended September 30, 2010, as our most critical accounting policy.

Investment Valuation

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

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 ASC 820 on October 1, 2008. In part, ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 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. ASC 820 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 our consolidated financial statements included elsewhere in this prospectus for additional information regarding fair value measurements and our adoption of ASC 820.

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, or 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 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, or IBP, 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 discounted cash flow, or 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, 2011, we assessed trading activity in syndicated loan assets and determined that there continued to be market liquidity and a secondary market for these assets. Thus, firm bid prices or IBPs were used to fair value our remaining syndicated loans as of March 31, 2011.

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; (3) portfolio investments

in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities; and (4) portfolio investments comprised of non-publicly-traded non-control equity securities of other funds.

(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, which we refer to as 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 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 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 the Board 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 the 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 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, common 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 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

DCF 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 or 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. Subsequent to June 30, 2009, 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.

(4) *Portfolio investments comprised of non-publicly traded non-control equity securities of other funds:* We value any uninvested capital of the non-control fund at par value and value any invested capital at the value provided by the non-control fund.

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.

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 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− or Baa3 from an NRSRO, however, no assurance can be given that a 10 on our scale is equal to a BBB− or Baa3 on an NRSRO scale.

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Company s System	First NRSRO	Second NRSRO	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%
< 1	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, 2011, and September 30, 2010, two Non-Control/Non-Affiliate investments and four 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, 2011, September 30, 2010 and September 30, 2009, representing approximately 82%, 93% and 96%, respectively, of all loans in our portfolio at the end of each period:

Rating	March 31, 2011	Sept. 30, 2010	Sept. 30, 2009
Highest	10.0	10.0	9.0
Average	5.9	6.1	7.1