GLADSTONE CAPITAL CORP
Form 10-Q
August 01, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTER ENDED JUNE 30, 2012

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER: 814-00237

GLADSTONE CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND	**54-2040781**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1521 WESTBRANCH DRIVE, SUITE 200

MCLEAN, VIRGINIA 22102
(Address of principal executive office)

(703) 287-5800
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12 b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares of the issuer s common stock, $0.001 par value per share, outstanding as of July 31, 2012 was 21,000,160.

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	June 30, 2012	September 30, 2011
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of **$293,579** and $288,266, respectively)	**$ 260,757**	$ 257,302
Control investments (Cost of **$100,923** and $94,549, respectively)	**37,830**	45,645
Total investments at fair value (Cost of **$394,502** and $382,815, respectively)	**298,587**	302,947
Cash	**9,327**	6,732
Restricted cash	**1,175**	
Interest receivable investments in debt securities	**2,871**	3,066
Interest receivable employees(A)	**62**	
Due from custodian	**5,410**	2,547
Deferred financing fees	**3,212**	650
Other assets	**1,062**	1,682
TOTAL ASSETS	**$ 321,706**	$ 317,624
LIABILITIES		
Borrowings at fair value (Cost of **$87,300** and $99,400, respectively)	**$ 91,777**	$ 100,012
Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **4,000,000** and no shares authorized; **1,539,882** and no shares issued and outstanding at June 30, 2012 and September 30, 2011, respectively	**38,497**	
Accounts payable and accrued expenses	**339**	513
Interest payable	**225**	289
Fees due to Adviser(A)	**1,726**	1,760
Fee due to Administrator(A)	**175**	194
Other liabilities	**1,954**	1,135
TOTAL LIABILITIES	**$ 134,693**	$ 103,903
Commitments and contingencies(B)		
NET ASSETS	**$ 187,013**	$ 213,721
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value per share, **46,000,000** and 50,000,000 shares authorized; **21,000,160** and 21,039,242 shares issued and outstanding at June 30, 2012 and September 30, 2011, respectively	**$ 21**	$ 21
Capital in excess of par value	**326,580**	326,913
Notes receivable from employees(A)	**(3,519)**	(3,858)
Cumulative net unrealized depreciation of investments	**(95,915)**	(79,867)
Cumulative net unrealized appreciation of borrowings	**(4,477)**	(612)
Net investment income in excess of distributions	**108**	108
Accumulated net realized losses	**(35,785)**	(28,984)
TOTAL NET ASSETS	**$ 187,013**	$ 213,721

NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	**$**	**8.91**	$	10.16

(A) Refer to Note 4 *Related Party Transactions* for additional information.
(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	**$ 8,093**	$ 7,028	**$ 23,822**	$ 19,722
Control investments	**827**	1,406	**3,236**	3,604
Cash	**1**		**7**	1
Notes receivable from employees[A]	**62**	102	**192**	346
Total interest income	**8,983**	8,536	**27,257**	23,673
Other income				
Non-Control/Non-Affiliate investments	**978**	444	**3,020**	1,089
Control investments				625
Total other income	**978**	444	**3,020**	1,714
Total investment income	**9,961**	8,980	**30,277**	25,387
EXPENSES				
Base management fee[A]	**1,561**	1,451	**4,655**	4,164
Incentive fee[A]	**1,217**	1,133	**3,556**	3,395
Administration fee[A]	**175**	174	**579**	535
Interest expense on borrowings	**1,167**	958	**3,305**	1,316
Dividend expense on mandatorily redeemable preferred stock	**686**		**1,806**	
Amortization of deferred financing fees	**252**	368	**987**	1,032
Professional fees	**135**	360	**790**	894
Other general and administrative expenses	**281**	196	**1,054**	799
Expenses before credits from Adviser	**5,474**	4,640	**16,732**	12,135
Credits to fees from Adviser[A]	**(382)**	(194)	**(956)**	(348)
Total expenses net of credits	**5,092**	4,446	**15,776**	11,787
NET INVESTMENT INCOME	**4,869**	4,534	**14,501**	13,600
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss):				
Non-Control/Non-Affiliate investments	**150**		**(8,062)**	161
Control investments		(2)		(158)
Total net realized gain (loss)	**150**	(2)	**(8,062)**	3
Net unrealized (depreciation) appreciation:				
Non-Control/Non-Affiliate investments	**(5,128)**	(13,706)	**(1,862)**	(21,768)
Control investments	**(5,994)**	(5,083)	**(14,186)**	(13,035)

Borrowings		**(4,477)**		(53)		**(3,865)**		640
Net unrealized depreciation		**(15,599)**		(18,842)		**(19,913)**		(34,163)
Net realized and unrealized loss		**(15,449)**		(18,844)		**(27,975)**		(34,160)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**(10,580)**	$	(14,310)	**$**	**(13,474)**	$	(20,560)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE								
Basic and Diluted	**$**	**(0.50)**	$	(0.68)	**$**	**(0.64)**	$	(0.98)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING								
Basic and Diluted		**21,000,160**		21,039,242		**21,014,805**		21,039,242

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

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011
OPERATIONS:		
Net investment income	**$ 14,501**	$ 13,600
Net realized (loss) gain on investments	**(8,062)**	3
Net unrealized depreciation of investments	**(16,048)**	(34,803)
Net unrealized (appreciation) depreciation of borrowings	**(3,865)**	640
Net decrease in net assets resulting from operations	**(13,474)**	(20,560)
DISTRIBUTIONS:		
Distributions to common stockholders	**(13,240)**	(13,255)
CAPITAL TRANSACTIONS:		
Stock redemption for repayment of principal on employee notes[A]	**(332)**	
Repayment of principal on employee notes[A]	**338**	2,105
Net increase in net assets from capital transactions	**6**	2,105
Total decrease in net assets	**(26,708)**	(31,710)
NET ASSETS AT BEGINNING OF PERIOD	**213,721**	249,246
NET ASSETS AT END OF PERIOD	**$ 187,013**	$ 217,536

[A] Refer to Note 4 *Related Party Transactions* for additional information.

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net decrease in net assets resulting from operations	**$ (13,474)**	$ (20,560)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	**(66,254)**	(118,646)
Principal repayments on investments	**39,980**	39,855
Proceeds from sale of investments	**6,459**	777
Increase in investment balance due to paid-in-kind interest		(12)
Increase in investment balance due to transferred interest		(204)
Net change in premiums, discounts and amortization	**(115)**	1,420
Net realized loss (gain) on investments	**8,242**	(163)
Net unrealized depreciation of investments	**16,048**	34,803
Net unrealized appreciation (depreciation) of borrowings	**3,865**	(640)
Increase in restricted cash	**(1,175)**	
Amortization of deferred financing fees	**987**	1,032
Decrease in interest receivable	**133**	36
Increase in due from custodian	**(2,863)**	(1,667)
Decrease (increase) in other assets	**620**	(42)
Decrease in accounts payable and accrued expenses	**(175)**	(151)
Decrease in interest payable	**(64)**	(430)
(Decrease) increase in fees due to Adviser[A]	**(19)**	1,118
Decrease in fee due to Administrator[A]	**(34)**	(93)
Increase in other liabilities	**819**	118
Net cash used in operating activities	**(7,020)**	(63,449)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	**69,900**	109,800
Repayments on borrowings	**(82,000)**	(34,400)
Proceeds from issuance of mandatorily redeemable preferred stock	**38,497**	
Deferred financing fees	**(3,548)**	(759)
Distributions paid to common stockholders	**(13,240)**	(13,255)
Receipt of principal on employee notes	**6**	2,105
Net cash provided by financing activities	**9,615**	63,491
NET INCREASE IN CASH	**2,595**	42
CASH, BEGINNING OF PERIOD	**6,732**	7,734
CASH, END OF PERIOD	**$ 9,327**	$ 7,776

NON-CASH ACTIVITIES[B]	**$**	**332**	$

[A] Refer to Note 4 *Related Party Transactions* for additional information.
[B] Redemption of 39,082 shares of common stock to reduce the principal balance of an employee loan by $332. Refer to Note 7 *Common Stock* for additional information.

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

AS OF JUNE 30, 2012

(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) (H)	$ 903	$ 903	$
Allison Publications, LLC	Service-publisher of consumer oriented Magazines	Senior Term Debt (10.5%, Due 9/2012) (D)	8,014	8,018	7,453
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013) (D)	7,465	7,465	2,240
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, $0 available (7.3%, Due 11/2012) (D)	450	450	225
		Senior Term Debt (7.3%, Due 11/2012) (D)	33	33	17
				483	242
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (14.0%, Due 12/2016) (D)	14,265	14,265	13,552
FedCap Partners, LLC	Private equity fund	Class A Membership Units (80 units) (G)		1,200	2,163
		Uncalled Capital Commitment ($800)			
Francis Drilling Fluids, Ltd.	Service oil and natural gas drilling logistics network provider	Senior Subordinated Term Debt (12.0%, Due 11/2017) (I)	15,000	15,000	15,000
		Common Stock Warrants (4.2% ownership) (G) (I)		1,000	1,000
				16,000	16,000
GFRC Holdings, LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (11.5%, Due 12/2013) (D)	5,224	5,224	2,612
		Senior Subordinated Term Debt (14.0%, Due 12/2013) (D)	6,598	6,598	3,299
				11,822	5,911
Heartland Communications Group	Service-radio station operator	Line of Credit, $0 available (5.0%, Due 3/2013) (D)	100	100	33
		Line of Credit, $55 available (10.0%, Due 3/2013) (D)	45	45	15
		Senior Term Debt (5.0%, Due 3/2013) (D)	4,343	4,329	1,411
		Common Stock Warrants (8.8% ownership) (F) (G)		66	
				4,540	1,459
	Service-golf training		2,025	2,025	1,215

International Junior Golf Training Acquisition Company		Line of Credit, $200 available (11.0%, Due 5/2014) (D)			
		Senior Term Debt (10.5%, Due 5/2014) (D)	561	561	337
		Senior Term Debt (12.5%, Due 5/2014) (C)(D)	2,500	2,500	1,500
				5,086	3,052
Legend Communications of Wyoming, LLC	Service-operator of radio stations	Senior Term Debt (12.0%, Due 6/2013) (D)	8,932	8,932	4,466
North American Aircraft Services, LLC	Service repairs and maintains aircraft fuel tanks and fuel systems	Line of Credit, $500 available (6.5%, Due 8/2012) (D)	1,500	1,500	1,478
		Senior Term Debt (7.5%, Due 8/2016) (D)	4,516	4,516	4,448
		Senior Subordinated Term Debt (11.8%, Due 8/2016) (D)	4,750	4,750	4,679
		Senior Subordinated Term Debt (12.5%, Due 8/2016) (D)	2,820	2,820	2,778
		Common Stock Warrants (4.6% ownership) (F) (G)		350	452
				13,936	13,835
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012) (D)	35	31	30
Ohana Media Group	Service AM/FM radio broadcast	Senior Term Debt (10.0%, Due 10/2016) (D)	1,590	1,590	1,423
POP Radio, L.P.	Service advertiser-supported in-store radio network	Senior Term Debt (11.8%, Due 5/2017) (I)	11,500	11,500	11,500
		Senior Subordinated Term Debt (11.0%, Due 11/2017) (I)	500	500	500
				12,000	12,000
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the Aluminum industry	Equipment Note (13.0%, Due 3/2013) (D)	1,000	1,000	820
		Senior Term Debt (13.0%, Due 3/2013) (D)	4,125	4,125	3,383
		Senior Term Debt (13.0%, Due 3/2013) (C) (D)	4,053	4,053	3,323
				9,178	7,526
PROFIT Systems Acquisition Co.	Service-design and develop ERP Software	Line of Credit, $350 available (11.3%, Due 7/2012) (D)			
		Senior Term Debt (10.5%, Due 7/2014) (C) (D)	2,700	2,700	2,538
				2,700	2,538
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, $1,100 available (9.0%, Due 1/2013) (D)	2,900	2,900	2,683
		Mortgage Note (9.5%, Due 12/2014) (D)	7,098	7,098	6,566
		Senior Term Debt (12.0%, Due 12/2014) (C) (D)	11,482	11,482	10,621
		Senior Subordinated Term Debt (12.5%, Due 12/2014) (D)	6,000	6,000	5,550

	Common Stock Warrants (764 shares) (F) (G)	209	
		27,689	25,420

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Line of Credit, $1,500 available (11.3%, Due 5/2013) [(D)]	$	$	$
		Senior Term Debt (11.3%, Due 5/2013) [(D)]	8,947	8,947	7,828
				8,947	7,828
Sunburst Media Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 11/2013) [(D)]	6,000	6,000	1,800
Thibaut Acquisition Co.	Service-design and distribute wall Covering	Line of Credit, $450 available (9.0%, Due 1/2014) [(D)]	550	550	538
		Senior Term Debt (8.5%, Due 1/2014) [(D)]	156	156	153
		Senior Term Debt (12.0%, Due 1/2014) [(C) (D)]	3,000	3,000	2,917
				3,706	3,608
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (12.3%, Due 1/2014) [(D)]	12,000	12,000	11,580
		Senior Subordinated Term Debt (13.5%, Due 1/2014) [(D)]	8,000	8,000	7,680
				20,000	19,260
Westland Technologies, Inc.	Service-diversified conglomerate	Senior Term Debt (7.5%, Due 4/2016) [(D)]	1,650	1,650	1,567
		Senior Term Debt (12.5%, Due 4/2016) [(D)]	4,000	4,000	3,800
		Common Stock Warrants (77,287 shares) [(F) (G)]		350	260
				6,000	5,627
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (6.5%, Due 5/2013) [(D) (J)]	1,250	1,250	1,250
		Senior Term Debt (7.0%, Due 5/2013) [(D) (J)]	1,665	1,665	1,665
		Senior Subordinated Term Debt (13.5%, Due 6/2013) [(D) (J)]	9,725	9,725	9,725

				12,640	12,640
Subtotal Non-syndicated loans				$ 203,131	$ 170,073
Syndicated Loans:					
Airvana Network Solutions, Inc.	Service-telecommunications	Senior Term Debt (10.0%, Due 3/2015) (E)	$ 2,143	$ 2,077	$ 2,078
Allied Security Holdings, LLC	Service-contract security officer providers	Senior Subordinated Term Debt (8.5%, Due 2/2018) (E)	1,000	991	990
Allied Specialty Vehicles, Inc.	Manufacturing-specialty vehicles	Senior Term Debt (9.5%, Due 2/2016) (E)	9,875	9,719	9,677
Ameriqual Group, LLC	Manufacturing-production and distribution of food products	Senior Term Debt (9.0%, Due 3/2016) (E)	7,425	7,307	7,276
Applied Systems, Inc.	Software for property & casualty insurance industry	Senior Subordinated Term Debt (9.3%, Due 6/2017) (E)	1,000	991	990
Ascend Learning, LLC	Service-technology-based learning solutions	Senior Subordinated Term Debt (11.5%, Due 12/2017) (E)	1,000	974	997
Autoparts Holdings Limited	Distributor light and heavy-duty vehicle replacement parts	Senior Term Debt (10.5%, Due 1/2018) (E)	1,000	996	870
Blue Coat Systems, Inc.	Distributor internet security and network acceleration appliances	Senior Subordinated Term Debt (11.5%, Due 8/2018) (E)	8,500	8,497	8,500
HGI Holding, Inc	Service distributor of disposable medical products	Senior Term Debt (6.8%, Due 10/2016) (E)	1,566	1,538	1,566
Hubbard Radio, LLC	Service-radio station operator	Senior Subordinated Term Debt (8.8%, Due 4/2018) (E)	500	496	499
Keypoint Government Solutions, Inc.	Service-security consulting services	Senior Term Debt (10.0%, Due 12/2015) (E)	6,380	6,354	6,284
Mood Media Corporation	Service-media and marketing solutions	Senior Term Debt (10.3%, Due 11/2018) (E)	8,000	7,928	7,760
National Surgical Hospitals, Inc.	Service-physician-partnered surgical facilities	Senior Term Debt (8.3%, Due 2/2017) (E)	1,682	1,649	1,631
PLATO Learning, Inc.	Service education based software provider	Senior Subordinated Term Debt (11.3%, Due 5/2019) (E)	5,000	4,901	4,900
Sensus USA, Inc.	Service-provider of utility communication Services	Senior Term Debt (8.5%, Due 5/2018) (E)	500	496	497
Springs Window Fashions, LLC	Manufacturing-window coverings	Senior Term Debt (11.3%, Due 11/2017) (E)	7,000	6,848	6,790

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
SRAM, LLC	Manufacturing-premium bicycle components	Senior Term Debt (8.5%, Due 12/2018) [(E)]	$ 2,500	$ 2,478	$ 2,513
Targus Group International, Inc.	Manufacturing-carrying cases and accessories for notebook computers	Senior Term Debt (11.0%, Due 5/2016) [(E)]	9,900	9,735	9,801
Ulterra Drilling Technologies, LP	Manufacturing-oil field drill bits and slick-slip reduction tools	Senior Term Debt (9.5%, Due 6/2016) [(E)]	1,888	1,856	1,892
Vision Solutions, Inc.	Service-provider of information availability software	Senior Term Debt (9.5%, Due 7/2017) [(E)]	11,000	10,923	10,890
Wall Street Systems Holdings, Inc.	Service-software provider	Senior Term Debt (9.0%, Due 6/2018) [(E)]	3,000	2,973	3,008
WP Evenflo Group Holdings, Inc.	Manufacturing-infant and juvenile Products	Senior Term Debt (8.0%, Due 2/2013) [(E)]	277	277	274
		Senior Preferred Equity (333 shares) [(F)] [(G)]		111	450
		Junior Preferred Equity (111 shares) [(F)] [(G)]		333	160
		Common Stock (1,874 shares) [(F)] [(G)]			389
				721	1,273
Subtotal Syndicated loans				$ 90,448	$ 90,682
Total Non-Control/Non-Affiliate Investments (represented 87.3% of total investments at fair value)				$ 293,579	$ 260,755
CONTROL INVESTMENTS:					
BERTL, Inc.	Service-web-based evaluator of imaging products	Line of Credit, $150 available (6.5%, Due 7/2012)[(F)] [(H)]	$ 1,359	$ 1,359	$
		Common Stock (100 shares) [(F)] [(G)]		424	
				1,783	
Defiance Integrated Technologies, Inc.	Manufacturing-trucking parts	Senior Term Debt (11.0%, Due 4/2013) [(C)] [(F)]	7,265	7,265	7,265

		Common Stock (15,500 shares) (F) (G)		1	7,099
				7,266	14,364
Kansas Cable Holdings, Inc.	Service - cable, internet, voice provider	Line of Credit, $155 available (10.0%, Due 10/2012) (D) (H)	820	811	4
		Senior Term Debt (10.0%, Due 10/2012) (D) (H)	1,500	1,444	8
		Senior Term Debt (10.0%, Due 10/2012) (D) (H)	1,039	1,000	5
		Common Stock (100 shares) (F) (G)			
				3,255	17
Lindmark Acquisition, LLC	Service-advertising	Senior Subordinated Term Debt (11.0%, Due 10/2012) (D) (H)	10,000	10,000	1,000
		Senior Subordinated Term Debt (13.0%, Due 10/2012) (D) (H)	2,000	2,000	200
		Senior Subordinated Term Debt (13.0%, Due Upon Demand) (D) (H)	1,909	1,909	191
		Common Stock (100 shares) (F) (G)		317	
				14,226	1,391
LocalTel, LLC	Service-yellow pages publishing	Line of credit, $435 available (10.0%, Due 6/2013) (F) (H)	2,415	2,415	559
		Line of Credit, $1,830 available (4.7%, Due 6/2013) (F) (H)	1,170	1,170	
		Senior Term Debt (12.5%, Due 6/2013) (F) (H)	325	325	
		Senior Term Debt (8.5%, Due 6/2013) (F) (H)	2,688	2,687	
		Senior Term Debt (10.5%, Due 6/2013) (C) (F) (H)	2,750	2,750	
		Common Stock Warrants (4,000 shares) (F) (G)			
				9,347	559
Midwest Metal Distribution, Inc.	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 7/2013) (D)	18,281	18,269	17,595
		Common Stock (501 shares) (F) (G)		138	
				18,407	17,595
Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of credit, $351 available (4.8%, Due 8/2014) (D) (H)	1,649	1,649	165
		Senior Term Debt (4.8%, Due 5/2016) (D) (H)	16,948	16,948	1,695
		Senior Term Debt (5.5%, Due 5/2016) (C) (D) (H)	10,700	10,700	1,070
		Junior Preferred Equity (14,2573 shares) (F) (G)		5,275	
		Common Stock (934 shares) (F) (G)		740	
				35,312	2,930
U.S. Healthcare Communications, Inc.	Service-magazine publisher/operator	Line of credit, $131 available (6.0%, Due 12/2010) (F) (H)	269	269	
		Line of credit, $0 available (6.0%, Due 12/2010) (F) (H)	450	450	
		Common Stock (100 shares) (F) (G)		2,470	

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
CONTROL INVESTMENTS (Continued):					
Viapack, Inc.	Manufacturing-polyethylene film	Line of Credit, $187 available (6.5%, Due 3/2013) [(D)]	$ 3,613	$ 3,613	$ 433
		Senior Real Estate Term Debt (5.0%, Due 3/2014) [(D)]	600	600	72
		Senior Term Debt (6.2%, Due 3/2014) [(C) (D) (H)]	3,925	3,925	471
		Preferred Equity (100 shares) [(F) (G)]			
		Guarantee ($300)			
				8,138	976
Total Control Investments (represented 12.7% of total investments at fair value)				**$ 100,923**	**$ 37,832**
Total Investments				**$ 394,502**	**$ 298,587**

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

(B) Percentage represents interest rates in effect at June 30, 2012, 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, 2012, 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. We also considered discounted cash flow methodologies.

(G) Security is non-income producing.

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

(I) New proprietary portfolio investment valued at cost, as it was determined that the price paid during the three months ended June 30, 2012, best represents fair value as of June 30, 2012.

(J) Security was paid off, at par, subsequent to June 30, 2012, and was valued based on the payoff.

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

(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 2/2011) [(D) (H)]	$ 903	$ 903	$ 45
Allison Publications, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (10.5%, Due 9/2012) [(D)]	8,463	8,478	7,861
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013) [(D)]	7,465	7,465	6,233
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, $250 available (7.3%, Due 11/2011) [(D)]	450	450	338
		Senior Term Debt (7.3%, Due 11/2011) [(D)]	168	168	126
				618	464
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (13.0%, Due 12/2016) [(D)]	14,265	14,265	14,336
FedCap Partners, LLC	Private equity fund	Class A Membership Units (80 units) [(G)]		1,200	1,153
		Uncalled Capital Commitment ($800)			
GFRC Holdings, LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (11.5%, Due 12/2012) [(D)]	5,617	5,617	4,719
		Senior Subordinated Term Debt (14.0%, Due 12/2012) [(D)]	6,615	6,615	5,557
				12,232	10,276
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (13.0%, Due 6/2012) [(C) (D)]	2,635	2,635	2,212
Heartland Communications Group	Service-radio station operator	Line of Credit, $0 available (5.0%, Due 3/2013) [(D)]	100	100	41
		Line of Credit, $0 available (10.0%, Due 3/2013) [(D)]	100	100	41
		Senior Term Debt (5.0%, Due 3/2013) [(D)]	4,342	4,316	1,780
		Common Stock Warrants (8.8% ownership) [(F) (G)]		66	
				4,582	1,862
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, $0 available (11.0%, Due 5/2012) [(D)]	1,500	1,500	1,275
		Senior Term Debt (10.5%, Due 5/2012) [(D)]	861	861	732
		Senior Term Debt (12.5%, Due 5/2012) [(C)(D)]	2,500	2,500	2,125

				4,861	4,132
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, $42 available (12.3%, Due 7/2010) (D) (H)	162	158	76
		Senior Term Debt (12.3%, Due 7/2010) (D) (H)	2,081	2,038	984
				2,196	1,060
Legend Communications of Wyoming, LLC	Service-operator of radio stations	Senior Term Debt (12.0%, Due 6/2013) (D)	9,745	9,745	5,408
		Senior Term Debt (16.0%, Due 7/2011) (D)	220	220	123
				9,965	5,531
Newhall Holdings, Inc.	Service-distributor of personal care products and supplements	Line of Credit, $0 available (8.0%, Due 12/2012) (D) (H)	1,985	1,985	98
		Senior Term Debt (8.5%, Due 12/2012) (D) (H)	1,870	1,870	94
		Senior Term Debt (3.5%, Due 12/2012) (C) (D) (H)	2,000	2,000	100
		Senior Term Debt (3.5%, Due 12/2012) (C) (D) (H)	4,648	4,648	232
		Preferred Equity (1,000,000 shares) (F) (G) (H)			
		Common Stock (688,500 shares) (F) (G)			
				10,503	524
North American Aircraft Services LLC	Service - repairs and maintains aircraft fuel tanks and fuel systems	Line of Credit, $1,500 available (6.5%, Due 8/2012) (D)	500	500	500
		Senior Term Debt (7.5%, Due 8/2016) (D)	3,250	3,250	3,250
		Senior Subordinated Term Debt (11.8%, Due 8/2016) (D)	4,750	4,750	4,750
		Common Stock Warrants (4.8% ownership) (F) (G)		350	350
				8,850	8,850
Northern Contours, Inc.	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (13.0%, Due 9/2012) (D)	6,128	6,128	5,684
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012) (D)	80	70	64
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the aluminum industry	Equipment Note (13.0%, Due 11/2011) (D)	1,000	1,000	948
		Senior Term Debt (13.0%, Due 11/2011) (D)	4,125	4,125	3,908
		Senior Term Debt (13.0%, Due 11/2011) (C) (D)	4,053	4,053	3,840
				9,178	8,696
PROFIT Systems Acquisition Co.	Service-design and develop ERP software	Line of Credit, $350 available (11.25%, Due 7/2012) (D)			
		Senior Term Debt (10.5%, Due 7/2014) (C) (D)	3,150	3,150	3,024
				3,150	3,024

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF SEPTEMBER 30, 2011

(DOLLAR AMOUNTS IN THOUSANDS)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (9.5%, Due 1/2013) [(D)]	$ 1,438	$ 1,438	$ 1,367
		Senior Term Debt (11.5%, Due 1/2013) [(C)] [(D)]	3,060	3,060	2,907
				4,498	4,274
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, $2,800 available (9.0%, Due 1/2013) [(D)]	1,200	1,200	1,176
		Mortgage Note (9.5%, Due 12/2014) [(D)]	7,168	7,168	7,025
		Senior Term Debt (12.0%, Due 12/2014) [(C)(D)]	11,573	11,573	10,906
		Senior Subordinated Term Debt (12.5%, Due 12/2014) [(D)]	6,000	6,000	5,655
		Common Stock Warrants (764 shares) [(F)] [(G)]		209	534
				26,150	25,296
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	8,913
				8,947	8,913
Sunburst Media Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 12/2011) [(D)]	6,100	6,103	3,964
Thibaut Acquisition Co.	Service-design and distribute wall covering	Line of Credit, $400 available (9.0%, Due 1/2014) [(D)]	600	600	585
		Senior Term Debt (8.5%, Due 1/2014) [(D)]	550	550	536
		Senior Term Debt (12.0%,	3,000	3,000	2,910

		Due 1/2014) (C) (D)			
				4,150	4,031
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (12.3%, Due 1/2014) (D)	12,000	12,000	11,640
		Senior Subordinated Term Debt (13.5%, Due 1/2014) (D)	8,000	8,000	7,700
				20,000	19,340
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	1,995
		Senior Term Debt (12.5%, Due 4/2016) (D)	4,000	4,000	3,990
		Common Stock Warrants (77,287 shares) (F) (G)		350	307
				6,350	6,292
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.2%, Due 5/2012) (D)	1,250	1,250	1,238
		Senior Term Debt (5.7%, Due 5/2013) (D)	1,677	1,677	1,656
		Senior Subordinated Term Debt (14.0%, Due 6/2013) (D)	9,800	9,800	9,628
				12,727	12,522
Subtotal Non-syndicated loans				$ 196,204	$ 166,639
Syndicated Loans:					
Airvana Network Solutions, Inc.	Service-telecommunications	Senior Term Debt (10.0%, Due 3/2015) (E)	$ 6,048	$ 5,912	$ 6,048
Allied Security Holdings, LLC	Service-contract security officer providers	Senior Subordinated Term Debt (8.5%, Due 2/2018) (E)	1,000	991	965
Allied Specialty Vehicles, Inc.	Manufacturing-specialty vehicles	Senior Term Debt (9.5%, Due 2/2016) (E)	9,950	9,767	9,751
Ameriqual Group, LLC	Manufacturing-production and distribution of food products	Senior Term Debt (9.0%, Due 3/2016) (E)	7,481	7,344	7,332
Applied Systems, Inc.	Software for property & casualty insurance industry	Senior Subordinated Term Debt (9.3%, Due 6/2017) (E)	1,000	991	990
Ascend Learning, LLC	Service-technology-based learning solutions	Senior Subordinated Term Debt (11.53%, Due 12/2017) (E)	1,000	972	980
Attachmate Corporate	Service-develops, implements and supports software	Senior Subordinated Term Debt (9.5%, Due 2/2017) (E)	4,000	3,962	3,810

Autoparts Holdings Limited	Supplier to the light and heavy-duty vehicle after market for replacement parts	Senior Term Debt (10.5%, Due 1/2018) (E)	1,000	995	978
Covad Communications Group, Inc.	Service-telecommunications	Senior Term Debt (12.0%, Due 11/2015) (E)	1,850	1,818	1,795
Ernest Health, Inc.	Service-post-acute care services	Senior Term Debt (10.3%, Due 5/2017) (E)	2,000	1,971	1930
Global Brass and Copper, Inc.	Manufacturing steel wool products and metal fibers	Senior Term Debt (10.3%, Due 8/2015) (E)	2,969	2,893	3,054
HGI Holding, Inc	Service distributor of disposable medical products	Senior Term Debt (6.8%, Due 10/2016) (E)	1,757	1,723	1,687
Hubbard Radio, LLC	Service-radio station operator	Senior Subordinated Term Debt (8.8%, Due 4/2018) (E)	500	495	488
Keypoint Government Solutions, Inc.	Service-security consulting services	Senior Term Debt (10.0%, Due 12/2015) (E)	6,948	6,916	6,670

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF SEPTEMBER 30, 2011

(DOLLAR AMOUNTS IN THOUSANDS)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
Mood Media Corporation	Service-media and marketing solutions	Senior Term Debt (10.3%, Due 11/2018) [(E)]	$ 8,000	$ 7,923	$ 7,370
National Surgical Hospitals, Inc.	Service-physician-partnered surgical facilities	Senior Term Debt (8.3%, Due 2/2017) [(E)]	1,694	1,658	1,627
Sensus USA, Inc.	Service-provider of utility communication services	Senior Term Debt (8.5%, Due 5/2018) [(E)]	500	495	483
Springs Window Fashions, LLC	Manufacturing-window coverings	Senior Term Debt (11.3%, Due 11/2017) [(E)]	5,000	4,855	4,750
SRAM, LLC	Manufacturing-premium bicycle components	Senior Term Debt (8.5%, Due 12/2018) [(E)]	2,500	2,476	2,475
Targus Group International, Inc.	Manufacturing-carrying cases and accessories for notebook computers	Senior Term Debt (11.0%, Due 5/2016) [(E)]	9,975	9,785	9,626
Ulterra Drilling Technologies, LP	Manufacturing-oil field drill bits and slick-slip reduction tools	Senior Term Debt (9.5%, Due 6/2016) [(E)]	1,975	1,937	1,916
Vision Solutions, Inc.	Service-provider of information availability software	Senior Term Debt (9.5%, Due 7/2017) [(E)]	11,000	10,915	10,560
Wall Street Systems Holdings, Inc.	Service-software provider	Senior Term Debt (9.0%, Due 6/2018) [(E)]	3,000	2,971	2,880
WP Evenflo Group Holdings Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (8.0%, Due 2/2013) [(E)]	1,853	1,853	1,723
		Senior Preferred Equity (333 shares) [(F)] [(G)]		333	419
		Junior Preferred Equity (111 shares) [(F)] [(G)]		111	146
		Common Stock (1,874 shares) [(F)] [(G)]			210
				2,297	2,498
Subtotal Syndicated loans				$ 92,062	$ 90,663

Total Non-Control/Non-Affiliate Investments (represented 84.9% of total investments at fair value)				**$ 288,266**	**$ 257,302**

CONTROL INVESTMENTS:

BERTL, Inc.	Service-web-based evaluator of imaging products	Line of Credit, $6 available (6.4%, Due 10/2011)(F) (H)	$ 1,427	$ 1,355	$
		Common Stock (100 shares) (F) (G)		424	
				1779	
Defiance Integrated Technologies, Inc.	Manufacturing-trucking parts	Senior Term Debt (11.0%, Due 4/2013) (C) (F)	7,505	7,505	7,505
		Common Stock (15,500 shares) (F) (G)		1	7,534
				7,506	15,039
Kansas Cable Holdings, Inc.	Service - cable, internet, voice provider	Line of Credit, $179 available (10.0%, Due 10/2012) (D) (H)	346	337	14
		Senior Term Debt (10.0%, Due 10/2012) (D) (H)	1,500	1,444	60
		Senior Term Debt (10.0%, Due 10/2012) (D) (H)	1,039	1,000	42
		Common Stock (100 shares) (F) (G)			
				2,781	116
Lindmark Acquisition, LLC	Service-advertising	Senior Subordinated Term Debt (11.0%, Due 10/2012)(D)(H)	10,000	10,000	2,000
		Senior Subordinated Term Debt (13.0%, Due 10/2012)(D)(H)	2,000	2,000	400
		Senior Subordinated Term Debt (13.0%, Due Upon Demand) (D) (H)	1,908	1,908	383
		Common Stock (100 shares) (F) (G)		317	
				14,225	2,783
LocalTel, LLC	Service-yellow pages publishing	Line of credit, $2 available (10.0%, Due 12/2011) (F) (H)	1,848	1,848	734
		Line of Credit, $1,830 available (4.7%, Due 6/2012) (F) (H)	1,170	1,170	
		Senior Term Debt (12.5%, Due 2/2012) (F) (H)	325	325	
		Senior Term Debt (8.5%, Due 6/2012) (F) (H)	2,688	2,688	
		Senior Term Debt (10.5%, Due 6/2012) (C) (F) (H)	2,750	2,750	
		Common Stock Warrants (4,000 shares) (F) (G)			

				8,781	734
Midwest Metal Distribution, Inc.	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 7/2013) (D)	18,281	18,262	17,184
		Common Stock (501 shares) (F) (G)		138	
				18,400	17,184
Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of credit, $1,100 available (10.5%, Due 8/2014) (D)	900	900	270
		Senior Term Debt (10.5%, Due 5/2016) (D)	16,948	16,948	5,084
		Senior Term Debt (5.0%, Due 5/2016) (C) (D)	10,700	10,700	3,210
		Junior Preferred Equity (6,689 shares) (F) (G)		2,475	
		Common Stock (934 shares) (F) (G)		740	
				31,763	8,564

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF SEPTEMBER 30, 2011

(DOLLAR AMOUNTS IN THOUSANDS)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
CONTROL INVESTMENTS (Continued):					
U.S. Healthcare Communications, Inc.	Service-magazine publisher/operator	Line of credit, $131 available (6.0%, Due 12/2010) (F) (H)	$ 269	$ 269	$
		Line of credit, $0 available (6.0%, Due 12/2010) (F) (H)	450	450	
		Common Stock (100 shares) (F) (G)		2,470	
				3,189	
Viapack, Inc.	Manufacturing-polyethylene film	Line of Credit, $900 available (10.0%, Due 3/2013) (D)	1,600	1,600	320
		Senior Real Estate Term Debt (10.0%, Due 3/2014) (D)	600	600	120
		Senior Term Debt (13.0%, Due 3/2014) (C) (D)	3,925	3,925	785
		Preferred Equity (100 shares) (F) (G)			
				6,125	1,225
Total Control Investments (represented 15.1% of total investments at fair value)				**$ 94,549**	**$ 45,645**
Total Investments				**$ 382,815**	**$ 302,947**

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

(B) Percentage represents interest rates in effect at September 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 September 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. We also considered discounted cash flow methodologies.

(G) Security is non-income producing.

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

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

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2012

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

NOTE 1. ORGANIZATION

Gladstone Capital Corporation was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001 and completed an initial public offering on August 23, 2001. The terms we, our, and us all refer to Gladstone Capital Corporation and its consolidated subsidiaries. We are a closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, we have elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). 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, with a particular focus on senior notes, of established private businesses in the United States (U.S.) that are substantially owned by leveraged buyout funds, individual investors or are family-owned businesses. In addition, we may acquire existing loans that meet this profile from other funds. 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.

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

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

The financial statements of the subsidiaries are consolidated with those of ours.

We are externally managed by Gladstone Management Corporation (the Adviser), an affiliate of ours.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and 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 our accounts and those of our 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, we are not permitted to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended June 30, 2012 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 statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended September 30, 2011, as filed with the Securities and Exchange Commission (the SEC) on November 14, 2011.

Our 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 three and nine month periods ended June 30, 2012, with no effect to net decrease in net assets resulting from operations.

Investment Valuation Policy

We carry our 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 our board of directors (the Board of Directors). In determining the fair value of our investments, our Adviser has established an investment valuation policy (the Policy). The Policy has been approved by our Board of Directors, and each quarter our Board of Directors reviews whether our Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of our investment portfolio. Such determination of fair values may involve subjective judgments and estimates.

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 scope used to value our investments. When we obtain these specific third-party appraisals, we 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 our investments.

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: 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. As of June 30, 2012 and September 30, 2011, we did not have any investments in publicly traded securities.

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, which are non-binding. In valuing these assets, we assess trading activity in an asset class and evaluate variances in prices and other market insights to determine if any available quoted prices are reliable. In general, if we conclude that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if firm bid prices are unavailable, we base 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 we use 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, including but not limited to reviewing a range of indicative bids to the extent the Adviser has ready access to such qualified information.

In the event these limited markets become illiquid to a degree that market prices are no longer readily available, we will value our 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 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, 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 other things, increased probability of default, 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 apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

As of June 30, 2012 and September 30, 2011, we determined that the indicative bid prices were reliable indicators of fair value for our syndicate investments. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), we determined that these valuation inputs were classified as Level 3 within the fair value hierarchy as defined in ASC 820.

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.

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(A) Portfolio investments comprised solely of debt securities: Debt securities that are not publicly traded on an established securities market, or for which a market does not exist (Non-Public Debt Securities), and that are issued by portfolio companies in which we have no equity or equity-like securities, are fair valued utilizing opinions of value submitted to us by Standard & Poor s Securities Evaluations, Inc. (SPSE). We 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 our 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 of the portfolio company. We manage our risk related to these investments at the aggregated issuer level and generally exit the debt and equity securities together. Applying the liquidity waterfall approach to all of the investments of an issuer, we first calculate 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.

In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once we have estimated the TEV of the issuer, we 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 all 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 we 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: 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 (as amended by the FASB s 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 International Financial Reporting Standards (IFRS), (ASU 2011-04)), we have defined our unit of account at the investment level (either debt or equity) and as such determine our fair value of these non-control investments assuming the sale of an individual security using the standalone premise of value. As such, we estimate the fair value of the debt component using estimates of value provided by SPSE and our own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, we estimate the fair value of the equity 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. Furthermore, we may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or

DCF valuation techniques and, in the absence of other observable market data, our own assumptions.

(D) **Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds:** We generally 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 and materially from the values that would have been obtained had a ready market for the securities existed. 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 orderly transaction between market participants at the measurement date.

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

Interest 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 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. Generally, 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 collectable. At June 30, 2012, eight portfolio companies were either fully or partially on non-accrual with an aggregate debt cost basis of $62.4 million, or 16.3% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $5.3 million, or 1.9% of the fair value of all debt investments in our portfolio. At September 30, 2011, eight portfolio companies were on non-accrual with an aggregate debt cost basis of $41.1 million, or 11.0% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $5.3 million, or 1.8% of the fair value of all debt investments in our portfolio.

As of June 30, 2012 and September 30, 2011, we had 25 and 27 original issue discount (OID) loans, respectively, primarily from the syndicated loans in our portfolio. We recorded OID income of $0.1 million and $0.3 million for the three and nine months ended June 30, 2012, respectively, as compared to $64 and $117 for the three and nine months ended June 30, 2011, respectively. The unamortized balance of OID investments as of June 30, 2012 and September 30, 2011 totaled $1.3 million and $1.5 million, respectively.

As of June 30, 2012, we had one investment that bore PIK interest and as of September 30, 2011, we had no investments that bore PIK interest. PIK interest, computed at the contractual rate specified in a loan agreement, is added to the principal balance of a loan and recorded as income. To maintain our status as a RIC, this non-cash source of income must be paid out to common stockholders in the form of distributions, even though we have not yet collected the cash. We recorded $6 of PIK income during the three and nine months ended June 30, 2012, as compared to $4 and $12 for the three and nine months ended June 30, 2011, respectively.

We also transfer past due interest to the principal balance as stipulated in certain loan amendments with portfolio companies. There were no such transfers during the three and nine months ended June 30, 2012. 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.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company and are recorded in other income in our accompanying *Condensed Consolidated Statements of Operations*. We recorded $2.8 million of success fess during the nine months ended June 30, 2012, which resulted mainly from our exits of Global Materials Technologies, Inc, RCS Management Holding Co, and Northern Contours, Inc. We recorded $0.6 million of success fees during the nine months ended June 30, 2011, which resulted from our exits of Pinnacle Treatment Centers, Inc. and Interfilm Holdings, Inc.

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 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;

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Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active or inactive 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 assumptions that market participants would use when pricing the asset or liability and can include our own assumptions based upon the best available information.

We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the nine months ended June 30, 2012 and 2011, there were no transfers in or out of Level 1, 2 and 3.

The following table presents the investments carried at fair value as of June 30, 2012 and September 30, 2011, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type, all of which are valued using Level 3 inputs:

	Total Recurring Fair Value Measurements Reported in *Condensed Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3)	
	June 30, 2012	**September 30, 2011**
Non-Control/Non-Affiliate Investments		
Senior term debt	**$ 164,662**	$ 182,002
Senior subordinated term debt	**91,218**	72,182
Preferred equity	**609**	566
Common equity/equivalents	**4,266**	2,552
Total Non-Control/Non-Affiliate Investments	**$ 260,755**	$ 257,302
Control Investments		
Senior term debt	**$ 11,746**	$ 18,143
Senior subordinated term debt	**18,987**	19,966
Common equity/equivalents	**7,099**	7,536
Total Control Investments	**$ 37,832**	$ 45,645
Total Investments at Fair Value	**$ 298,587**	$ 302,947

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In accordance with ASU 2011-04, which was effective for us beginning January 1, 2012, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy, we may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt related calculations and on the cost basis for all equity related calculations for the particular input.

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value as of June 30, 2012	**Valuation Techniques/ Methodologies**	**Unobservable Input**	**Range /Weighted Average**
Non-syndicated debt only investments	**$ 105,567(A)**	SPSE (B)	EBITDA (C)	($310) - $15,332 / $5,168
			Risk Ratings (D)	2.0 - 10.0 / 6.0
Syndicated debt only investments	**89,412**	Market Quotes	IBP (E)	87.0% - 100.5% / 98.4%
Bundled debt and equity investments	**101,445**	SPSE (B)	EBITDA (C)	($1,141) - $4,840 / $2,383
			Risk Ratings (D)	3.0 - 7.0 / 4.9
		TEV	EBITDA multiples (C)	4.5 - 9.5 / 5.7
			EBITDA (C)	($1,141) - $13,166 / $6,705
Other investments	**2,163**			
Total Fair Value for Level 3 Investments	**$ 298,587**			

(A) Includes a new non-syndicated debt only investment which was valued at cost, as it was determined that the price paid during the three months ended June 30, 2012, best represents fair value as of June 30, 2012.

(B) SPSE makes an independent assessment of the data we submit to them (which includes the financial and operational performance, as well as our internally assessed risk ratings of the portfolio companies   see footnote (C) below) and its own independent data to form an opinion as to what they consider to be the market values for our securities. With regard to its work, SPSE has stated that the data submitted to us is regarded as proprietary in nature.

(C) Earnings before interest expense, taxes, depreciation and amortization (EBITDA) is an unobservable input which is generally based on the most recently available trailing twelve month financial statements submitted to us from the portfolio companies. EBITDA multiples, generally indexed, represent our estimation of where market participants might price these investments. For our bundled debt and equity investments, the EBITDA and EBITDA multiples impact the TEV fair value determination and the value of the issuer s debt, equity, or equity-like securities are valued in accordance with our liquidity waterfall approach.

(D) As part of our valuation procedures, we risk rate all of our investments in debt securities. We use the Nationally Recognized Statistical Rating Organization s risk rating system for generally all of syndicated loans and a proprietary risk rating system for all other debt securities. Our risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. The risk rating system covers both qualitative and quantitative aspects of the portfolio company business and the securities we hold.

(E) We generally base the value of our syndicated debt securities on the IBP offered by the respective originating syndication agent s trading desk, or secondary desk, on or near the valuation date. These bid prices are non-binding and are generally based on the underlying company performance and security characteristics, as well as other market conditions and credit risk factors.

Portfolio company s EBITDA and EBITDA multiples are the significant unobservable inputs generally included in our internally assessed TEV models used to value our proprietary debt and equity investments. Holding all other factors constant, increases (decreases) in the EBITDA and/or the EBITDA multiples inputs would result in a higher (lower) fair value measurement. Per our valuation policy, we generally use an indexed EBITDA multiple. EBITDA and EBITDA multiple inputs do not have to directionally correlate since EBITDA is a company performance metric and EBITDA multiples can be influenced by market, industry, size and other factors.

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide the changes in fair value, broken out by security type, during the three and nine-month periods ended June 30, 2012 and 2011 for all investments for which we determine fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (that is, components that are actively quoted and can be validated to external sources). In these cases, we categorize all of the inputs as the lowest level input within the hierarchy. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Periods ended June 30, 2012:

Three months ended June 30, 2012:	**Senior Term Debt**	**Senior Subordinated Term Debt**	**Preferred Equity**	**Common Equity/ Equivalents**	**Total**
Fair value as of March 31, 2012	**$ 180,000**	**$ 95,697**	**$ 595**	**$ 11,875**	**$ 288,167**
Total gains or losses					
Net realized gain [a]	87	34			121
Net unrealized depreciation [b]	(6,411)	(2,003)	(1,186)	(1,510)	(11,110)
Reversal of prior period net (appreciation) depreciation on realization [b]	(108)	96			(12)
New investments, repayments and settlements [c]					
Issuances/originations	13,945	20,500	1,200	1,000	36,645
Settlements/repayments	(11,105)	(4,119)			(15,224)
Fair value as of June 30, 2012	**$ 176,408**	**$ 110,205**	**$ 609**	**$ 11,365**	**$ 298,587**

Nine months ended June 30, 2012:	**Senior Term Debt**	**Senior Subordinated Term Debt**	**Preferred Equity**	**Common Equity/ Equivalents**	**Total**
Fair value as of September 30, 2011	**$ 200,145**	**$ 92,148**	**$ 566**	**$ 10,088**	**$ 302,947**
Total gains or losses					
Net realized (loss) gain [a]	(8,276)	34			(8,242)
Net unrealized (depreciation) appreciation [b]	(21,539)	(4,032)	(2,758)	277	(28,052)
Reversal of prior period net depreciation on realization [b]	11,463	541			12,004
New investments, repayments and settlements [c]					
Issuances/originations	30,633	31,820	2,801	1,000	66,254
Settlements/repayments	(29,559)	(10,306)			(39,865)
Sales	(6,459)				(6,459)
Fair value as of June 30, 2012	**$ 176,408**	**$ 110,205**	**$ 609**	**$ 11,365**	**$ 298,587**

Periods ended June 30, 2011:

Three months ended June 30, 2011:	**Senior Term Debt**	**Senior Subordinated Term Debt**	**Preferred Equity**	**Common Equity/ Equivalents**	**Total**
Fair value as of March 31, 2011	**$ 173,602**	**$ 76,599**	**$ 537**	**$ 6,375**	**$ 257,113**
Total gains or losses					
Net unrealized (depreciation) appreciation [b]	(16,849)	(1,053)	14	(901)	(18,789)
New investments, repayments and settlements [c]					
Issuances/originations	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**

Nine months ended June 30, 2011:	**Senior Term Debt**	**Senior Subordinated Term Debt**	**Preferred Equity**	**Common Equity/ Equivalents**	**Total**
Fair value as of September 30, 2010	**$ 172,596**	**$ 81,899**	**$ 386**	**$ 2,228**	**$ 257,109**
Total gains or losses					
Net realized gain (loss) [(a)]	177	(14)			163
Net unrealized (depreciation) appreciation [(b)]	(34,067)	(2,892)	(210)	2,073	(35,096)
Reversal of prior period net (appreciation) depreciation on realization [(b)]	(191)	731		(247)	293
New investments, repayments and settlements [(c)]					
Issuances/originations	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**

(a) Included in net realized gain (loss) on Non-Control/Non-Affiliate and Control investments on our accompanying *Condensed Consolidated Statements of Operations* for the three and nine months ended June 30, 2012 and 2011.

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(b) Included in net unrealized (depreciation) appreciation on Non-Control/Non-Affiliate and Control investments on our accompanying *Condensed Consolidated Statements of Operations* for the three and nine months ended June 30, 2012 and 2011.
(c) Includes increases in the cost basis of investments resulting from new portfolio investments, the amortization of discounts, premiums and closing fees as well as decreases in the cost basis of investments resulting from principal repayments or sales.

Non-Syndicated Investments

As of June 30, 2012 and September 30, 2011, we held 33 and 35 non-syndicated investments with an aggregate fair value of $207.9 million and $212.3 million, respectively. During the nine months ended June 30, 2012, we added three new non-syndicated investments, with an aggregate fair value of $29.4 million at June 30, 2012, we sold two non-syndicated investments for combined gross proceeds of $6.5 million and three non-syndicated investments paid off early, for which we received aggregate principal payments of $12.9 million. Additionally, during the nine months ended June 30, 2012, we funded $19.2 million to existing non-syndicated portfolio companies through revolver draws, add-on investments, or new securities, while scheduled and unscheduled principal payments totaled $22.6 from existing non-syndicated portfolio companies . The following significant non-syndicated investment transactions occurred during the nine months ended June 30, 2012:

Sunshine Media Holdings Effective October 1, 2011, we restructured Sunshine Media Holdings (Sunshine) by reducing the interest rates on its line of credit, senior term debt and LOT senior term debt to preserve capital at the portfolio company to further enable Sunshine to invest in new and existing initiatives. In addition, we funded $2.8 million through additional preferred equity investments and $3.6 million through additional line of credit draws to Sunshine for the nine months ended June 30, 2012. We placed our investment in Sunshine s LOT senior term debt on non-accrual status effective January 1, 2012 and the remaining senior term debt and revolver investments on non-accrual status effective April 1, 2012.

KMBQ Corporation In November 2011, we invested $1.6 million in Ohana Media Group (Ohana) to facilitate its purchase of certain of KMBQ Corporation s (KMBQ) assets out of receivership. In connection with this transaction, we received net proceeds of $1.2 million and recorded a realized loss during the three months ended December 31, 2011 totaling $1.0 million. Ohana replaced KMBQ on our Condensed Consolidated Schedule of Investments as a Non-Control/Non-Affiliate investment at December 31, 2011.

Newhall Holdings, Inc. In December 2011, we sold our investments in Newhall Holdings, Inc. (Newhall) for net proceeds of $3.3 million, which resulted in a realized loss of $7.4 million recorded in the three months ended December 31, 2011.

Viapack, Inc. Effective January 1, 2012, we restructured our investment in Viapack, Inc. (Viapack) by reducing the interest rates on its line of credit, senior real estate term debt and senior term debt to preserve capital at the portfolio company to enable it to invest in existing initiatives. In addition, we funded $2.1 million to Viapack through additional draws on its line of credit for the nine months ended June 30, 2012. We placed our investment in Viapack s LOT senior term debt on non-accrual status effective January 1, 2012.

Francis Drilling Fluids, Ltd. In May 2012, we invested $16.0 million in Francis Drilling Fluids, Ltd. (Francis) through a combination of debt and equity. Francis, headquartered in Crowley, Louisiana, is a logistics network provider of warehousing, transportation and energy field services for oil and natural gas drilling to oilfields and exploration and production customers.

POP Radio, L.P. In May 2012, we invested $12.0 million in POP Radio, L.P. (POP) through senior and senior subordinated term debt. POP, headquartered in Salt Lake City, Utah, is an advertiser-supported in-store radio network provider to retailers.

Syndicated Investments

We had a total of 22 and 24 syndicate loans with an aggregate fair value of $90.7 million as of June 30, 2012 and September 30, 2011, respectively. During the nine months ended June 30, 2012, we had four early payoffs of syndicated investments for a combined total of $10.3 million and added two new syndicated investments for a combined total of $15.5 million. In addition, we had one add-on investment to an existing syndicate investment during the nine months ended June 30, 2012 for $2.0 million.

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Investment Concentrations

As of June 30, 2012, our investment portfolio consisted of loans to 55 companies located in 28 states across 21 different industries with an aggregate fair value of $298.6 million. As of June 30, 2012, there were 22 syndicated investments totaling $90.4 million at cost and $90.7 million at fair value, or 22.9% and 30.4% of the total aggregate portfolio, respectively.

The following table outlines our investments by security type as of June 30, 2012 and September 30, 2011:

	June 30, 2012				September 30, 2011			
	Cost		Fair Value		Cost		Fair Value	
Senior term debt	**$ 252,831**	**64.1%**	**$ 176,408**	**59.1%**	$ 266,491	69.6 %	$ 200,145	66.1%
Senior subordinated term debt	**128,688**	**32.6**	**110,205**	**36.9**	107,140	28.0	92,148	30.4
Common equity/equivalents	**11,799**	**3.0**	**11,365**	**3.8**	7,999	2.1	10,088	3.3
Preferred equity	**1,184**	**0.3**	**609**	**0.2**	1,185	0.3	566	0.2
Total Investments	**$ 394,502**	**100.0%**	**$ 298,587**	**100.0%**	$ 382,815	100.0%	$ 302,947	100.0%

Investments at fair value consisted of the following industry classifications at June 30, 2012 and September 30, 2011:

	June 30, 2012		September 30, 2011	
Industry Classification	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Electronics	**$ 53,661**	**18.0%**	$ 45,752	15.1%
Healthcare, education & childcare	**32,948**	**11.0**	34,106	11.3
Mining, steel, iron & non-precious metals	**31,147**	**10.4**	33,734	11.1
Broadcast (TV & radio)	**25,323**	**8.5**	22,146	7.3
Automobile	**24,911**	**8.3**	25,768	8.5
Retail stores	**19,260**	**6.5**	19,340	6.4
Oil and Gas	**17,892**	**6.0**	1,916	0.6
Aerospace & defense	**15,998**	**5.4**	10,003	3.3
Printing & publishing	**11,183**	**3.7**	17,623	5.8
Textiles & leather	**9,801**	**3.3**	9,626	3.2
Personal & non-durable consumer products	**8,356**	**2.8**	6,962	2.3
Machinery	**7,526**	**2.5**	8,696	2.9
Beverage, food & tobacco	**7,276**	**2.4**	7,332	2.4
Personal, food and miscellaneous services	**7,275**	**2.4**	7,635	2.5
Diversified/conglomerate manufacturing	**6,901**	**2.3**	8,790	2.9
Buildings & real estate	**5,911**	**2.0**	10,275	3.4
Leisure, amusement, movies & entertainment	**5,564**	**1.9**	6,607	2.2
Home & office furnishings	**3,608**	**1.2**	9,715	3.2
Telecommunications	**2,079**	**0.7**	7,842	2.6
Other [(A)]	**1,967**	**0.7**	2,215	0.7
Diversified/conglomerate service			3,810	1.3
Diversified natural resources, precious metals & minerals			3,054	1.0
Total Investments	**$ 298,587**	**100.0%**	$ 302,947	100.0%

(A) No individual industry within this category exceeds 1%.

The investments at fair value were included in the following geographic regions of the U.S. at June 30, 2012 and September 30, 2011:

	June 30, 2012		September 30, 2011	
Geographic Region	Fair Value	Percent of Total Investments	Fair Value	Percentage of Total Investments
Midwest	**$ 128,409**	**43.0%**	$ 144,292	47.6%
West	**80,766**	**27.0**	70,862	23.4
South	**57,900**	**19.4**	52,265	17.3
Northeast	**23,752**	**8.0**	28,158	9.3
Other non U.S.	**7,760**	**2.6**	7,370	2.4
Total Investments	**$ 298,587**	**100.0%**	$ 302,947	100.0%

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The geographic region reflects the location of the headquarters of our 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 our investment portfolio by fiscal year, assuming no voluntary prepayments, at June 30, 2012:

		Amount
For the remaining three months ending September 30:	2012	$ 13,819
For the fiscal year ending September 30:	2013	116,114
	2014	57,649
	2015	28,538
	2016	75,452
	Thereafter	91,207
	Total contractual repayments	**$ 382,779**
	Investments in equity securities	12,983
	Adjustments to cost basis on debt securities	(1,260)
	Total cost basis of investments held at June 30, 2012:	**$ 394,502**

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of June 30, 2012 and September 30, 2011, we had gross receivables from portfolio companies of $0.7 million and $0.8 million, respectively. The allowance for uncollectible receivables was $0.4 million as of June 30, 2012 and September 30, 2011. In addition, we recorded an allowance for uncollectible interest receivable of $21and $65 as of June 30, 2012 and September 30, 2011, respectively.

NOTE 4. RELATED PARTY TRANSACTIONS

Loans to Former Employees

We have outstanding loans to certain employees of the Adviser, each of whom was a joint employee of the Adviser (or our previous adviser, Gladstone Capital Advisers, Inc.) and us at the time the loans were originally provided. The loans were extended to such employees to allow them to exercise 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 loans are posted as collateral. We received $0.3 million and $2.1 million of principal repayments during the nine months ended June 30, 2012 and 2011, respectively. Additionally, one employee redeemed 39,082 common shares (20,000 in December 2011 and 19,082 in January 2012) to pay off $0.3 million of principal on his outstanding loans during the six months ended March 31, 2012. There were no redemptions of common shares held by employees during the quarter ended June 30, 2012. We recognized interest income from all employee loans of $62 and $0.2 million for the three and nine months ended June 30, 2012, respectively, and $0.1 million and $0.3 million for the three and nine months ended June 30, 2011, respectively. Refer to Note 7 *Common Stock* for additional information related to these transactions.

Investment Advisory and Management Agreement

We entered into an investment advisory and management agreement with our Adviser (the Advisory Agreement). Our Adviser is controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee. On July 10, 2012, our Board of Directors approved the renewal of the Advisory Agreement through August 31, 2013.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Nine Months Ended June 30 2012	Nine Months Ended June 30 2011
Average total assets subject to base management fee	**$ 312,200**	$ 290,200	**$ 310,300**	$ 277,600
Multiplied by prorated annual base management fee of 2.0%	**0.5%**	0.5%	**1.5%**	1.5%
Base management fee [A]	**$ 1,561**	$ 1,451	**$ 4,655**	$ 4,164
Reduction for loan servicing fees	**(867)**	(814)	**(2,690)**	(2,413)
Adjusted base management fee	**694**	637	**1,965**	1,751
Credit for fees received by Adviser from the portfolio companies	**(280)**	(77)	**(333)**	(77)
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum	**(102)**	(117)	**(345)**	(250)
Net base management fee	**$ 312**	$ 443	**$ 1,287**	$ 1,424
Incentive fee [A]	**1,217**	1,133	**3,556**	3,395
Credit from voluntary, irrevocable waiver issued by Adviser s board of directors			**(278)**	(21)
Net incentive fee	**$ 1,217**	$ 1,133	**$ 3,278**	$ 3,374
Credit for fees received by Adviser from the portfolio companies	**(280)**	(77)	**(333)**	(77)
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum	**(102)**	(117)	**(345)**	(250)
Incentive fee credit			**(278)**	(21)
Credit to base management and incentive fees from Adviser [A]	**$ (382)**	$ (194)	**$ (956)**	$ (348)

(A) Reflected as a line item on our *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 our average total assets at the end of the two most recently-completed quarters. Average total assets is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods. 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 1.5% annual fee, based on the monthly aggregate outstanding balance of loans pledged under our line of credit. Since we own 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

Our 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, 2012 and 2011.

Portfolio Company Fees

Under the Advisory Agreement, the Adviser has also provided, and continues to provide, managerial assistance and other services to our 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 we 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 our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate). We will pay the Adviser an income-based incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

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

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

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

Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover all distributions to common stockholders for the nine months ended June 30, 2012 and 2011.

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 our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we 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. 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 our 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 our 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 our 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 our 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 our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through June 30, 2012, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20% 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 since our inception through June 30, 2012.

As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Although neither we nor our Adviser receive fees in connection with managerial assistance, the Adviser provides other services to our portfolio companies and receives fees for these other services.

Administration Agreement

We have entered into an administration agreement (the Administration Agreement) with Gladstone Administration, LLC (the Administrator), an affiliate of ours and of the Adviser, 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 the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs. Our allocable portion of administrative expenses is generally derived by multiplying the Administrator s total allocable expenses by the percentage of our 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 10, 2012, our Board of Directors approved the renewal of the Administration Agreement through August 31, 2013.

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Related Party Fees Due

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