

GLADSTONE CAPITAL CORP
Form 497
October 10, 2007

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The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated October 10, 2007

Filed Pursuant to Rule 497

Registration No. 333-143027

PROSPECTUS SUPPLEMENT
(To Prospectus dated July 5, 2007)

GLADSTONE CAPITAL CORPORATION

2,500,000 Shares

Common Stock

This is a public offering of common stock of Gladstone Capital Corporation. We are offering an aggregate of 2,500,000 Shares of our Common Stock, \$0.001 par value per share. Our common stock is listed on the Nasdaq Global Select Market under the symbol "GLAD." We are a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. On October 9, 2007, the last reported sale price of our common stock on the Nasdaq Global Select Market was \$20.00 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

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

	Per Share	Total
Public offering price	\$	\$
Underwriting discount (sales load)	\$	\$
Proceeds, before expenses, to us (1)	\$	\$

(1) Before deducting estimated expenses payable by us of \$430,000.

The underwriter may also purchase up to an additional 375,000 shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement solely to cover over-allotments. If the over-allotment option is exercised in full, the total public offering price will be \$ and the total underwriting discount (sales load) will be \$. The proceeds to us would be \$, before deducting estimated expenses payable by us of \$430,000.

The underwriter expects to deliver the shares to purchasers on or about October , 2007.

Deutsche Bank Securities

The date of this prospectus supplement is October , 2007.

**PROSPECTUS SUPPLEMENT
SUMMARY**

This summary highlights some information from this prospectus supplement and the accompanying prospectus, and it may not contain all of the information that is important to you. To understand the terms of the common stock offered hereby, you should read this prospectus supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the shares we are offering. You should carefully read the section titled "Risk Factors" in the accompanying prospectus and the documents identified in the section "Additional Information." Except where the context suggests otherwise, the terms "we," "us," "our," the "Company" and "Gladstone Capital" refer to Gladstone Capital Corporation; "Adviser" refers to Gladstone Management Corporation; "Administrator" refers to Gladstone Administration, LLC; and "Gladstone Companies" refers to the Adviser and its affiliated companies. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriter's over-allotment option.

Overview

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

We seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are substantially backed by leveraged buyout funds, venture capital funds or others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans.

We seek to invest in small and medium-sized private U.S. businesses that meet certain criteria, including the potential for growth, adequate assets for loan collateral, experienced management teams with significant ownership interest in the business, adequate capitalization, profitable operations based on cash flow, substantial ownership by leveraged buyout funds or venture capital funds and potential opportunities for us to realize appreciation and gain liquidity in our equity positions. We may achieve liquidity through a merger or acquisition of the borrower, a public offering of the borrower's stock or by exercising our right to require the borrower to repurchase our warrants, though there can be no assurance that we will always have these rights.

We seek to invest primarily in three categories of debt of private companies:

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

these loans. Senior subordinated notes include second lien loans and syndicated second lien loans.

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

Junior Subordinated Notes. We also seek to invest a small portion of our assets in junior subordinated notes. Holders of junior subordinated notes are subordinated to the rights of the holders of senior debt and senior subordinated debt to receive principal and interest payments from the borrower, and junior subordinated notes are typically unsecured or have such a low priority lien on existing assets that there is little chance of collateral yielding any payment to the junior subordinated lender in the event assets are sold in foreclosure. The risk profile of junior subordinated notes is high, which permits the junior subordinated lender to obtain higher interest rates and more equity and equity-like compensation.

Our loans typically range from \$5 million to \$15 million, although this investment size may vary proportionately as the size of our capital base changes, generally mature in no more than seven years, and accrue interest at fixed or variable rates. Because the majority of the loans in our portfolio consist of term debt of private companies who typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most if not all of the debt securities we acquire will be unrated. Accordingly, we cannot accurately predict what ratings these loans might receive if they were in fact rated, and thus cannot determine whether or not they could be considered "investment grade" quality.

We hold our loan investment portfolio through our wholly-owned subsidiary, Gladstone Business Loan LLC.

Portfolio Composition

Approximately 68% of the aggregate cost value of our investment portfolio as of September 30, 2007 was senior debt, approximately 32% was senior subordinated debt and there were no investments in junior subordinated debt. As of September 30, 2007, we had approximately \$355.8 million invested at cost in 56 portfolio companies. The aggregate fair value of our investments as of September 30, 2007 was approximately \$349.8 million.

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The table below sets forth, as of September 30, 2007, the fair value and percentage of total investments of our investment portfolio by industry classifications.

Industry Classification	September 30, 2007	
	Fair Value	% of Total Investments
Aerospace & Defense	\$ 4,615,750	1.3%
Automobile	6,245,938	1.8%
Broadcast (TV, Radio & Cable)	30,151,019	8.6%
Cargo Transport	15,685,197	4.5%
Chemicals, Plastics & Rubber	25,110,192	7.2%
Diversified/Conglomerate Manufacturing	3,710,700	1.1%
Electronics	31,351,318	9.0%
Farming & Agriculture	11,537,833	3.3%
Finance	2,460,125	0.7%
Healthcare, Education & Childcare	36,927,299	10.5%
Home & Office Furnishings	17,057,109	4.9%
Leisure, Amusement, Movies & Entertainment	9,508,750	2.7%
Machinery	9,883,350	2.8%
Mining, Steel, Iron & Non-precious Metals	27,057,277	7.7%
Personal & Non-durable Consumer Products	8,977,500	2.6%
Printing, Publishing & Broadcasting	83,973,941	24.0%
Retail Stores	14,986,500	4.3%
Textiles & Leather	10,604,732	3.0%
Total	\$ 349,844,530	100.0%

Our Investment Adviser and Administrator

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

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

We have been externally managed by our Adviser pursuant to an investment advisory and management agreement since October 1, 2004. Our Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in the states of New York, New Jersey, Pennsylvania, Illinois, Texas and Washington.

Our Investment Objectives and Our Strategy

Our strategy is to make loans at favorable interest rates to small and medium-sized businesses that we believe have traditionally been underserved by conventional lenders. Our Adviser uses the loan referral networks of Messrs. Gladstone, Stelljes and Brubaker and of its managing directors to identify and make senior and subordinated loans to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control. We believe that our business strategy will enable us to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes of established private businesses that are backed by leveraged buyout funds, venture capital funds or others. In addition, from time to time we might acquire existing loans that meet this profile from leveraged buyout funds, venture capital funds and others. 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 might receive when we make loans.

We target small and medium-sized private businesses that meet certain criteria, including the potential for growth, adequate assets for loan collateral, and experienced management teams with significant ownership interest in the business, adequate capitalization, and profitable operations based on cash flow and potential opportunities for us to realize appreciation and gain liquidity in our various equity positions. We may achieve liquidity in an equity position through a merger or acquisition of the borrower, a public offering of the borrower's stock or by exercising our right to require the borrower to repurchase our warrants, although we cannot assure you that we will always have these rights. We can also achieve a similar effect by requiring the borrower to pay us conditional interest, which we refer to as a success fee, upon the occurrence of certain events. Success fees are dependent upon the success of the borrower and the occurrence of a triggering event, and are paid in lieu of warrants to own common stock of the borrower.

RECENT DEVELOPMENTS

Portfolio Activity

Subsequent to June 30, 2007, we have not invested in any new portfolio companies, however, we have extended approximately \$7.9 million of revolver draws and term loan commitments to existing portfolio companies. Also subsequent to the quarter ended June 30, 2007, we cancelled a past due note of approximately \$800,000 of MCA Communications, LLC by accepting a deed in lieu of foreclosure, which converted the outstanding note obligations into a majority owned equity interest in the portfolio company.

In addition, since June 30, 2007 we were repaid in full on three investments for an aggregate of approximately \$17.9 million and also received revolver repayments and scheduled amortization payments of an aggregate of approximately \$4.1 million.

Portfolio Valuation

As of September 30, 2007, the fair value of our portfolio of investments decreased by \$4.9 million, or approximately 1.3%, from the quarter ended June 30, 2007. Our Board of Directors approved the aggregate fair value of our portfolio of investments at September 30, 2007, based in part on its acceptance of opinions of value submitted by Standard & Poors Securities Evaluation Services, Inc. ("SPSE") regarding certain debt securities, and on input from our Adviser, in accordance with our quarterly valuation process as more particularly described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investment Valuation."

THE OFFERING

Common Stock offered by us	2,500,000 shares
Common Stock outstanding after this offering (1)(2)	17,262,574 shares
Use of proceeds	We expect to use all of the net proceeds of this offering to repay outstanding indebtedness under our line of credit. See "Use of Proceeds."
Nasdaq Global Select Market Symbol	GLAD
Risk Factors	See "Risk Factors" in the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Current distribution rate	We currently make distributions to stockholders on a monthly basis at the rate of \$0.14 per month. Our distribution rate is subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

(1) Excludes 375,000 shares of common stock issuable pursuant to the over-allotment option granted to the underwriter exercisable within 30 days from the date of this prospectus supplement.

(2) Based on the number of shares outstanding as of October 10, 2007.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by "us" or "Gladstone Capital," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital. The following percentages were calculated based on net assets as of June 30, 2007.

	<u>Current</u>
Stockholder Transaction Expenses	
Sales load (as a percentage of offering price) (1)	5.5%
Dividend reinvestment plan expenses (2)	None
Estimated annual expenses (as a percentage of net assets attributable to common stock)	
Management fees (3)	3.51%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (4)	2.15%
Interest Payments on Borrowed Funds (5)	3.03%
Other expenses	1.00%
Total annual expenses (estimated) (3)(6)	9.69%

- (1) Represents the estimated underwriting discount with respect to our common stock being sold in this offering, a one-time fee we will pay to the underwriter in connection with this offering and is the only sales load to be paid in connection with this offering.
- (2) The expenses of the reinvestment plan are included in stock record expenses, a component of "Other expenses." We do not have a cash purchase plan. The participants in the dividend reinvestment plan will bear a pro rata share of brokerage commissions incurred with respect to open market purchases, if any. See "Dividend Reinvestment Plan" in the accompanying prospectus for information on the dividend reinvestment plan.
- (3) Our annual base management fee is 2.0% (0.5% quarterly) of our average gross assets, which is defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents pledged to creditors. See "Management Advisory and Administration Agreements" in the accompanying prospectus and footnote 4 below.
- (4) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee will be payable quarterly in arrears, and will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate, subject to a "catch-up" provision measured as of the end of each calendar quarter. The "catch-up" provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide our Adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 3 above). The quarter ended December 31, 2006 was the first quarter under our new advisory agreement and, as a result, was the first quarter in which the incentive fee was earned. For purposes of this computation, the aggregate gross amount of the December 31, 2006, March 31, 2007 and June 30, 2007 fees, exclusive of any credits, was annualized to determine the percentage the fee represents of net assets. After giving effect to credits against the incentive fee, the annualized incentive fee was 0.48% of net assets as of June 30, 2007. There can be no assurance that our Adviser will give any credits against the incentive fee in the future. The capital gains-based portion of the fee did not have an effect on the incentive fee for purposes of this calculation since we have not realized overall net capital gains to date.

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Examples of how the incentive fee would be calculated (exclusive of any credits) are as follows:

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

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

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

$$= 0.25\%$$

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

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

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

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

$$= 0.46\%$$

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

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

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

$$= 1\%$$

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

(5)

We have entered into a revolving credit facility, under which our borrowing capacity is \$220 million, effective May 29, 2007. We have drawn down on this credit facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of our senior securities. Assuming that we borrowed \$220 million at an interest rate of 6.08%, interest payments on borrowed funds would have been 6.21% of our net assets as of June 30, 2007.

(6)

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

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in this offering. In calculating the following expense amounts, we have assumed that our annual expenses would remain at the levels set forth in the table above and that you would pay a sales load of 5.5% (the estimated underwriting discount to be paid by us with respect to the common stock being sold by us in this offering).

<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
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<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
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You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return

\$ 125	\$ 261	\$ 389	\$ 684
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While the example assumes, as required by the Securities and Exchange Commission, which we refer to as the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Additionally, we have assumed that the entire amount of such 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses and unrealized capital depreciation) on our investments, nor do we expect to realize positive capital gains in the

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foreseeable future. Because the assumed 5% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of the above example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments. Additionally, because we have not historically realized positive capital gains (computed net of all realized capital losses and unrealized capital depreciation) on our investments, we have assumed that we will not trigger the payment of any capital gains-based incentive fee in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors after such expenses, would be higher than reflected in the example. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt and incentive fees, if any, and other expenses) may be greater or less than those shown. As noted in the Fees and Expenses table above, we estimate that annual incentive fees payable under the investment advisory and management agreement will be 2.15% of net assets attributable to common stock.

USE OF PROCEEDS

We estimate that the net proceeds of this offering will be approximately \$46,820,000 (\$53,907,500 if the underwriter exercises its over-allotment option in full) after deducting the estimated underwriting discount and estimated offering expenses payable by us. We expect to use all of the net proceeds of this offering to repay amounts outstanding under our line of credit, which matures on May 23, 2008 and currently is accruing interest at approximately 6.08% per year.

CAPITALIZATION

The following table sets forth our actual capitalization at June 30, 2007:

on a historical basis;

on a pro forma as adjusted basis to reflect (i) the sale of 400,000 shares of common stock at \$20.41 per share on July 24, 2007, (ii) the sale of 150,000 shares of common stock at \$21.32 per share on August 22, 2007, (iii) the application of the net proceeds from such issuances to repay an aggregate of \$11,140,060 of outstanding borrowings under our line of credit, and (iv) the cancellation of 37,109 shares of common stock associated with the cancellation of an employee loan; and

on a pro forma as further adjusted basis to give effect to (i) the sale of 2,500,000 shares of common stock in this offering at an assumed public offering price of \$20.00 per share, which was the closing sale price of our common stock on the Nasdaq Global Select Market on October 9, 2007; and (ii) the application of the net proceeds from the offering, after deducting the estimated underwriting discount and offering expenses payable by us of an aggregate of \$3,180,000, to repay an aggregate of \$46,820,000 of outstanding borrowings under our line of credit as described in "Use of Proceeds."

As of June 30, 2007

	Actual	Pro Forma As Adjusted	Pro Forma As Further Adjusted (1)
		(unaudited)	(unaudited)
Assets			
Cash and cash equivalents	\$ 3,491,495	\$ 3,491,495	\$ 3,491,495
Borrowings			
Borrowings under line of credit	161,188,000	150,047,940	103,227,940
Net Assets			
Common stock, \$0.001 par value; 50,000,000 shares authorized; 14,249,683 shares issued and outstanding, actual, 14,762,574 shares issued and outstanding, pro forma as adjusted, and 17,262,574 shares issued and outstanding, pro forma as further adjusted	\$ 14,250	\$ 14,763	\$ 17,263
Capital in excess of par value	225,449,718	235,872,554	282,690,054
Notes receivable-officers	(9,947,366)	(9,230,655)	(9,230,655)
Net unrealized appreciation on investments	(1,026,151)	(1,026,151)	(1,026,151)
Unrealized depreciation on derivative	(279,593)	(279,593)	(279,593)
Realized loss on sale of investments	(780,197)	(780,197)	(780,197)
Realized gain on settlement of derivatives	46,212	46,212	46,212
Accumulated undistributed net investment income	1,776,047	1,776,047	1,776,047
Total Net Assets	\$ 215,252,920	\$ 226,392,980	\$ 273,212,980
Total Capitalization	\$ 376,440,920	\$ 376,440,920	\$ 376,440,920

(1)

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Assumes no exercise of the underwriter's over-allotment option to purchase 375,000 shares.

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UNDERWRITING

Subject to the terms and conditions set forth in our underwriting agreement, we are offering the shares of our common stock described in this prospectus supplement through Deutsche Bank Securities Inc., the underwriter. The underwriter has agreed to purchase and we have agreed to sell to the underwriter, all of the shares offered by this prospectus supplement.

The underwriting agreement provides that the obligation of the underwriter to purchase the shares of common stock offered hereby is subject to certain conditions precedent and that the underwriter will purchase all of the shares of common stock offered by this prospectus supplement, other than those covered by the over-allotment option described below, if any of these shares are purchased.

The underwriter proposes to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus supplement. If all the shares are not sold at the public offering price, the underwriter may change the offering price.

The underwriter has the option to purchase up to 375,000 additional shares of common stock from us at the same price it is paying for the 2,500,000 shares offered hereby. The underwriter may purchase additional shares only to cover over-allotments made in connection with this offering and only within 30 days after the date of this prospectus supplement. The underwriter will offer any additional shares that it purchases on the terms described in the preceding sections.

The underwriting discount per share is equal to the public offering price per share of common stock less the amount paid by the underwriter to us per share of common stock. These amounts are shown assuming either no exercise or full exercise by the underwriter of the underwriter's over-allotment option:

	Total Fees		
	Fee Per Share	Without Exercise of Over-Allotment Option	With Full Exercise of Over-Allotment Option
Underwriting Discount	\$	\$	\$

We estimate that the total expenses of this offering, which will be paid by us, excluding the underwriting discount, will be approximately \$430,000.

We have agreed to indemnify the underwriter against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriter may be required to make in respect of these liabilities.

We and certain of our executive officers have agreed not to offer, sell, contract to sell or otherwise dispose of, or to engage in certain hedging and derivative transactions with respect to, our common stock for a period of 60 days after the date of this prospectus supplement, without first obtaining the written consent of Deutsche Bank Securities Inc. This consent may be given at any time without public notice. The 60 day lock-up period will automatically be extended if (1) during the last 17 days of the 60 day lock-up period we issue an earnings release or material news or a material event relating to us occurs, or (2) prior to the expiration of the 60 day lock-up period we announce that we will release earnings results during the 16-day period following the last day of the 60 day lock-up period. Such period will continue until the expiration of the 18-day period beginning on the issuance of the news release or the occurrence of the material news or material event, as applicable, unless the underwriter waives, in writing, such extension.

The European Union's prospectus directive provides that, in relation to each member state of the European Economic Area that has implemented the prospectus directive (each, a "relevant member state"), from and including the date on which the prospectus directive is implemented in the relevant member state (the "relevant implementation date"), no offeror of securities may make an offer of securities to the public in that relevant member state prior to the publication of a prospectus in relation to such securities that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the prospectus directive, except that such offeror may, with effect from and including the relevant implementation date, make an offer of securities to the public in that relevant member state at any time:

to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to article 3 of the prospectus directive.

For the purposes of the above, the expression an "offer of securities to the public" in relation to any securities in any member state means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that member state by any measure implementing the prospectus directive in that member state and the expression "prospectus directive" means European Union Directive 2003/71/EC and includes any relevant implementing measure in that member state.

The underwriter has represented and agreed that (i) it has not offered or sold and, prior to the expiration of the period of six months from the closing date of this offering, will not offer or sell any shares of our common stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied with and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom, any document received by it in connection with the issue of the shares of our common stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

No prospectus (including any amendment, supplement or replacement thereto) nor any offering material relating to the shares of common stock described in this prospectus supplement has been submitted to the clearance procedures of the Autorité des Marchés Financiers or by the competent authority of another member state of the European Economic Area and notified to the Autorité des Marchés Financiers. The shares of common stock have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in

France. Neither this prospectus supplement, the accompanying prospectus nor any other materials related to the offering or information contained therein relating to the shares of common stock has been or will be released, issued, distributed or caused to be released, issued or distributed to the public in France or used in connection with any offer for subscription or sale of the shares to the public in France. Such offers, sales and distributions will be made in France only

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, as defined in, and in accordance with, Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French *Code Monétaire et Financier* and applicable regulations thereunder; or

to investment services providers authorized to engage in portfolio management on behalf of third parties; or

in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et Financier* and Article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The shares of common stock may be resold directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code Monétaire et Financier*.

The underwriter does not intend to confirm sales to any account over which it exercises discretionary authority.

In connection with this offering, the underwriter may purchase and sell shares of our common stock in the open market. These transactions may include stabilizing transactions, short sales and purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by the underwriter of a greater number of shares than it is required to purchase in this offering. Covered short sales are sales made in an amount not greater than the underwriter's over-allotment option to purchase additional shares in this offering. The underwriter may close out any covered short position by either exercising its over-allotment option or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are sales in excess of the over-allotment option. The underwriter must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriter is concerned there may be downward pressure on the price of shares in the open market prior to the completion of this offering.

Stabilizing transactions consist of various bids for or purchases of our common stock made by the underwriter in the open market prior to the completion of this offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of our common stock. Additionally, these purchases may stabilize, maintain or otherwise affect the market price for our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq Global Select Market, in the over-the-counter market or otherwise.

In the ordinary course of business, the underwriter or its affiliates have engaged and may in the future engage in various financing, commercial banking and investment banking services with, and provide financial advisory services to, us and our affiliates, for which they have received or may receive customary fees and expenses.

This offering is being conducted in compliance with Rule 2810 of the Conduct Rules of the National Association of Securities Dealers, Inc.

The principal business address of Deutsche Bank Securities Inc. is 60 Wall Street, New York, NY 10005.

LEGAL MATTERS

The validity of the issuance of the common stock offered hereby will be passed upon for us by Cooley Godward Kronish LLP, Reston, Virginia. The validity of the shares of common stock offered hereby will be passed upon for the underwriter by Bass, Berry & Sims PLC, Memphis, Tennessee.

EXPERTS

The financial statements as of September 30, 2006 and 2005 and for each of the three years in the period ended September 30, 2006 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of September 30, 2006 included in the accompanying prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

We have filed with the SEC a Registration Statement on Form N-2 under the Securities Act of 1933, as amended, with respect to the securities offered by this prospectus supplement. This prospectus supplement and the accompanying prospectus, which are a part of the registration statement, do not contain all of the information in the registration statement, including amendments, exhibits and schedules thereto. Statements in this prospectus supplement and the accompanying prospectus about the contents of any contract or other document are not necessarily complete and in each instance we refer you to the copy of the contract or other document filed, or incorporated by reference, as an exhibit to the registration statement, and each such statement is qualified in all respects by this reference.

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. Such reports, proxy statements and other information, as well as the registration statement of which this prospectus supplement and the accompanying prospectus are a part and the exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained by calling the SEC at 1-202-551-8090. The SEC maintains a web site that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on The Nasdaq Global Select Market and our corporate website is located at <http://www.gladstonecapital.com>. The information contained on, or accessible through, our website is not a part of this prospectus supplement.

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

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

FORWARD-LOOKING STATEMENTS

All statements contained herein, other than historical facts, may constitute "forward-looking statements." These statements may relate to, among other things, future events or our future performance or financial condition.

These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) adverse changes in interest rates; (2) our failure or inability to establish or maintain referral arrangements with leveraged buyout funds and venture capital funds to generate loan opportunities; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, or George Stelljes III; (4) our inability to extend, refinance, or maintain our credit facilities on terms reasonably acceptable to us, if at all, in future equity capital resources; (5) our inability to successfully securitize our loan portfolio on terms reasonably acceptable to us, if at all; (6) the decision of our competitors to aggressively seek to make senior and subordinated loans to small and medium-sized businesses on terms more favorable than we intend to provide; and (7) those factors listed under the caption "Risk Factors" in the accompanying prospectus. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus supplement.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

All statements contained herein, other than historical facts, may constitute "forward-looking statements." These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) adverse changes in interest rates; (2) our failure or inability to establish or maintain referral arrangements with leveraged buyout funds and venture capital funds to generate loan opportunities; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, or George Stelljes III; (4) our inability to extend, refinance or maintain our credit facilities on terms reasonably acceptable to us, if at all in future equity capital resources; (5) our inability to successfully securitize our loan portfolio on terms reasonably acceptable to us, if at all; (6) the decision of our competitors to aggressively seek to make senior and subordinated loans to small and medium-sized businesses on terms more favorable than we intend to provide; and (7) those factors listed under the caption "Risk Factors" of the Annual Report on Form 10-K as filed with the Securities and Exchange Commission on December 6, 2006 and our Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 2, 2007. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date hereof.

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

Overview

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. Our investment objectives are to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, second lien notes, and senior subordinated notes of established private businesses that are backed by leveraged buyout funds, venture capital funds or others, with a particular emphasis on second lien and senior subordinated notes. In addition, we may acquire existing loans, which meet this profile, from leveraged buyout funds, venture capital funds and others. 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 extend loans. We operate as a closed-end, non-diversified management investment company, and have elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act").

We seek to invest in small and medium-sized businesses that meet certain criteria, including some or all of the following: (1) the potential for growth in cash flow, (2) adequate assets for loan collateral, (3) experienced management teams with a significant ownership interest in the borrower, (4) profitable operations based on the borrower's cash flow,

(5) reasonable capitalization of the borrower (usually by buyout funds or venture capital funds) and (6) the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering by the borrower or by exercise of our right to require the borrower to buy back its warrants. We lend to borrowers that need funds to, among other things, effect a change of control, restructure their balance sheets, or finance growth, including acquisitions.

Our loans typically range from \$5 million to \$15 million, although this investment size may vary proportionately as the size of our capital base changes, generally mature in no more than seven years and accrue interest at fixed or variable rates. Some of our loans may contain a provision that calls for some portion of the interest payments to be deferred and added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called "paid in kind" or "PIK" interest, and, when earned, we record PIK interest as interest income and add the PIK interest to the principal balance of the loans. We seek to avoid PIK interest with all potential investments under review. We currently do not hold any investments with PIK and, therefore, there was no PIK accrued on our balance sheet as of June 30, 2007.

Because the majority of our portfolio loans consist of term debt of private companies who typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most of the debt securities we acquire will be unrated. We cannot accurately predict what ratings these loans might receive if they were in fact rated, and thus cannot determine whether or not they could be considered "investment grade" quality.

To the extent possible, our loans generally are collateralized by a security interest in the borrower's assets. Interest payments are generally made monthly or quarterly (except to the extent of any PIK interest) with amortization of principal generally being deferred for several years. The principal amount of the loans and any accrued but unpaid interest generally become due at maturity at five to seven years. When we receive a warrant to purchase stock in a borrower in connection with a loan, the warrant will typically have an exercise price equal to the fair value of the portfolio company's common stock at the time of the loan and entitle us to purchase a modest percentage of the borrower's stock.

Original issue discounts ("OID") arise when we extend a loan receive an equity interest in the borrower at the same time. To the extent that the price paid for the equity is not at market value, we must allocate part of the price paid for the loan, to the value of the equity. Then the amount allocated to the equity, the OID, must be amortized over the life of the loan. As with PIK interest, the amortization of OID also produces income that must be recognized for purposes of satisfying the distribution requirements for a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), whereas the cash is received, if at all, when the equity instrument is sold. We seek to avoid OID and to date do not hold any investments with OID.

In addition, as a business development company under the 1940 Act, we are required to make available significant managerial assistance to our portfolio companies. Our investment adviser, Gladstone Management Corporation (the "Adviser") provides these services on our behalf through its officers who are also our officers. In addition, our Adviser provides other services to our portfolio companies, for which it receives fees, in connection with our investments. The fees for these services are generally paid to the Adviser in part at the time a prospective portfolio company signs a non-binding term sheet with us (as further described in the following paragraph), with the remainder paid at the closing of the investment. These fees are generally non-recurring, however in some instances they may have a recurring component

which is also paid to the Adviser. Fees for certain of these services are credited 50% against the base management fee payable to the Adviser pursuant to the terms of our advisory agreement, which has the effect of reducing our expenses to the extent of any such credits. The specific other services the Adviser provides vary by portfolio company, but generally include a broad array of services to the portfolio companies such as investment banking services, arranging bank financing, arranging equity financing, structuring financing from multiple lenders and investors, reviewing existing credit facilities, restructuring existing investments, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. To date the Adviser has not charged for managerial assistance services, however, if the Adviser does receive fees for such managerial assistance, the Adviser will credit the managerial assistance fees to the base management fee due from us to the Adviser.

Prior to making an investment, we ordinarily enter into a non-binding term sheet with the potential borrower. These non-binding term sheets are generally subject to a number of conditions, including, but not limited to, the satisfactory completion of our due diligence investigations of the potential borrower's business, reaching agreement on the legal documentation for the loan, and the receipt of all necessary consents. Upon execution of the non-binding term sheet, the potential borrower generally pays the Adviser a non-refundable fee for its services rendered through the date of the non-binding term sheet. These fees are received by the Adviser and are offset against the base management fee payable to the Adviser, which has the effect of reducing our expenses to the extent of any such fees received by the Adviser.

In the event that we expend significant effort in considering and negotiating a potential investment that ultimately is not consummated, we generally will seek reimbursement from the proposed borrower for our reasonable expenses incurred in connection with the transaction, including legal fees. Any amounts collected for expenses incurred by the Adviser in connection with unconsummated investments will be reimbursed to the Adviser. Amounts collected for these expenses incurred by us will be reimbursed to us and will be recognized in the period in which such reimbursement is received, however, there can be no guarantee that we will be successful in collecting any such reimbursements.

During the nine months ended June 30, 2007, we extended, directly or through participations or acquisitions, approximately \$253.7 million of new loans to a total of 52 companies. This includes an acquisition of approximately \$63.3 million in senior debt with 16 different borrowers in June 2007. Also, during the nine months ended June 30, 2007, four borrowers repaid their loans ahead of contractual maturity, one borrower refinanced its investment and we sold or were repaid in full on twenty four syndicated loans of approximately \$90.8 million, and we received scheduled contractual principal repayments of approximately \$9.0 million, for total principal repayments of approximately \$99.8 million. Since our initial public offering in August 2001, we have made 227 different loans to, or investments in, 120 companies for a total of approximately \$760.2 million, before giving effect to principal repayments on investments and divestitures.

These prospective loans are subject to, among other things, the satisfactory completion of our due diligence investigation of each borrower, acceptance of terms and structure and attainment of necessary consents. With respect to each prospective loan, we will only agree to provide the loan if, among other things, the results of our due diligence investigations are satisfactory, the terms and conditions of the loan are acceptable and all necessary consents are received. Our management has initiated its due diligence investigations of the potential borrowers, however we cannot assure you that we will not discover facts in the course of

completing our due diligence that would render a particular investment imprudent or that any of these loans will actually be made.

Our Investment Adviser and Administrator

Our Adviser is led by a management team which has extensive experience in our lines of business. Our Adviser is controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone is also the chairman and chief executive officer of our Adviser. Terry Lee Brubaker, our vice chairman, chief operating officer, secretary and director, is a member of the board of directors of our Adviser and its vice chairman and chief operating officer. George Stelljes III, our president, chief investment officer and director, is a member of the board of directors of our Adviser and its president and chief investment officer. Harry Brill, our chief financial officer, is also the chief financial officer of our Adviser. Our Adviser also has a wholly-owned subsidiary, Gladstone Administration, LLC (the "Administrator"), which employs our chief financial officer, chief compliance officer, controller, treasurer and their respective staffs.

Our Adviser and Administrator also provide investment advisory and administrative services to our affiliates, Gladstone Commercial Corporation, a publicly traded real estate investment trust; Gladstone Investment Corporation, a publicly traded business development company; and Gladstone Land Corporation, an agricultural real estate company owned by Mr. Gladstone. All of our directors and executive officers serve as either directors or executive officers, or both, of Gladstone Commercial Corporation and Gladstone Investment Corporation. In the future, our Adviser may provide investment advisory and administrative services to other funds, both public and private, of which it is the sponsor.

We have been externally managed by our Adviser pursuant to an investment advisory and management agreement since October 1, 2004. Our Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in New York, New Jersey, Pennsylvania, Illinois, Texas and Washington.

Investment Advisory and Management Agreement

On December 2, 2005, our stockholders approved a proposal to enter into an amended and restated investment advisory agreement (the "Amended Advisory Agreement") with the Adviser and an administration agreement (the "Administration Agreement") between us and our Administrator, both of which became effective on October 1, 2006. The Amended Advisory Agreement replaced the original advisory agreement (the "Initial Advisory Agreement"), which terminated on September 30, 2006. We will continue to pay our direct expenses including, but not limited to, directors' fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance under the Amended Advisory Agreement.

Pursuant to the Initial Advisory Agreement, we paid the Adviser an annual advisory fee of 1.25% of our total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.3125%, and an annual administrative fee of 0.75% of our total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.1875%, for a total annual base management fee of 2%. This fee was then directly reduced by the amount of loan servicing fees paid to the Adviser and any other fees received by the Adviser from our borrowers and potential borrowers.

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Under the Amended Advisory Agreement, we pay the Adviser an annual base management fee of 2% of our average gross assets, which is defined as total assets less cash and cash equivalents pledged to creditors calculated as of the end of the two most recently completed fiscal quarters and also consists of a two-part incentive fee.

The first part of the incentive fee is an income-based incentive fee which 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 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% annualized);

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).

The second part of the incentive fee is a capital gains incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Amended Advisory Agreement, as of the termination date), commencing on October 1, 2006, and will equal 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains 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.

The Adviser's board of directors has agreed to voluntarily waive 1.5% of the annual 2.0% base management fee to 0.5% for senior syndicated loans for the three and nine months ended June 30, 2007.

In addition to the base management and incentive fees under the Amended Advisory Agreement, certain fees received by the Adviser from our portfolio companies were credited against the investment advisory fee under the Initial Advisory Agreement, and will continue to be paid to the Adviser and credited under the Amended Advisory Agreement.

The Adviser services our loan portfolio pursuant to a loan servicing agreement with Gladstone Business Loan, LLC ("Business Loan") in return for a 1.5% annual fee, based on the monthly aggregate outstanding loan balance of the loans pledged under our credit facility. Effective in April 2006, the Adviser's board of directors voted to reduce the portion of the 1.5% annual fee to 0.5% for senior syndicated loans. This fee directly reduces the amount of fee payable under both the Initial and Amended Advisory Agreements.

Administration Agreement

Under the Administration Agreement, 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 for employees of the Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, controller, chief compliance officer, treasurer and their respective staffs. Our allocable portion of expenses is derived by multiplying our Administrator's total expenses by the percentage of

our average total assets (the total assets at the beginning and end of each quarter) in comparison to the average total assets of all companies managed by our Adviser.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission ("SEC") Regulation S-K as of June 30, 2007.

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 154, *"Accounting Changes and Error Corrections,"* a replacement of APB Opinion No. 20, *"Accounting Changes,"* and SFAS No. 3, *"Reporting Accounting Changes in Interim Financial Statements"* and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted the provisions of SFAS No. 154, as applicable, on October 1, 2006.

In February 2006, the FASB issued SFAS No. 155, *"Accounting for Certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140"* ("SFAS No. 155"). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) as long as the entire instrument is valued on a fair value basis. The statement also resolves and clarifies other specific SFAS No. 133 and SFAS No. 140 related issues. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We adopted SFAS No. 155 on October 1, 2006 and have not realized a material impact of the financial statements since all investments are valued on a fair value basis.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109,"* which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *"Accounting for Income Taxes."* This Statement shall be effective as of the beginning of an entity's first fiscal year that begins after December 15, 2006. We will adopt this Interpretation effective October 1, 2007, and are currently evaluating the impact of this pronouncement on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies broadly to securities and other types of assets and liabilities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within that fiscal year. We will be required to adopt SFAS No. 157 on October 1, 2008 and are currently evaluating the impact of this pronouncement on the consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 108 addresses how the effects of prior year uncorrected misstatements should be

considered when quantifying misstatements in current year financial statements and requires registrants to consider the effect of all carry over and reversing effects of prior year misstatements when quantifying errors in current year financial statements. SAB 108 does not change the SEC's previous guidance in SAB No. 99, "*Materiality*," on evaluating the materiality of misstatements. A registrant applying the new guidance for the first time that identifies material errors in existence at the beginning of the first fiscal year ending after November 15, 2006, may correct those errors through a one-time cumulative effect adjustment to beginning-of-year retained earnings. The cumulative effect alternative is available only if the application of the new guidance results in a conclusion that a material error exists as of the beginning of the first fiscal year ending after November 15, 2006, and those misstatements were determined to be immaterial based on a proper application of the registrant's previous method for quantifying misstatements. The adoption of SAB 108 did not have an impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*," which is effective for fiscal years beginning after November 15, 2007. This pronouncement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this pronouncement on the consolidated financial statements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates. Our accounting policies are more fully described in the "Notes to Consolidated Financial Statements" contained elsewhere in this prospectus supplement. We have identified our investment valuation process as our most critical accounting policy.

Investment Valuation

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

General Valuation Policy: Using procedures established by our Board of Directors, we value our investment portfolio each quarter. We carry our investments at fair value, as determined in good faith by or under the direction of our Board of Directors. Securities that are publicly traded, if any, are valued at the closing price of the exchange or securities market on which they are listed on the valuation date. Securities that are not traded on a public exchange or securities market, but for which a limited market exists and that have been rated by a nationally recognized statistical rating organizations, ("NRSRO"), (such as certain participations in syndicated loans) are valued at the indicative bid price offered by the respective originating syndication agent's desk on or near the valuation date.

Debt and equity securities that are not publicly traded, for which a limited market does not exist, or for which a limited market exists but that have not been rated by a NRSRO (or

for which we have various degrees of trading restrictions) are valued at fair value as determined in good faith by or under the direction of our Board of Directors. In making the good faith determination of the value of these securities, we start with the cost basis of the security, which includes the amortized OID and PIK interest, if any. We then apply the methods set out below in "*Valuation Methods*." Members of our Adviser's portfolio management team prepare the valuations of our investments in portfolio companies using the most recent portfolio company financial statements and forecasts. These individuals also consult with portfolio company senior management and ownership to obtain further updates on the portfolio company's performance, including information such as industry trends, new product development, and other operational issues. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that we might reasonably expect to receive upon the current sale of the security.

At June 30, 2007, we engaged Standard & Poor's Securities Evaluations, Inc. ("SPSE") to submit opinions of value for most of our loan securities. We request that SPSE also evaluate and assign values to success fees (conditional interest included in some loan securities) when we determine that the probability of receiving a success fee on a given loan is above 6-8%, a threshold of significance. We may also submit paid in kind ("PIK") interest to SPSE for valuation when it is determined the PIK interest is likely to be received. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and may decline to make requested evaluations for any reason at its sole discretion. We also add any amortized original issue discount ("OID") interest to the fair value, unless adverse factors lead to a determination of a lesser valuation. Upon completing our collection of data with respect to the investments (including the information described under "*Credit Information*," the risk ratings of the loans described under "*Loan Grading and Risk Rating*" and the factors described under "*Valuation Methods*"), this valuation data is forwarded along to SPSE for review and analysis. SPSE makes its independent assessment of the data that we have assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

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

SPSE opinions of value are submitted to our Board of Directors along with our Adviser's supplemental assessment and recommendation regarding valuation of each of these investments. Our Adviser generally accepts the opinion of value given by SPSE, however, in certain limited circumstances, such as when our Adviser may learn new information regarding an investment between the time of submission to SPSE and the date of the Board

assessment, our Adviser's conclusions as to value may differ from the opinion of value delivered by SPSE. Our Board of Directors then reviews whether our Adviser has followed its established procedures for determinations of fair value, and votes whether to accept the recommended valuation of our investment portfolio. Our Adviser and our management recommended, and the Board of Directors voted to accept, the opinions of value delivered by SPSE on the loans in our portfolio as denoted on the schedule of investments as of June 30, 2007 and September 30, 2006, included in our consolidated financial statements.

Because there is a delay between when we close an investment and when the investment can be evaluated by SPSE, new loans are not valued immediately by SPSE; rather, management makes its own determination about the value of these investments in accordance with our valuation policy. Because SPSE does not provide values for our equity securities, our Adviser determines the fair value of these investments using valuation policies approved by our Board of Directors.

Credit Information: Our Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance. If we held a controlled or affiliate investment, we and our Adviser would participate in periodic board meetings of such portfolio companies and also require them to provide annual audited and monthly unaudited financial statements. Using these statements and board discussions, our Adviser would calculate and evaluate the credit statistics.

Loan Grading and Risk Rating: As part of our valuation procedures we risk rate all of our investments in debt securities. For syndicated loans that have been rated by a NRSRO (as defined in Rule 2a-7 under the 1940 Act), we use the NRSRO's risk rating for such security. For all other debt securities, we use a proprietary risk rating system. Our risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. This system is used to estimate the probability of default on debt securities and the probability of loss if there is a default. These types of systems are referred to as risk rating systems and are used by banks and rating agencies. The risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

For the debt securities for which we do not use a third-party NRSRO risk rating, we seek to have our risk rating system mirror the risk rating systems of major risk rating organizations, such as those provided by a NRSRO. While we seek to mirror the NRSRO systems, we cannot provide any assurance that our risk rating system will provide the same risk rating as a NRSRO for these securities. The following chart is an estimate of the relationship of our risk rating system to the designations used by two NRSROs as they risk rate debt securities of major companies. Because our system rates debt securities of companies that are unrated by any NRSRO, there can be no assurance that the correlation to the NRSRO set out below is accurate. We believe our risk rating would be significantly higher than a typical NRSRO risk rating because the risk rating of the typical NRSRO is designed for larger businesses. However, our risk rating has been designed to risk rate the securities of smaller businesses that are not rated by a typical NRSRO. Therefore, when we use our risk rating on larger business securities, the risk rating is higher than a typical NRSRO rating. The primary difference between our risk rating and the rating of a typical NRSRO is that our risk rating uses more quantitative determinants and includes qualitative determinants that we believe are not used in the NRSRO rating. It is our understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on a NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, our scale begins with the designation 10 as the best risk rating which may be

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equivalent to a BBB from a NRSRO, however, no assurance can be given that a 10 on our scale is equal to a BBB on a NRSRO scale.

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

(a)

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

The above scale gives an indication of the probability of default and the magnitude of the loss if there is a default. Our policy is to stop accruing interest on an investment if we determine that interest is no longer collectible. Currently, our investment in MCA Communications LLC is on non-accrual, the investment is currently not accruing interest nor is it paying any past due interest. Additionally, we do not risk rate our equity securities.

The following table lists the risk ratings for all non-syndicated loans in our portfolio at June 30, 2007 and September 30, 2006, representing approximately 76% and 73%, respectively, of all loans in our portfolio:

Rating	June 30, 2007	Sept. 30, 2006
Average	7.1	7.2
Weighted Average	7.0	7.2
Highest	9.0	9.0
Lowest	4.0	6.0

The following table lists the risk ratings for syndicated loans in our portfolio that are not currently rated by an NRSRO at June 30, 2007 and September 30, 2006, representing approximately 6% and 17%, respectively, of all loans in our portfolio:

Rating	June 30, 2007	Sept. 30, 2006
Average	6.0	6.1
Weighted Average	6.0	6.3
Highest	6.0	8.0
Lowest	6.0	4.0

For syndicated loans that are currently rated by an NRSRO, we risk rate such loans in accordance with the risk rating systems of major risk rating organizations such as those provided by a NRSRO. The following table lists the risk ratings for all syndicated loans in our

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portfolio that are currently rated by an NRSRO at June 30, 2007 and September 30, 2006, representing approximately 18% and 10%, respectively, of all loans in our portfolio:

Rating	June 30, 2007	Sept. 30, 2006
Average	CCC+/Caa1	CCC+/Caa1
Weighted Average	CCC+/Caa1	CCC+/Caa1
Highest	B/B3	B-/B3
Lowest	CCC/Caa2	CCC/Caa1

Valuation Methods: We determine the value of publicly-traded debt securities based on the closing price for the security on the exchange or securities market on which it is listed on the valuation date. We value debt securities that are not publicly traded, but for which a limited market for the security exists, such as certain participations in syndicated loans, at the indicative bid price offered by the respective originating syndication agent's trading desk on or near the valuation date. At June 30, 2007, none of the debt securities in our portfolio were publicly traded and there was a limited market for 31 debt securities in our portfolio. At September 30, 2006, none of the debt securities in our portfolio were publicly traded and there was a limited market for 9 debt securities in our portfolio.

Debt securities that are issued to portfolio companies where we have an equity, or equity-like interest that are not publicly traded, for which there is no market, or for which there is a market but the securities have not been rated by a NRSRO, are valued at cost, if there is adequate total enterprise value determined when valuing our equity holdings in the borrower. Fair values are discounted for any shortfall of total enterprise value over the total debt outstanding for the borrower. At June 30, 2007, for our debt investment in Clinton Aluminum Holdings LLC, where we hold a warrant, we solicited and were provided an opinion of value by SPSE. Prospectively, in accordance with our valuation policies, due to its accompanying equity-like security, the debt securities for this investment will not be assessed by SPSE.

Debt securities that are not publicly traded and that are issued to portfolio companies where we have no equity or equity-like securities, for which there is no market, or for which there is a market but have not been rated by a NRSRO, we begin with the risk rating designation of the security as described above. Using this risk rating designation, we seek to determine the value of the security as if we currently intended to sell the security and consider some or all of the following factors:

- the cost basis and the type of the security;
- the nature and realizable value of the collateral;
- the portfolio company's ability to make payments and discounted cash flow;
- reports from portfolio company senior management and board meetings;
- reported values of similar securities of the portfolio company or comparable companies; and
- changes in the economy affecting the portfolio company.

We value convertible debt, equity, success or exit fees or other equity-like securities for which there is a market based on the market prices for such securities, even if that market is not robust. At June 30, 2007 and September 30, 2006, there was no market for any of the equity securities we owned. To value equity securities for which no market exists, we use the same information we would use for a debt security valuation described above, except risk-rating, as well as standard valuation techniques used by major valuation firms to value

the equity securities of private companies. These valuation techniques also include discounted cash flow of the expected sale price in the future, valuation of the securities based on recent sales to third parties in comparable transactions, or a review of similar companies that are publicly traded and the market multiple of their equity securities. In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. At June 30, 2007 and September 30, 2006, we had \$146,124 and \$37,000, respectively, invested, at cost, in equity securities compared to our debt portfolio with a cost basis of \$369,829,274 and \$216,165,986, respectively.

At June 30, 2007, we had total unrealized depreciation of \$4,288,673, which was mainly comprised of unrealized depreciation of \$1,375,000 on our senior subordinated term debt investment in Visual Edge Technology, Inc., unrealized depreciation of \$1,022,250, on the aggregate of our investments in LocalTel, Inc. and unrealized depreciation of \$282,750 on our senior term debt investment in It's Just Lunch International, LLC. Unrealized appreciation of \$3,262,522 was primarily composed of unrealized appreciation of \$2,935,858 on our warrants in Finn Corporation. In the aggregate, we recorded net unrealized depreciation of \$1,026,151 on our total investment portfolio as of June 30, 2007.

At September 30, 2006, we had total unrealized appreciation of \$2,015,198, which was mainly comprised of unrealized appreciation of \$672,431 on our warrants of Finn Corporation, unrealized appreciation of \$607,625 on our senior term debt in Mistras Holding Corporation and unrealized appreciation of \$148,287 on our senior subordinated term debt investment in Xspedius Communications, LLC. This unrealized appreciation was offset by unrealized depreciation of \$575,434, most notably composed of unrealized depreciation of \$131,367 on our senior subordinated term debt investment in Consolidated Bedding, Inc. and unrealized depreciation of \$115,750 on our senior term debt in LocalTel Inc. In the aggregate, we recorded net unrealized appreciation of \$1,439,764 on our total investment portfolio as of September 30, 2006.

Tax Status

Federal Income Taxes

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

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

Revenue Recognition

Interest Income Recognition

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. We will stop accruing interest on investments and write off any previously accrued and uncollected interest when it is determined that interest is no longer collectible. Conditional interest or a success fee is recorded when earned upon full repayment of a loan investment.

Paid in Kind Interest

In the future, we may hold loans in our portfolio which contain a PIK interest provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though we have not yet collected the cash.

Results of Operations

Comparison of the Three Months Ended June 30, 2007 to the Three Months Ended June 30, 2006

Investment Income

Investment income for the three months ended June 30, 2007 was \$9,201,279, as compared to \$6,522,816 for the three months ended June 30, 2006.

Interest income from our investments in debt securities of private companies was \$8,911,643 for the three months ended June 30, 2007, as compared with \$5,775,522 for the three months ended June 30, 2006. This increase consisted of approximately \$88.5 million of net new investments. As a result of repayments by Allied Extruders LLC, and SCPH Holdings during the three months ended June 2007, we recorded success fees of approximately \$515,000. In June 2007, we purchased a senior debt portfolio of approximately \$63.3 million to 16 different lenders, which is included in the net new investments described above

The annualized weighted average yield on our portfolio for the three months ended June 30, 2007 was 11.8%; there was no PIK interest accrued during the three months ended June 30, 2007. The annualized weighted average yield on our portfolio for the three months ended June 30, 2006 was 11.7% (with and without giving effect to PIK interest).

Interest income from invested cash and cash equivalents for the three months ended June 30, 2007 was \$109,269, as compared to \$8,178 for the three months ended June 30, 2006. Interest income increased from the prior year due to the amount of cash that was held in interest bearing accounts and the interest earned on our custodial account prior to disbursement.

For the three months ended June 30, 2007 and June 30, 2006, we recorded \$132,795 and \$108,877, respectively, in interest income from loans to our employees in connection with the exercise of employee stock options. The increase is the result of additional loans issued in connection with employee stock option exercises during the fourth quarter of the previous fiscal year.

For the three months ended June 30, 2007, we recorded \$47,572 of prepayment fees and other income, as compared to \$630,239 for the three months ended June 30, 2006. The income for both periods consisted of prepayment penalty fees received upon the full repayment of certain loan investments ahead of contractual maturity and prepayment fees received upon the early unscheduled principal repayments which, in both instances, were based on a percentage of the outstanding principal amount of the loan at the date of prepayment.

Operating Expenses

Operating expenses, prior to credit from the Adviser for fees earned and voluntary waivers to the base management fees and incentive fees, for the three months ended June 30, 2007 were \$5,205,300, as compared to \$2,277,508 for the three months ended

June 30, 2006. Operating expenses for the three months ended June 30, 2007 reflected a significant increase in interest expense and management fees, prior to credits, as well as the addition of the incentive and administration fees, prior to credits, under the Amended Advisory and Administration Agreements.

Loan servicing fees of \$897,634 were incurred for the three months ended June 30, 2007, as compared to \$693,965 for the three months ended June 30, 2006. These fees were incurred in connection with a loan servicing agreement between Business Loan and our Adviser, which is based on the size of the portfolio. These fees were reduced against the amount of the base management fee due to our Adviser.

For the three months ended June 30, 2007, we incurred a base management fee of \$727,259, after reductions for loan servicing fees received by our Adviser of \$897,634, less credits for fees received by our Adviser of \$530,875 and a \$139,261 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee of \$57,123 as compared to the three months ended June 30, 2006, in which we incurred a base management fee of \$334,814 after reductions for loan servicing fees received by our Adviser of \$693,965, less credits for fees received by our Adviser of \$539,000 and a \$3,774 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management credit of \$207,960. The base management fee is computed quarterly as described under "*Investment Advisory and Management Agreement*." Effective April 1, 2007, the board of our Adviser reduced the amount of credit for fees received by our Adviser from 100% of the fees received to 50% of the fees received, therefore the three months ended June 30, 2007 reflects the reduced credit for fees received by our Adviser. The gross base management fee before the reduction for loan servicing fees for the three months ended June 30, 2007 and June 30, 2006, was \$1,624,893 and \$1,028,779, respectively, increased in the current period due to the growth of the investment portfolio as compared to the same period of the prior year.

Effective October 1, 2006, the income based incentive fee became effective and as such we recorded a gross incentive fee of \$1,166,529, which was reduced by a voluntary waiver issued by our Adviser's board of directors of \$1,038,752, which resulted in a net incentive fee of \$127,777, which is recorded in fees due to Adviser on our consolidated statements of assets and liabilities at June 30, 2007. There was no incentive fee recorded for the three months ended June 30, 2006, as the Amended Advisory Agreement was not in effect.

Effective October 1, 2006, the Administration Agreement became effective in which we provide payments equal to our allocable portion of our Administrator's overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent for employees of our Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer and controller and their respective staffs. We incurred an administration fee of \$186,895 for the three months ended June 30, 2007. There was no administration fee recorded during the three months ended June 30, 2006, as the Administration Agreement was not in effect.

Professional fees, consisting primarily of legal and audit fees, for the three months ended June 30, 2007 were \$148,609, as compared to \$166,405 for the three months ended June 30, 2006. The decrease is due to the reimbursement of certain legal fees at the time of the investment funding.

Amortization of deferred financing costs, in connection with our line of credit, was \$72,133 for the three months ended June 30, 2007 and \$36,036 for the three months ended June 30, 2006. The increase is due to the amortization of additional fees incurred with our line of credit which were not in place during the prior year period.

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Interest expense for the three months ended June 30, 2007 was \$1,762,249, as compared to \$702,449 for the three months ended June 30, 2006. This increase is primarily a result of increased borrowings under our line of credit during the three months ended June 30, 2007, which borrowings were partially used to finance our increased investments, borrowings remaining outstanding for longer periods of time and an increase in the interest rates on our borrowings.

Stockholder related costs for the three months ended June 30, 2007 were \$39,434, as compared to \$28,371 for the three months ended June 30, 2006. Stockholder related costs include such recurring items as transfer agent fees, NASDAQ listing fees, SEC filing fees and annual report printing fees. These fees increased during the three months ended June 30, 2007 due to additional filing fees as compared to the prior year.

Directors' fees for the three months ended June 30, 2007 were \$56,250, as compared to \$27,500 for the three months ended June 30, 2006 due to the increase in annual stipend fees and their related monthly amortization.

Insurance expense for the three months ended June 30, 2007 was \$66,246, as compared to \$50,589 for the three months ended June 30, 2006. The increase was primarily the result of an increase in the amortization of our directors and officers insurance policy premiums.

There was no stock option compensation expense recorded for the three months ended June 30, 2007 as there was no longer a stock option plan in effect. Stock option compensation expense for the three months ended June 30, 2006 was \$202,296 and was the result of the adoption of the SFAS No. 123 (revised 2004) "*Share-based Payment*."

Other expenses were \$82,062 for the three months ended June 30, 2007, as compared to \$35,083 for the three months ended June 30, 2006. The expenses primarily represent direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies, press releases and backup servicer expenses.

Net Realized Gain (Loss) on Sale of Investments

During the three months ended June 30, 2007, we sold or were repaid in full on eleven syndicate loan investments for a net loss of \$5,021, as compared to a realized net loss of \$100,850 as a result of the repayment in full of syndicate investments that contained unamortized premiums during the three months ended June 30, 2006.

Realized Gain on Settlement of Derivative

During the three months ended June 30, 2007, we received interest rate cap agreement payments of \$8,405 as a result of the one month LIBOR exceeding 5% as compared to \$1,367 during the three months ended June 30, 2006.

Net Unrealized Depreciation on Derivative

During the three months ended June 30, 2007, we recorded net unrealized depreciation of \$264 due to a decrease in the fair market value of our interest rate cap agreement, as compared to unrealized appreciation of \$41,486 during the three months ended June 30, 2006.

Net Unrealized Appreciation on Investments

For the three months ended June 30, 2007, we recorded net unrealized appreciation on investments of \$256,613, as compared to net unrealized appreciation of \$812,991, for the three months ended June 30, 2006. The unrealized appreciation is mainly attributable to the

increase in fair value on our portfolio due to the repayment in full of certain underperforming investments, most notably Consolidated Bedding, Inc.

Net Increase in Net Assets from Operations

Overall, we realized a net increase in net assets resulting from operations of \$5,964,600 for the three months ended June 30, 2007. Based on a weighted-average of 13,561,511 basic and diluted shares outstanding, our net increase in net assets from operations per weighted-average common share for the three months ended June 30, 2007 was \$0.44, basic and diluted.

For the three months ended June 30, 2006, we realized a net increase in net assets resulting from operations of \$5,543,076. Based on a weighted-average of 11,337,291 (basic) and 11,570,425 (diluted) shares outstanding, our net increase in net assets from operations per weighted-average common share for the three months ended June 30, 2006 was \$0.49 (basic) and \$0.48 (diluted).

Comparison of the Nine months ended June 30, 2007 to the Nine months ended June 30, 2006

Investment Income

Investment income for the nine months ended June 30, 2007 was \$26,078,775, as compared to \$19,553,835 for the nine months ended June 30, 2006.

Interest income from our investments in debt securities of private companies was \$25,064,702 for the nine months ended June 30, 2007 as compared with \$18,497,893 for the nine months ended June 30, 2006, which included \$63,217 of PIK interest. This increase consisted of net new investments of approximately \$153.9 million for the nine months ended June 30, 2007, as compared to net new investments of approximately \$2.8 million for the nine months ended June 30, 2006. As a result of a refinancing by Badanco Acquisition Corp. and a full repayment by Mistras Holdings Corp., Allied Extruders LLC, and SCPH Holdings we recorded success fees of approximately \$2,250,000 during the nine months ended June 30, 2007. In June 2007, we purchased a senior debt portfolio of approximately \$63.3 million to 16 different lenders, which is included in the net new investments described above.

The annualized weighted average yield on our portfolio for the nine months ended June 30, 2007 was 12.3%; there was no PIK interest accrued during the nine months ended June 30, 2007. The annualized weighted average yield on our portfolio for the nine months ended June 30, 2006 was 12.3% (with and without giving effect to PIK interest).

Interest income from invested cash and cash equivalents for the nine months ended June 30, 2007 was \$178,183, as compared to \$21,714 for the nine months ended June 30, 2006. Interest income increased from the prior year due to the amount of cash that was held interest bearing accounts and the interest earned on our custodial account prior to disbursement.

For the nine months ended June 30, 2007 and June 30, 2006, we recorded \$403,917 and \$323,003, respectively, in interest income from loans to our employees in connection with the exercise of employee stock options. The increase is the result of additional loans issued in connection with employee stock option exercises during the fourth quarter of the previous fiscal year.

For the nine months ended June 30, 2007, we recorded \$431,973 of prepayment fees and other income, as compared to \$711,225 for the nine months ended June 30, 2006. The income

for both periods consisted of prepayment penalty fees received upon the full repayment of certain loan investments ahead of contractual maturity and prepayment fees received upon the early unscheduled principal repayments which, in both instances, were based on a percentage of the outstanding principal amount of the loan at the date of prepayment.

Operating Expenses

Operating expenses, prior to credit from the Adviser for fees earned and voluntary waivers to the base management and incentive fees, for the nine months ended June 30, 2007 were \$14,168,785, as compared to \$6,835,060 for the nine months ended June 30, 2006. Operating expenses for the nine months ended June 30, 2007 reflected a significant increase in interest expense and management fees, prior to credits, as well as the addition of the incentive and administration fees, prior to credits, under the Amended Advisory and Administration Agreements.

Loan servicing fees of \$2,377,409 were incurred for the nine months ended June 30, 2007, as compared to \$2,144,024 for the nine months ended June 30, 2006. These fees were incurred in connection with a loan servicing agreement between Business Loan and our Adviser, which is based on the size of the portfolio. These fees were reduced against the amount of the base management fee due to our Adviser.

For the nine months ended June 30, 2007, we incurred a base management fee of \$1,806,075 after reductions for loan servicing fees received by our Adviser of \$2,377,409, less credits for fees received by our Adviser of \$1,616,875 and a \$369,161 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee credit of \$179,961, as compared to the nine months ended June 30, 2006, in which we incurred a base management fee of \$955,894 after reductions for loan servicing fees received by our Adviser of \$2,144,024, less credits for fees received by our Adviser of \$1,762,000 and a \$3,774 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management credit of \$809,880. The base management fee is computed quarterly as described under "*Investment Advisory and Management Agreement.*" Effective April 1, 2007, the board of our Adviser reduced the amount of credit for fees received by our Adviser from 100% of the fees received to 50% of the fees received, therefore, the three months ended June 30, 2007 reflect the reduced credit for fees received by our Adviser. The gross base management fee before the reduction for loan servicing fees for the nine months ended June 30, 2007 and June 30, 2006, was \$4,183,484 and \$3,099,918, respectively, which increased in the current period due to the growth of the investment portfolio as compared to the same period of the prior year and fewer credits for fees received by our Adviser.

Effective October 1, 2006, the income based incentive fee became effective and as such we recorded a gross incentive fee of \$3,474,007, which was reduced by a voluntary waiver issued by our Adviser's board of directors of \$2,696,124, which resulted in a net incentive fee of \$777,883, which is recorded in fees due to Adviser on our consolidated statements of assets and liabilities at June 30, 2007. There was no incentive fee recorded for the nine months ended June 30, 2006, as the Amended Advisory Agreement was not in effect.

Effective October 1, 2006, the Administration Agreement became effective in which we provide payments equal to our allocable portion of our Administrator's overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent for employees of our Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer and controller and their respective staffs. We incurred an administration fee of \$481,746 for the nine months ended

June 30, 2007. There was no administration fee recorded during the nine months ended June 30, 2006, as the Administration Agreement was not in effect.

Professional fees, consisting primarily of legal and audit fees, for the nine months ended June 30, 2007 were \$368,610, as compared to \$399,758 for the nine months ended June 30, 2006. The slight decrease is due to the reimbursement of certain legal fees at the time of investment funding.

Amortization of deferred financing costs, in connection with our line of credit, was \$198,633 for the nine months ended June 30, 2007 and \$94,572 for the nine months ended June 30, 2006. The increase is due to the amortization of additional fees incurred with our line of credit which were not in place during the prior year period.

Interest expense for the nine months ended June 30, 2007 was \$4,693,525, as compared to \$2,302,693 for the nine months ended June 30, 2006. This increase is primarily a result of increased borrowings under our line of credit during the nine months ended June 30, 2007, which borrowings were partially used to finance our increased investments, borrowings remaining outstanding for longer periods of time and an increase in the interest rates on our borrowings.

Stockholder related costs for the nine months ended June 30, 2007 were \$190,450, as compared to \$273,170 for the nine months ended June 30, 2006. Stockholder related costs include such recurring items as transfer agent fees, NASDAQ listing fees, SEC filing fees and annual report printing fees. These fees decreased during the nine months ended June 30, 2007 since there were no special proxy solicitation or stock option termination notices filed as there were during the nine months ended June 30, 2006.

Directors' fees for the nine months ended June 30, 2007 were \$167,470, as compared to \$81,712 for the nine months ended June 30, 2006 due to the increase in annual stipend fees and their related monthly amortization.

Insurance expense for the nine months ended June 30, 2007 was \$191,338, as compared to \$151,956 for the nine months ended June 30, 2006. The increase is primarily the result of an increase in the amortization of our directors and officers insurance policy premiums.

There was no stock option compensation expense recorded for the nine months ended June 30, 2007 as there was no longer a stock option plan in effect. Stock option compensation expense for the nine months ended June 30, 2006 was \$279,618 and was the result of the adoption of the SFAS No. 123 (revised 2004) "*Share-based Payment*."

Other expenses were \$219,552 for the nine months ended June 30, 2007, as compared to \$151,663 for the nine months ended June 30, 2006. The expenses primarily represent direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies, press releases and backup servicer expenses.

Income Tax Expense

During the nine months ended June 30, 2006, Gladstone Capital Corporation recorded approximately \$50,000 in connection with penalties incurred on misclassified revenue on its fiscal year 2004 corporate tax return.

Net Realized Gain (Loss) on Sale of Investments

During the nine months ended June 30, 2007, we sold or were repaid in full on 24 syndicate loan investments for a net gain of \$81,498, as compared to an aggregate net loss of \$903,945, which was composed of \$1,180,595 loss from the sale of two investments and a net

gain of \$276,650 from the sale and repayments of syndicate investments during the nine months ended June 30, 2006.

Realized Gain on Settlement of Derivative

During the nine months ended June 30, 2007, we received interest rate cap agreement payments of \$31,198 as a result of the one month LIBOR exceeding 5%, as compared to \$1,367 received during the nine months ended June 30, 2006.

Net Unrealized (Depreciation) Appreciation on Derivative

During the nine months ended June 30, 2007, we recorded net unrealized depreciation of \$25,877 due to a decrease in the fair market value of our interest rate cap agreement, as compared to unrealized appreciation of \$65,252 during the nine months ended June 30, 2006.

Net Unrealized (Depreciation) Appreciation on Investments

For the nine months ended June 30, 2007, we recorded net unrealized depreciation on investments of \$2,465,915, as compared to net unrealized appreciation of \$5,769,820, for the nine months ended June 30, 2006. The unrealized depreciation is mainly attributable to the depreciated fair value on certain investments, most notably unrealized depreciation on Its Just Lunch International LLC, LocalTel, Inc. and Visual Edge Technology, Inc., partially offset by appreciation of our warrants in Finn Corporation.

Net Increase in Net Assets from Operations

Overall, we realized a net increase in net assets resulting from operations of \$14,213,054 for the nine months ended June 30, 2007. Based on a weighted-average of 12,701,845 basic and diluted shares outstanding, our net increase in net assets from operations per weighted-average common share for the nine months ended June 30, 2007 was \$1.12, basic and diluted.

For the nine months ended June 30, 2006, we realized a net increase in net assets resulting from operations of \$19,366,806. Based on a weighted-average of 11,317,437 (basic) and 11,549,054 (diluted) shares outstanding, our net increase in net assets from operations per weighted-average common share for the nine months ended June 30, 2006 was \$1.71 (basic) and \$1.68 (diluted).

Liquidity and Capital Resources

At June 30, 2007, we had investments in debt securities of, or loans to, 59 private companies, totaling approximately \$370.0 million (cost basis) of total assets.

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During the nine months ended June 30, 2007 and June 30, 2006, the following investment activity occurred:

Quarter Ended	New Investments	Principal Repayments	Net Gain/(Loss) on Disposal
June 30, 2007	\$ 126,086,654	\$ 37,572,621	\$ (5,021)
March 31, 2007	75,330,167	38,263,017	84,205
December 31, 2006	52,311,008	23,967,229	2,314
	<u>\$ 253,727,829</u>	<u>\$ 99,802,867</u>	<u>\$ 81,498</u>
June 30, 2006	\$ 39,916,834	\$ 44,358,944	\$ (100,850)
March 31, 2006	38,471,109	24,815,067	377,500
December 31, 2005	26,688,457	38,702,066	(1,180,595)
	<u>\$ 105,076,400</u>	<u>\$ 107,876,077</u>	<u>\$ (903,945)</u>

The following table summarizes the contractual principal amortization and maturity of our investment portfolio by fiscal year:

Fiscal Year Ended September 30,	Amount
2007	\$ 8,358,133
2008	9,922,956
2009	26,109,512
2010	43,759,511
2011	94,200,816
Thereafter	187,624,470
	<u>\$ 369,975,398</u>

Net cash used in operating activities for the nine months ended June 30, 2007, consisting primarily of the items described in "Results of Operations" and the investment activity described above, was approximately \$136.6 million as compared to net cash provided by operating activities of approximately \$17.8 million for the nine months ended June 30, 2006. Net cash provided by investing activities consisted of \$300,941 and \$129,943 for the nine months ended June 30, 2007 and June 30, 2006, respectively, and consisted of the principal repayments of employee loans. Net cash provided by financing activities for the nine months ended June 30, 2007 was approximately \$139.1 million and mainly consisted of an offering of common stock for net proceeds of approximately \$45.7 million, borrowings on our line of credit of approximately \$277.8 million, offset by repayments on line of credit borrowings of approximately \$166.6 million, and approximately \$16.0 million for the payment of dividends. Net cash used in financing activities was approximately \$18.0 million for the nine months ended June 30, 2006 and consisted primarily of net repayments on our line of credit of approximately \$5.2 million and the payment of dividends of approximately \$13.8 million.

During the nine months ended June 30, 2007, cash and cash equivalents increased from approximately \$732,000 to approximately \$3.5 million.

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. In accordance with these requirements, we declared and paid monthly cash dividends of \$0.14 per common share for July, August, September, October, November and December 2006 and January, February, March, April, May and June 2007 and \$0.135 per

common share for January, February, March, April, May and June 2006, and October, November and December 2005. In July 2007, our Board of Directors declared a monthly dividend of \$0.14 per common share for each of July, August, and September 2007.

We anticipate continuing to borrow funds and, from time to time issuing additional equity securities, to obtain additional capital to make further investments. On May 2, 2007, we completed a public offering of 2,000,000 shares of our common stock, at a price of \$24.25 per share, under a shelf registration statement on Form N-2 (File No. 333-100385), and pursuant to the terms set forth in a prospectus dated April 16, 2007, as supplemented by a final prospectus dated April 27, 2007. Net proceeds of the offering, after underwriting discounts and offering expenses were approximately \$45,669,292 and were used to repay outstanding borrowings under our line of credit. In May 2007, we filed with the SEC a new shelf registration statement on Form N-2 (File No. 333-143027) (the "Registration Statement") which the SEC declared effective on July 5, 2007 that would permit us to issue, through one or more transactions, up to an aggregate of \$300 million in securities, consisting of common stock, preferred stock and/or debt securities. On July 24, 2007, we completed an offering of 400,000 shares of our common stock, at a price of \$20.41 per share, under the Registration Statement, and pursuant to the terms set forth in a prospectus dated July 5, 2007, as supplemented by a final prospectus dated July 24, 2007. Net proceeds from the offering, after offering expenses, were approximately \$8,149,000 and were used to repay outstanding borrowings under our line of credit. After the offering, we had the capacity to issue up to an aggregate of approximately \$291.8 million in securities under the Registration Statement.

Revolving Credit Facilities

Through our wholly-owned subsidiary, Business Loan, we have a \$220 million revolving credit facility (the "DB Facility") with Deutsche Bank AG, as administrative agent, which is scheduled to mature on May 23, 2008. Pursuant to the DB Facility, Business Loan has pledged the loans it holds to secure future advances by certain institutional lenders. Interest rates charged on the advances under the DB Facility will be based on LIBOR, the Prime Rate or the Federal Funds Rate, depending on market conditions, and will adjust periodically. As of June 30, 2007, our outstanding principal balance under the DB Facility was approximately \$161.2 million at an interest rate of approximately 5.3%. Available borrowings are subject to various constraints imposed by Deutsche Bank AG, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are early prepayment or are made as contractually required. At June 30, 2007, the remaining borrowing capacity available under the DB Facility was approximately \$58.8 million.

The DB Facility contains covenants that, among other things, require Business Loan to maintain its status as a separate entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions); and restrict material changes to our credit and collection policies. The DB Facility also restricts some of the terms and provisions (including interest rates, terms to maturity and payments schedules) and limits the borrower and industry concentrations of loans that are eligible to secure advances. As of June 30, 2007, Business Loan was in compliance with all of the DB Facility covenants. We currently intend to securitize all of the loans held by Business Loan and to use the proceeds from the securitization to pay down any amounts then outstanding under the revolving credit facility. However, there can be no assurance that we will be able to successfully securitize any of these loans on terms acceptable to us, if at all.

The administrative agent also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with the Bank of New York

as custodian. Deutsche Bank AG is also the trustee of the account and once a month remits the collected funds to us. For the nine months ended June 30, 2007, the amount due from custodian decreased by \$457,261.

Our Adviser, services the loans pledged under the DB Facility. As a condition to this servicing arrangement, we executed a performance guaranty pursuant to which we guaranteed that our Adviser would comply fully with all of its obligations under the facility. The performance guaranty requires us to maintain a minimum net worth of \$100 million and to maintain "asset coverage" with respect to "senior securities representing indebtedness" of at least 200%, in accordance with Section 18 of the 1940 Act. As of June 30, 2007, we were in compliance with our covenants under the performance guaranty.

The DB facility is available for general corporate purposes.

Contractual Obligations

As of June 30, 2007, we were a party to signed and non-binding term sheets for two loan originations for an aggregate of \$15.0 million. To date, these investments have not yet funded and we expect to fund these potential investments as follows:

Contractual Obligations	Total	Payment Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Investments	15,000,000	15,000,000			
Total	\$ 15,000,000	\$ 15,000,000	\$	\$	\$

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS
GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(Unaudited)

	<u>June 30, 2007</u>	<u>September 30, 2006</u>
ASSETS		
Investments at fair value (Cost 6/30/2007: \$369,975,398; 9/30/2006: \$216,202,986)	\$ 368,949,247	\$ 217,642,750
Cash and cash equivalents	3,491,495	731,744
Interest receivable investments in debt securities	2,221,606	1,394,942
Interest receivable employees	32,739	37,396
Due from custodian	3,129,891	3,587,152
Deferred financing fees	246,333	145,691
Prepaid assets	186,643	226,747
Due from employees		1,803,283
Other assets	352,796	213,510
	<u>378,610,750</u>	<u>225,783,215</u>
TOTAL ASSETS	\$ 378,610,750	\$ 225,783,215
LIABILITIES		
Accounts payable	\$ 5,160	\$ 4,072
Interest payable	516,780	247,530
Administration fee due to Administrator	186,895	
Fees due to Adviser (Refer to Notes 4 and 5)	404,240	240,363
Borrowings under line of credit	161,188,000	49,993,000
Withholding taxes payable		1,803,283
Accrued expenses and deferred liabilities	854,322	721,287
Funds held in escrow	202,433	203,193
	<u>163,357,830</u>	<u>53,212,728</u>
TOTAL LIABILITIES	163,357,830	53,212,728
NET ASSETS	\$ 215,252,920	\$ 172,570,487
ANALYSIS OF NET ASSETS		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 14,249,683 and 12,305,008 shares issued and outstanding, respectively	\$ 14,250	\$ 12,305
Capital in excess of par value	225,449,718	181,270,565
Notes receivable employees	(9,947,366)	(10,248,308)
Net unrealized appreciation on investments	(1,026,151)	1,439,764
Unrealized depreciation on derivative	(279,593)	(253,716)
Realized loss on sale of investments	(780,197)	(861,695)
Realized gain on settlement of derivative	46,212	15,014
Accumulated undistributed net investment income	1,776,047	1,196,558
	<u>215,252,920</u>	<u>172,570,487</u>
TOTAL NET ASSETS	\$ 215,252,920	\$ 172,570,487
NET ASSETS PER SHARE	\$ 15.11	\$ 14.02

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

GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

AS OF JUNE 30, 2007

(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
Access Television Network, Inc.	Service-cable airtime (infomercials)	Line of Credit (7)(8) (12.3% Due 3/2009)	\$	\$
AccessTV PIN Acquisition LLC		Senior Term Debt (7) (12.3% Due 3/2009)	2,979,835	2,948,401
Product Information Network Venture				
ActivStyle Acquisition Co. ActivStyle, Inc.	Service-medical products distribution	Line of Credit (5)(9) (9.6%, Due 7/2009)	450,000	448,313
		Senior Term Debt (5) (9.6%, Due 7/2011)	2,960,000	2,956,300
		Senior Term Debt (3)(5) (11.8%, Due 7/2011)	2,500,000	2,496,875
Advanced Homecare Management, Inc.	Service-home health nursing services	Senior Subordinated Term Debt (5)(6) (11.9%, Due 12/2013)	6,300,000	6,300,000
Allison Publications, LLC D. Magazine Partners, L.P. Allison Media, Inc. City Newspapers, LP City Newspapers, Management, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (7) (10.3%, Due 12/2011)	8,014,728	7,933,000
Anitox Acquisition Company Anitox Holding, Inc.	Manufacturing-preservatives for animal feed	Senior Real Estate Term Debt (8.8%, Due 1/2012)	3,412,939	3,360,000
		Line of Credit (10) (9.6%, Due 1/2010)		
		Senior Term Debt (5) (9.6%, Due 1/2012)	2,750,000	2,746,563
		Senior Term Debt (3)(5) (11.8%, Due 1/2012)	2,750,000	2,746,563
Badanco Acquisition Corp.	Service-luggage design and distribution	Senior Subordinated Term Debt (5) (12.1%, Due 7/2012)	9,701,250	9,701,250
Bresnan Communications, LLC	Service-telecommunications	Senior Term Debt (6) (7.3%, Due 9/2013)	3,001,880	2,992,500
		Senior Subordinated Term Debt (6) (9.9%, Due 3/2014)	1,510,393	1,505,625
CCS, LLC	Service-cable tv franchise owner	Senior Term Debt (7) (12.3%, Due 7/2007)	3,455,580	3,424,146
CHG Companies, Inc. CHG Medical Staffing, Inc.	Service-healthcare staffing	Letter of Credit (5)(6) (7.9%, Due 12/2012)	400,000	404,000
		Senior Term Debt (5)(6) (7.8%, Due 12/2012)	1,596,000	1,605,975
		Senior Subordinated Term Debt (5)(6) (11.3%, Due 12/2012)	500,000	503,125
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit (7)(11) (12.3%, Due 9/2010)	150,071	150,071
		Senior Term Debt (7) (12.3%, Due 9/2010)	1,235,008	1,222,435

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Clinton Holdings, LLC Clinton Aluminum Acquisition, LLC	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (5) (12.6%, Due 1/2013) Common Stock Warrants	\$ 15,500,000 \$ 109,124	15,519,375 125,864
Metal Transportation, LLC Clinton Distribution Center, LLC				
CMI Acquisition, LLC (d/b/a Triangle Metal Industries) TMC Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (7) (12.3%, Due 11/2012)	6,500,000	6,500,000
Community Media Corporation	Service-publisher of free weekly newspapers	Senior Term Debt (7) (10.8%, Due 7/2007)	2,572,497	2,547,350
Country Road Communications LLC Country Road Management, Inc.	Service-telecommunications	Senior Subordinated Term Debt (5)(6) (13.2%, Due 7/2013)	5,965,833	6,030,000
Defiance Acquisition Corporation	Manufacturing-trucking parts	Senior Term Debt (3)(5) (13.3%, Due 4/2010)	6,325,000	6,317,094
Doe & Ingalls Management LLC Doe & Ingalls of North Carolina Operating LLC Doe & Ingalls of Florida Operating LLC Doe & Ingalls of Virginia Operating LLC Doe & Ingalls of Maryland Operating LLC	Distributor-specialty chemicals	Senior Term Debt (5) (8.8%, Due 11/2010) Senior Term Debt (3)(5) (9.8%, Due 11/2010)	4,100,000 4,466,250	4,110,250 4,471,833
Emdeon Business Services, Inc.	Service-healthcare technology solutions	Senior Term Debt (6) (7.6%, Due 11/2013) Senior Subordinated Term Debt (6) (10.4%, Due 5/2014)	2,440,341 2,013,460	2,450,020 2,020,000
Express Courier International, Inc.	Service-ground delivery and logistics	Line of Credit (12) (9.6%, Due 6/2009) Senior Term Debt (5) (9.6%, Due 6/2011) Senior Term Debt (3)(5) (11.8%, Due 6/2011)	4,347,500 3,950,000	4,347,500 3,950,000
Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants	37,000	2,972,858
Florida Cable, Inc. Lakepointe Limited Partnership	Service-cable and internet system operator	Senior Term Debt (7) (11.8%, Due 7/2010)	5,906,391	5,849,810
FR X Ohmstede Holdings, LLC FR X Ohmstede Acquisitions Co.	Service & Manufacturing-heat exchangers	Senior Term Debt (6) (7.9%, Due 8/2013) Senior Subordinated Term Debt (6) (12.4%, Due 8/2014)	2,739,130 3,011,190	2,756,250 3,015,000

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Global Materials Technologies, Inc. GTM Holdings, Inc. Gold Toe Investment Corp.	Manufacturing-steel wool products and metal fibers Manufacturing-socks	Senior Term Debt (3)(5) (14.3%, Due 11/2009) Senior Term Debt (6) (8.1%, Due 10/2013) Senior Subordinated Term Debt (6) (11.4%, Due 4/2014)	\$ 5,150,000 \$ 497,500 500,000	\$ 4,944,000 499,988 505,000
Greatwide Logistics Services, Inc.	Service-logistics and transportation	Senior Term Debt (6) (8.6%, Due 12/2013) Senior Subordinated Term Debt (6) (11.9%, Due 6/2014)	3,980,000 4,000,000	3,880,500 3,840,000
Harrington Holdings, Inc. Harrington Acquisition Corp.	Service-healthcare products distribution	Senior Term Debt (6) (7.8%, Due 1/2014) Senior Subordinated Term Debt (6) (11.4%, Due 1/2014)	2,493,750 5,000,000	2,506,219 5,025,000
Heartland Communications Group, LLC Heartland Comm. License, LLC Heartland Comm. Houghton License, LLC Tu-Mar Broadcasting, Inc.	Service-radio station operator	Line of Credit (7)(13) (11.8%, Due 5/2008) Senior Term Debt (7) (11.8%, Due 5/2011)	9,856 4,873,531	9,856 4,823,237
International Junior Golf	Service-golf training	Line of Credit (5)(14) (9.6%, Due 5/2010) Senior Term Debt (5) (9.6%, Due 5/2012) Senior Term Debt (3)(5) (11.8%, Due 5/2012)	500,000 2,650,000 2,500,000	499,375 2,646,688 2,493,750
It's Just Lunch International, LLC	Service-dating service	Line of Credit (5)(15) (9.3%, Due 6/2009) Senior Term Debt (5) (9.6%, Due 6/2011) Senior Term Debt (3)(5)(15) (11.8%, Due 6/2011)	550,000 3,300,000 500,000	514,250 3,085,500 467,500
John Henry Holdings, Inc. Multi Packaging Solutions, Inc.	Manufacturing-packaging products	Senior Subordinated Term Debt (6) (12.3%, Due 6/2011)	8,000,000	8,000,000
Kinetek Acquisition Corp.	Manufacturing-custom engineered motors & controls	Senior Term Debt (6) (7.8%, Due 11/2013) Senior Subordinated Term Debt (6) (10.8%, Due 5/2014)	1,498,218 1,509,209	1,492,500 1,507,500
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit (7)(16) (13.3%, Due 3/2010) Senior Term Debt (7) (13.3%, Due 3/2010)	150,000 1,825,404	150,000 1,806,543

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LocalTel, Inc.	Service-yellow pages publishing	Line of Credit (5)(17) (9.8%, Due 6/2009)	\$ 1,275,000	\$ 1,096,500
		Senior Term Debt (5) (9.8%, Due 6/2011)	2,687,500	2,311,250
		Senior Term Debt (3)(5) (12.3%, Due 6/2011)	2,750,000	2,282,500
Macfadden Performing Arts Media, LLC	Service-magazine publisher	Line of Credit (7) (11.3%, Due 6/2009)	515,979	515,979
		Senior Term Debt (7) (11.3%, Due 6/2009)	6,775,441	6,700,000
MCA Communications, LLC MCA Internet, LLC	Service-internet-based data publisher	Line of Credit (7) (non-accrual, Due 9/2006)	798,349	792,063
Meteor Holding Corporation	Manufacturing-bar code scanning and data	Senior Term Debt (6) (8.3%, Due 12/2013)	2,354,100	2,364,281
Metrologic Instruments, Inc.	capture	Senior Subordinated Term Debt (6) (11.6%, Due 12/2013)	1,500,000	1,509,375
Multi-Ag Media LLC HFW Communications, Inc. Dairy Radio, LLC DPW Publishing, Inc. Phoenix Data Processing, LLC	Service-dairy magazine publisher/information database	Senior Term Debt (7) (12.3%, Due 12/2009)	2,643,911	2,618,764
Newhall Holdings, Inc. (d/b/a Newhall Laboratories) Golden Sun, Inc.	Service-distributor of personal care products and supplements	Line of Credit (7)(20) (8.8%, Due 5/2010)		
		Senior Term Debt (3)(7) (9.1%, Due 5/2012)	4,500,000	4,500,000
		Senior Term Debt (3)(7) (11.3%, Due 5/2012)	4,500,000	4,500,000
Northern Contours Northern Contours of Kentucky, Inc. Norcon Holding LLC Norcon Lewis LLC	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (5) (12.3%, Due 5/2010)	7,000,000	7,008,750
Pinnacle Treatment Centers, Inc.	Service-Addiction treatment centers	Line of Credit (21) (9.6%, Due 12/2009)		
		Senior Term Debt (5) (9.6%, Due 12/2011)	2,500,000	2,496,875
		Senior Term Debt (3)(5) (12.3%, Due 12/2011)	4,500,000	4,494,375
Precision Acquisition Group Holdings, Inc. Precision Asset Acquisition Company, LLC	Manufacturing-consumable components for the aluminum industry	Equipment Note (5)(22) (9.8%, Due 10/2011)	591,228	591,228
		Senior Term Debt (5) (9.8%, Due 10/2010)	5,000,000	5,012,500
		Senior Term Debt (3)(5) (11.8%, Due 10/2010)	4,200,000	4,210,500

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			\$	\$
PROFITSystems Acquisition Co. PROFITSystems, Inc.	Service-design and develop ERP software	Line of Credit (23) (9.6%, Due 7/2009) Senior Term Debt (5) (9.6%, Due 7/2011) Senior Term Debt (3)(5) (11.8%, Due 7/201)		
			2,875,000	2,878,594
			2,900,000	2,903,625
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (5)(6) (11.6%, Due 1/2012)	7,802,222	7,755,841
Reading Broadcasting, Inc.	Service-television station operator	Senior Term Debt (7) (12.8%, Due 12/2011)	7,087,084	7,017,930
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (3)(5) (9.8%, Due 1/2011) Senior Term Debt (4)(5) (12.3%, Due 1/2011)	3,000,000	2,910,000
			3,000,000	2,895,000
RedPrairie Holding, Inc. RedPrairie Corporation Blue Cube Software, Inc.	Service-design and develop supply chain software	Senior Term Debt (6) (8.4%, Due 7/2012) Senior Subordinated Term Debt (6) (11.9%, Due 1/2013)	4,457,500	4,457,500
			3,000,000	3,000,000
RiskMetrics Group Holdings, LLC	Service-develop risk and wealth management solutions	Senior Term Debt (6) (7.6%, Due 1/2014) Senior Subordinated Term Debt (6) (10.9%, Due 7/2014)	1,995,000	1,999,988
			500,000	505,000
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (7) (14.3%, Due 10/2008)	2,485,032	2,459,885
SCS Acquisition Corp. (d/b/a Specialty Coatings Systems)	Service-chemically treated equipment distribution	Senior Term Debt (5)(17) (9.3%, Due 12/2011) Senior Term Debt (3)(5)(17) (11.3%, Due 12/2011)	5,442,311	5,442,311
			6,531,250	6,531,250
Sunburst Media-Louisiana, LLC	Service-radio station operator	Senior Term Debt (7) (12.0%, Due 6/2011)	7,875,441	7,800,000
Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Credit Facility (5)(24) (9.3%, Due 5/2010) Senior Term Debt (5) (9.3%, Due 5/2012) Senior Term Debt (3)(5) (11.8%, Due 5/2012)	600,000	598,500
			17,000,000	16,978,750
			10,000,000	9,975,000
Thibaut Acquisition Co.	Service-design and disribute wall covering	Credit Facility (5)(25) (9.8%, Due 1/2011) Senior Term Debt (5) (9.8%, Due 1/2011) Senior Term Debt (3)(5) (12.3%, Due 1/2011)	500,000	499,375
			2,887,500	2,887,500
			3,000,000	3,000,000
U.S. HealthCare Communications, LLC	Service-magazine publisher/operator	Senior Term Debt (7) (11.3%, Due 4/2011)	2,244,182	2,219,035

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Viapack, Inc. P&O Packaging Acquisition LLC	Manufacturing-polyethylene film	Senior Real Estate Term Debt (9.8%, Due 3/2011) Senior Term Debt (3)(5)(19) (11.3%, Due 3/2011)	\$	975,000	\$ 975,000
				4,223,438	4,202,320
Visual Edge Technology, Inc. Graphic Enterprises, Inc. Copeco, Inc.	Service-office equipment distribution	Senior Subordinated Term Debt (5) (13.3%, Due 8/2011)		5,000,000	3,625,000
Wesco Holdings, Inc. Wesco Aircraft Hardware Corp.	Service-aerospace parts and distribution	Senior Term Debt (6) (7.6%, Due 9/2013) Senior Subordinated Term Debt (6) (11.1%, Due 3/2014)		2,478,317	2,466,436
				2,271,494	2,289,375
West Coast Yellow Pages, Inc.	Service-directory publisher	Senior Term Debt (7) (13.8%, Due 8/2010)		1,624,251	1,605,390
Westlake Hardware, Inc. WHI Holding Corp.	Retail-hardware and variety	Senior Subordinated Term Debt (5) (12.6%, Due 1/2011)		15,000,000	14,925,000
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5) (9.1%, Due 6/2012) Senior Subordinated Term Debt (5) (12.3%, Due 6/2012)		2,000,000	2,002,500
				10,000,000	10,012,500
WP Evenflo Group Holdings Inc. WP Evenflo Acquisition, Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (6) (7.8%, Due 2/2013) Senior Subordinated Term Debt (6) (11.3%, Due 2/2014)		1,990,000	1,999,950
				2,000,000	2,000,000
Total:				\$ 369,975,398	\$ 368,949,247

- (1) We do not "Control," and are not an "Affiliate" of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities and would be an "Affiliate" of a portfolio company if we owned 5% or more of its voting securities.
- (2) Percentage represents interest rates in effect at June 30, 2007 and due date represents the contractual maturity date.
- (3) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
- (4) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt, however the debt is junior to another Last Out Tranche.
- (5) Fair value was based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
- (6) Marketable securities, such as syndicated loans, are valued based on the indicative bid price, as of June 29, 2007, from the respective originating syndication agent's trading desk.
- (7) Investment valued at cost due to recent acquisition.
- (8) Availability under the Access TV credit facility totals \$500,000. There were no borrowings outstanding as of June 30, 2007.
- (9) Availability under the ActivStyle credit facility totals \$1,500,000. Borrowings of \$450,000 were outstanding at June 30, 2007.

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- (10) Availability under the Anitox credit facility totals \$3,000,000. There were no borrowings outstanding at June 30, 2007.
- (11) Availability under the Chinese Yellow Pages credit facility totals \$950,000. Borrowings of \$150,071 were outstanding at June 30, 2007.
- (12) Availability under the Express Courier credit facility totals \$1,500,000. There were no borrowings outstanding at June 30, 2007.
- (13) Availability under the Heartland credit facility totals \$500,000. Borrowings of \$9,856 were outstanding at June 30, 2007.
- (14) Availability under the International Junior Golf credit facility totals \$1,000,000. Borrowings of \$500,000 were outstanding at June 30, 2007.
- (15) Remaining availability under the It's Just Lunch revolving credit facility totals \$200,000, borrowings of \$550,000 were outstanding at June 30, 2007. The company may borrow an additional \$1,750,000 of the senior term debt facility, subject to certain conditions including Gladstone Capital's approval, borrowings of \$500,000 were outstanding at June 30, 2007.
- (16) Availability under the KMBQ credit facility totals \$200,000. Borrowings of \$150,000 were outstanding at June 30, 2007.
- (17) Availability under the LocalTel credit facility totals \$3,000,000. Borrowings of \$1,275,000 were outstanding at June 30, 2007.
- (18) Availability under the MacFadden credit facility totals \$1,400,000. Borrowings of \$515,979 were outstanding at June 30, 2007.
- (19) The MCA credit facility was matured as of June 30, 2007. The investment is currently not income producing.
- (20) Availability under the Newhall credit facility totals \$4,000,000. There were no borrowings outstanding as of June 30, 2007.
- (21) Availability under the Pinnacle credit facility totals \$500,000. There were no borrowings outstanding at June 30, 2007.
- (22) Precision may borrow up to \$1,000,000 for purposes of acquiring equipment. Borrowings of \$591,228 were outstanding at June 30, 2007.
- (23) Availability under the ProfitSystems credit facility totals \$1,250,000. There were no borrowings outstanding at June 30, 2007.
- (24) Availability under the Sunshine credit facility totals \$3,000,000. Borrowings of \$600,000 were outstanding at June 30, 2007.
- (25) Availability under the Thibaut credit facility totals \$500,000. Borrowings of \$500,000 were outstanding at June 30, 2007.

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

GLADSTONE CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

AS OF SEPTEMBER 30, 2006

Company (1)	Industry	Investment (2)	Cost	Fair Value
ActivStyle Acquisition Co. ActivStyle, Inc.	Service-medical products distribution	Line of Credit (16) (9.6%, Due 7/2009) Senior Term Debt (5) (9.6%, Due 7/2011) Senior Term Debt (3)(5) (11.8%, Due 7/2011)	\$ 3,200,000 2,500,000	\$ 3,200,000 2,500,000
Advanced Homecare Management, Inc.	Service-home health nursing services	Senior Subordinated Term Debt (5)(6) (11.33%, Due 12/2013)	5,000,000	5,000,000
Allied Extruders, LLC P&O Packaging Acquisition LLC	Manufacturing-polyethylene film	Senior Real Estate Term Debt (9.8%, Due 3/2011) Senior Term Debt (3)(5) (11.3%, Due 3/2011)	1,000,000 8,000,000	1,000,000 8,030,000
Badanco Acquisition Corp.	Manufacturing-luggage	Senior Term Debt (5) (10.8%, Due 2/2010) Senior Term Debt (3)(5) (13.8%, Due 2/2010)	5,145,019 8,585,125	5,157,881 8,628,051
Benetech, Inc.	Service & Manufacturing-dust management systems for the coal and electric utility industries	Senior Term Debt (5) (10.3%, Due 5/2009) Senior Term Debt (3)(5) (13.3%, Due 5/2009)	2,112,500 3,046,875	2,144,187 3,107,813
Bresnan Communications, LLC	Service-telecommunications	Senior Term Debt (6) (7.2%, Due 9/2013) Senior Subordinated Term Debt (9.9%, Due 3/2014)	1,002,115 1,511,554	997,500 1,533,750
Consolidated Bedding, Inc.	Manufacturing-mattresses	Senior Subordinated Term Debt (5) (14.4%, Due 3/2009)	2,438,359	2,306,991
Country Road Communications LLC Country Road Management, Inc.	Service-telecommunications	Senior Subordinated Term Debt (5)(6) (13.3%, Due 7/2013)	5,961,594	6,015,000
Defiance Stamping Company	Manufacturing-trucking parts	Senior Term Debt (3)(5) (13.3%, Due 4/2010)	6,325,000	6,332,906
Doe & Ingalls Management LLC Doe & Ingalls of North Carolina Operating LLC Doe & Ingalls of Florida Operating LLC Doe & Ingalls of Virginia Operating LLC	Distributor-specialty chemicals	Senior Term Debt (5) (9.8%, Due 11/2010) Senior Term Debt (3)(5) (13.3%, Due 11/2010)	4,700,000 4,500,000	4,723,500 4,516,875
Express Courier International, Inc.	Service-ground delivery and logistics	Line of Credit (7) (9.6%, Due 6/2009) Senior Term Debt (5) (9.6%, Due 6/2011) Senior Term Debt (3)(5) (11.8%, Due 6/2011)	 4,700,000 3,950,000	 4,700,000 3,950,000

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Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants	37,000	709,431
FR X Ohmstede Holdings, LLC	Service & Manufacturing-heat exchangers	Senior Term Debt (6) (8.5%, Due 8/2013)	3,000,000	3,026,250
FR X Ohmstede Acquisitions Co.		Senior Subordinated Term Debt (6) (12.5%, Due 8/2014)	3,012,369	3,030,000
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (3)(5) (14.3%, Due 11/2009)	5,300,000	5,233,750
It's Just Lunch International, LLC	Service-dating service	Line of Credit (12)(5) (9.2%, Due 6/2009)	200,000	199,500
		Senior Term Debt (13)(5) (9.6%, Due 6/2011)	3,300,000	3,291,750
		Senior Term Debt (3)(14) (11.8%, Due 6/2011)		
John Henry Holdings, Inc. Multi Packaging Solutions, Inc.	Manufacturing-packaging products	Senior Subordinated Term Debt (6) (12.5%, Due 6/2011)	8,000,000	8,000,000
LocalTel, Inc.	Service-yellow pages publishing	Line of Credit (5)(15) (9.8%, Due 6/2009)	350,000	343,000
		Senior Term Debt (5) (9.8%, Due 6/2011)	2,687,500	2,633,750
		Senior Term Debt (3)(5) (12.3%, Due 6/2011)	2,750,000	2,695,000
Mistras Holdings Corp.	Service & Manufacturing nondestructive testing instruments, systems and services	Senior Term Debt (3)(5) (11.5%, Due 8/2008)	9,499,999	9,737,499
		Senior Term Debt (4)(5)(18) (12.5%, Due 8/2008)	5,250,001	5,620,124
Network Solutions LLC	Service-internet domain registry and host	Senior Term Debt (6) (10.4%, Due 1/2012)	4,464,358	4,499,747
Northern Contours of Kentucky, Inc. Norcon Holding LLC Norcon Lewis LLC	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (5) (12.3%, Due 5/2010)	7,000,000	7,017,500
PROFITSystems Acquisition Co. PROFITSystems, Inc.	Service-design and develop ERP software	Line of Credit (17) (9.6%, Due 7/2009)		
		Senior Term Debt (5) (9.6%, Due 7/2011)	3,100,000	3,100,000
		Senior Term Debt (5) (11.8%, Due 7/2011) (3)	2,900,000	2,900,000
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (5)(6) (11.6%, Due 1/2012)	7,813,274	7,775,183
QCE, LLC (d/b/a Quiznos Corp.)	Service-restaurant franchisor	Senior Term Debt (6) (7.6%, Due 5/2013)	3,010,713	2,977,538
		Senior Term Debt (3)(6) (11.1%, Due 11/2013)	3,045,560	3,033,750

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RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (3)(5) (9.8%, Due 1/2011) Senior Term Debt (4)(5) (12.3%, Due 1/2011)	3,000,000 3,000,000	3,003,750 3,003,750
RedPrairie Holding, Inc. RedPrairie Corporation Blue Cube Software, Inc.	Service-design and develop supply chain software	Senior Term Debt (6) (8.4%, Due 7/2012) Senior Subordinated Term Debt (6) (11.9%, Due 1/2013)	3,990,000 2,000,000	3,990,000 2,005,000
SCPH Holdings, Inc. Sea Con Phoenix, Inc. Phoenix Optix, Inc.	Manufacturing-underwater and harsh environment components	Credit Facility (8) (9.8%, Due 2/2007) Senior Term Debt (5) (10.3%, Due 2/2010) Senior Term Debt (3)(5) (13.3%, Due 2/2010)	2,625,000 2,887,500	2,631,563 2,898,328
SCS Acquisition Corp.	Service-chemically treated equipment distribution	Senior Term Debt (3)(5)(9) (9.3%, Due 12/2011) Senior Term Debt (3)(5)(10) (11.3%, Due 12/2011)	6,250,000 6,568,750	6,257,812 6,576,961
Thibaut Acquisition Co.	Design and Disbtribution-wall coverings	Credit Facility (11) (9.8%, Due 1/2011) Senior Term Debt (5) (9.8%, Due 1/2011) Senior Term Debt (3)(5) (12.3%, Due 1/2011)	3,325,000 3,000,000	3,325,000 3,000,000
Visual Edge Technology, Inc. Graphic Enterprises, Inc. Copeco, Inc.	Service-office equipment distribution	Senior Subordinated Term Debt (5) (13.3%, Due 8/2011)	5,000,000	4,987,500
Westlake Hardware, Inc. WHI Holding Corp.	Retail-hardware and variety	Senior Subordinated Term Debt (5) (12.6%, Due 1/2011)	15,000,000	14,981,250
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (3)(5) (12.3%, Due 6/2012)	6,000,000	6,007,500
Xspedius Communications LLC	Service-telecommunications	Senior Subordinated Term Debt (5) (15.8%, Due 3/2010)	5,157,821	5,306,110
Total:			\$ 216,202,986	\$ 217,642,750

- (1) We do not "Control," and are not an "Affiliate" of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities and would be an "Affiliate" of a portfolio company if we owned 5% or more of its voting securities.
- (2) Percentage represents interest rates in effect at September 30, 2006 and due date represents the contractual maturity date.
- (3) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
- (4) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt, however the debt is junior to another Last Out Tranche.

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- (5) Fair value was based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
- (6) Marketable securities, such as syndicated loans, are valued based on the indicative bid price, as of September 30, 2006 from the respective originating syndication agent's trading desk.
- (7) Availability under the credit facility totals \$1,500,000. There were no borrowings outstanding at September 30, 2006.
- (8) Availability under the credit facility totals \$500,000. There were no borrowings outstanding at September 30, 2006.
- (9) Availability under the debt facility totals \$7,500,000. The outstanding balance of the debt facility was \$6,250,000 at September 30, 2006.
- (10) Availability under the debt facility totals \$7,500,000. The outstanding balance of the debt facility was \$6,568,750 at September 30, 2006.
- (11) Availability under the credit facility totals \$1,000,000. There were no borrowings outstanding at September 30, 2006.
- (12) Availability under the credit facility totals \$750,000. Borrowings of \$200,000 were outstanding at September 30, 2006.
- (13) The company may borrow an additional \$500,000 under the senior term debt facility, subject to certain conditions including Gladstone Capital's approval.
- (14) The company may borrow an additional \$2,250,000 under the senior term debt facility, subject to certain conditions including Gladstone Capital's approval.
- (15) Availability under the credit facility totals \$3,000,000. Borrowings of \$350,000 were outstanding at September 30, 2006.
- (16) Availability under the credit facility totals \$1,500,000. There were no borrowings outstanding at September 30, 2006.
- (17) Availability under the credit facility totals \$1,250,000. There were no borrowings outstanding at September 30, 2006.
- (18) Includes a success fee with a fair value of \$742,000 and no cost basis.

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,	
	2007	2006
INVESTMENT INCOME		
Interest income investments	\$ 8,911,643	\$ 5,775,522
Interest income cash and cash equivalents	109,269	8,178
Interest income notes receivable from employees	132,795	108,877
Prepayment fees and other income	47,572	630,239
	<u>9,201,279</u>	<u>6,522,816</u>
EXPENSES		
Interest expense	1,762,249	702,449
Loan servicing (Refer to Notes 4 and 5)	897,634	693,965
Base management fee (Refer to Note 4)	727,259	334,814
Incentive fee (Refer to Note 4)	1,166,529	
Administration fee (Refer to Note 4)	186,895	
Professional fees	148,609	166,405
Amortization of deferred financing fees	72,133	36,036
Stockholder related costs	39,434	28,371
Directors fees	56,250	27,500
Insurance expense	66,246	50,589
Stock option compensation		202,296
Other expenses	82,062	35,083
	<u>5,205,300</u>	<u>2,277,508</u>
Expenses before credit from Adviser	5,205,300	2,277,508
Credit to base management and incentive fees from Adviser (Refer to Note 4)	(1,708,888)	(542,774)
	<u>3,496,412</u>	<u>1,734,734</u>
Total expenses net of credits to base management and incentive fees	3,496,412	1,734,734
NET INVESTMENT INCOME	<u>5,704,867</u>	<u>4,788,082</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Realized loss on sale of investments	(5,021)	(100,850)