UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED JUNE 30, 2005

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

COMMISSION FILE NUMBER: 814-00237

GLADSTONE CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

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

1521 WESTBRANCH DRIVE, SUITE 200
MCLEAN, VIRGINIA 22102
(Address of principal executive office)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12 b-2 of the Exchange Act).
Yes ☒ No ☐.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of the issuer's Common Stock, $0.001 par value, outstanding as of August 3, 2005 was 11,303,510.

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Item 6. Exhibits

SIGNATURES

GLADSTONE CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2005	September 30, 2004
ASSETS		
Investments at fair value (Cost 6/30/2005: $197,749,877; 9/30/2004: $149,189,306)	$ 194,708,459	$ 146,446,240
Cash and cash equivalents	766,922	15,969,890
Cash and cash equivalents pledged to creditors	—	49,984,950
Interest receivable – investments in debt securities	1,199,684	837,336
Interest receivable – employees	90,915	112,960
Due from custodian	12,230,425	1,203,079
Due from affiliate	—	109,639
Deferred financing costs	171,250	350,737
Prepaid assets	71,622	191,676
Other assets	81,186	127,220
TOTAL ASSETS	$ 209,320,463	$ 215,333,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable	$ 206,399	$ 105,921
Fees due to affiliate	319,411	113,511
Borrowings under lines of credit	54,590,000	40,743,547
Accrued expenses and deferred liabilities	198,819	798,096
Funds held in escrow	200,000	—
Repurchase agreement	—	21,345,997
Total Liabilities	$ 55,514,629	$ 63,107,072
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 50,000,000 shares authorized and 11,303,510 and 11,278,510 shares issued and outstanding, respectively	$ 11,304	$ 11,279
Capital in excess of par value	164,610,873	164,294,781
Notes receivable for sale of stock to employees	(8,792,349)	(9,432,678)
Net unrealized depreciation on investments	(3,041,418)	(2,743,066)
Unrealized depreciation on derivative	(272,266)	(214,259)
Realized gain on sale of investments	42,250	12,500
Distributions less than net investment income	1,247,440	298,098
Total Stockholders' Equity	$ 153,805,834	$ 152,226,655
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 209,320,463	$ 215,333,727

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

GLADSTONE CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS
AS OF JUNE 30, 2005
(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
Advanced Homecare Management, Inc.	Home health nursing services	Senior Subordinated Term Debt (6) (12.6%, Due 12/2010)	$ 7,500,000	$ 7,500,000
Allied Extruders, Inc.	Polyethylene film manufacturer	Senior Term Debt (3) (12.3%, Due 7/2009)	3,950,000	3,969,750
ARI Holdings, Inc.	Manufacturing-auto parts	Senior Term Debt (8.2%, Due 2/2008)	3,926,969	3,720,000
Badanco Acquisition Corp.	Manufacturing-luggage	Senior Term Debt (6) (8.6%, Due 2/2010)	6,982,519	6,991,247
		Senior Term Debt (3)(6) (11.8%, Due 2/2010)	8,650,000	8,660,813

Benetech, Inc.	Dust management systems for the coal and electric utility industries	Senior Term Debt (6) (8.5%, Due 5/2009)	2,925,000	2,946,938
		Senior Term Debt (3) (6) (11.5%, Due 5/2009)	3,250,000	3,290,625
Consolidated Bedding, Inc.	Manufacturing-mattresses	Senior Subordinated Term Debt (6) (12.0%, Due 3/2009)	2,964,609	2,937,558
Coyne International Enterprises	Industrial services	Senior Term Debt (3) (5) (6) (13.0%, PIK 2%, Due 7/2007)	7,530,010	7,520,597
Defiance Stamping Company	Manufacturing-trucking parts	Senior Term Debt (3) (11.1%, Due 4/2010)	6,325,000	6,325,000
Finn Corporation	Manufacturing-landscape equipment	Senior Subordinated Term Debt (6) (13.0%, Due 2/2006)	10,500,000	7,350,000
		Common Stock Warrants	37,000	630,360
Gammill, Inc.	Designer and assembler of quilting machines and accessories	Senior Term Debt (6) (9.5%, Due 12/2008)	3,771,427	3,776,141
		Senior Term Debt (3) (6) (12.0%, Due 12/2008)	4,690,625	4,673,035
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (3) (6) (13.0%, Due 11/2009)	5,500,000	5,506,875
Infor Global Solutions Ltd.	Enterprise application solutions	Senior Subordinated Term Debt (7) (10.6%, Due 4/2012)	6,814,500	6,965,000
John Henry Holdings, Inc.	Manufacturing-packaging products	Senior Subordinated Term Debt(6) (10.3%, Due 6/2011)	5,474,630	5,472,500
Marcal Paper Mills, Inc.	Manufacturing-paper products	Senior Subordinated Term Debt (6) (13.0%, Due 12/2006)	6,450,000	6,111,375
		First Mortgage Loan (5) (16%, PIK 1%, Due 12/2006)	9,324,325	9,129,447

Company (1)	Industry	Investment (2)	Cost	Fair Value
MedAssets, Inc.	Pharmaceuticals and healthcare GPO	Senior Term Debt (6) (9.8%, Due 3/2007)	1,390,618	1,384,507
		Senior Subordinated Term Debt (6) (15.0%, Due 3/2008)	6,502,578	6,500,000
Mistras Holdings Corp.	Nondestructive testing instruments, systems and services	Senior Term Debt (3) (6) (10.5%, Due 8/2008)	9,666,666	9,497,499
		Senior Term Debt (3) (6) (12.5%, Due 8/2008)	4,833,334	4,742,709
		Senior Term Debt (3) (6) (13.5%, Due 8/2008)	1,000,000	986,750
Northern Contours Northern Contours of Kentucky, Inc. Norcon Holding LLC Norcon Lewis LLC	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (8) (10.1%, Due 5/2010)	7,000,000	7,000,000
Penn Engineering & Manufacturing Corp. PN Merger Sub Inc. PEM Holding Co.	Manufacturing-fractional horsepower engines	Senior Subordinated Term Debt (8) (9.5%, Due 5/2012)	5,009,881	5,000,000
Polar Corporation	Manufacturing-trailer parts	Senior Subordinated Term Debt (6) (9.5%, Due 6/2010)	8,615,503	8,585,000
Regency Gas Services LLC	Midstream gas gathering and processing	Senior Subordinated Term Debt (7) (8.8%, Due 12/2010)	5,030,613	5,000,000
Santana Plastics	Manufacturing-polyethylene bathroom partitions	Senior Term Debt (3)(6) (11.2%, Due 11/2009)	6,000,000	6,022,500
		Senior Term Debt (4)(6) (13.0%, Due 11/2009)	1,950,000	1,957,313
SCPH Holdings, Inc. Sea Con Phoenix, Inc. Phoenix Optix, Inc.	Manufacturing-underwater and harsh environment components	Credit Facility (9) (8.0%, Due 3/2006)	—	—
		Senior Term Debt (3)(6) (8.5%, Due 2/2010)	3,325,000	3,329,156
		Senior Term Debt (6) (12.0%, Due 2/2010)	3,000,000	3,003,750

Survey Sampling	Service-telecommunications	Senior Subordinated Term Debt (6) (10.7%, Due 5/2012)	4,514,642	4,545,000
Tech Lighting LLC	Manufacturing-low voltage lighting systems	Senior Subordinated Term Debt (6) (10.4%, Due 10/2010)	9,013,066	8,977,500
Woven Electronics Corporation	Custom electrical cable assemblies	Senior Term Debt (4) (6) (10) (11.5%, Due 3/2009)	8,344,999	8,750,566
Xspedius Communications LLC	Service-telecommunications	Senior Subordinated Term Debt (6) (10.0%, Due 3/2010)	5,986,363	5,948,948
Total:			**$ 197,749,877**	**$ 194,708,459**

(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, 2005 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) Has some paid in kind (PIK) interest. Refer to Note 7 "Payment in Kind Interest" hereto and Note 2 "Summary of Significant Accounting Policies" of the Company's Form 10-K for the fiscal year ended September 30, 2004.
(6) Fair value was based on valuation prepared and provided by Standard & Poor's Loan Evaluation Services.
(7) Marketable securities are valued based on the bid price, as of June 30, 2005, from the respective originating syndication agent's trading desk.
(8) Investment was valued at cost due to recent acquisition.
(9) Availability under the credit facility totals $500,000. There were no borrowings outstanding at June 30, 2005.
(10) Includes a success fee with a $322,117 fair value and no cost basis.

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

GLADSTONE CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2004

Company (1)	Industry	Investment (2)	Cost	Fair Value
A and G, Inc. (d/b/a Alstyle)	Activewear products	Senior Term Debt (3) (6) (11.0%, Due 6/2008)	$ 12,250,000	$ 12,250,000
Allied Extruders, Inc.	Polyethylene film manufacturer	Senior Term Debt (3) (12.3%, Due 7/2009)	4,000,000	4,000,000
America's Water Heater Rentals	Household appliances rental (12.5%, Due 2/2009)	Senior Term Debt (4) (6) (8)	12,000,000	12,840,000
ARI Holdings, Inc.	Manufacturing-auto parts	Senior Term Debt (6) (9.75%, Due 6/2008)	1,190,141	1,188,653
		Senior Subordinated Term Debt (5) (6) (11%, PIK 4%, Due 12/2008)	3,657,164	3,634,306
Bear Creek Corporation	Premium horticultural and food products	Senior Subordinated Term Debt (7) (9.1%, Due 6/2010)	6,000,000	6,090,000
Benetech, Inc.	Dust management systems for the coal and electric utility	Senior Term Debt (6) (8.5%, Due 5/2009)	3,168,750	3,160,828
	industries	Senior Term Debt (3) (6) (11.5%, Due 5/2009)	3,250,000	3,241,875
Burt's Bees, Inc.	Personal & household products	Senior Term Debt (7) (5.4%, Due 11/2009)	975,000	987,188
Coyne International Enterprises	Industrial services	Senior Term Debt (3) (5) (6) (13.0%, PIK 2%, Due 7/2007)	15,700,625	15,308,110
Finn Corporation	Manufacturing-landscape equipment	Senior Subordinated Term Debt (6) (13.0%, Due 2/2006)	10,500,000	7,612,500
		Common Stock Warrants	37,000	474,984
Gammill, Inc.	Designer and assembler of quilting machines and	Senior Term Debt (6) (9.5%, Due 12/2008)	4,708,013	4,731,553
	accessories	Senior Term Debt (3) (6) (12.0%, Due 12/2008)	4,750,000	4,767,813

Inca Metal Products Corporation Kingway Acquisition, Inc. Clymer Acquisition, Inc.	Material handling and storage products	Senior Term Debt (3) (6) (4.6%, Due 9/2006)	2,387,548	2,136,855
Maidenform, Inc.	Intimate apparel	Senior Subordinated Term Debt (7) (9.4%, Due 5/2011)	10,003,571	10,175,000
Marcal Paper Mills, Inc.	Manufacturing-paper products	Senior Subordinated Term Debt (6) (13.0%, Due 12/2006)	6,800,000	6,188,000
		First Mortgage Loan (5) (16%, Due 12/2006)	9,254,715	9,254,715
MedAssets, Inc.	Pharmaceuticals and healthcare GPO	Senior Term Debt (7) (5.9%, Due 3/2007)	1,815,497	1,806,887
		Senior Subordinated Term Debt (7) (11.2%, Due 3/2008)	6,503,282	6,500,000
Mistras Holdings Corp.	Nondestructive testing instruments, systems and services	Senior Term Debt (3) (6) (10.5%, Due 8/2008)	9,833,333	9,759,583
		Senior Term Debt (3) (6) (12.5%, Due 8/2008)	4,916,667	4,867,500
		Senior Term Debt (3) (6) (13.5%, Due 8/2008)	1,000,000	1,000,000
Woven Electronics Corporation	Custom electrical cable assemblies	Senior Term Debt (3) (6) (6.5%, Due 3/2009)	2,488,000	2,484,890
		Senior Term Debt (4) (6) (11.5%, Due 3/2009)	12,000,000	11,985,000
Total:			**$ 149,189,306**	**$ 146,446,240**

(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.
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(6) Fair value was based on valuation prepared and provided by Standard & Poor's Loan Evaluation Services.
(7) Marketable securities are valued based on the bid price, as of September 30, 2004, from the respective originating syndication agent's trading desk.
(8) Includes a success fee with a fair value of $660,000 and no cost basis.

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
INVESTMENT INCOME		
Interest income – investments	$ 5,766,233	$ 5,700,139
Interest income – cash and cash equivalents	7,631	15,268
Interest income – notes receivable from employees	108,065	112,528
Fee income (Refer to Note 12)	—	399,375
Other income	245,297	482,500
Total investment income	6,127,226	6,709,810
EXPENSES		
Loan servicing (Refer to Note 10)	687,971	—
Management fee (Refer to Notes 10 and 13)	358,631	—
Professional fees	133,505	36,746
Amortization of deferred financing costs	100,663	99,365
Interest	563,336	211,085
Stockholder related costs	16,475	10,643
Directors fees	26,624	28,000
Insurance	43,891	63,369

Salaries and benefits	—	1,253,073
Rent	—	34,873
General and administrative	64,304	247,092
Expenses before credit from Gladstone Management	1,995,400	1,984,246
Credit to management fee for fees collected by Gladstone Management (Refer to Note 13)	(240,600)	—
Total expenses net of credit to management fee	1,754,800	1,984,246
NET INVESTMENT INCOME BEFORE INCOME TAXES	4,372,426	4,725,564
Income tax expense	—	—
NET INVESTMENT INCOME	4,372,426	4,725,564
UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Unrealized depreciation on derivative	(49,044)	(129,576)
Net unrealized (depreciation)/appreciation on investments	(389,229)	1,013,905
Net unrealized (loss) gain on investments	(438,273)	884,329
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 3,934,153	$ 5,609,893
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE:		
Basic	$ 0.35	$ 0.56
Diluted	$ 0.34	$ 0.54
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic	11,299,010	10,105,270
Diluted	11,578,637	10,301,390

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Nine Months Ended	
	June 30, 2005	June 30, 2004
INVESTMENT INCOME		
Interest income – investments	$ 16,671,756	$ 13,118,652
Interest income – cash and cash equivalents	29,101	81,223
Interest income – notes receivable from employees	336,382	330,698
Fee income (Refer to Note 12)	—	1,010,606
Other income	1,054,917	504,500
Total investment income	18,092,156	15,045,679
EXPENSES		
Loan servicing (Refer to Note 10)	1,804,465	—
Management fee (Refer to Notes 10 and 13)	1,075,940	—
Professional fees	528,610	460,592
Amortization of deferred financing costs	284,487	252,797
Interest	1,174,587	391,237
Stockholder related costs	192,785	130,623
Directors fees	77,624	85,210
Insurance	134,053	200,654
Salaries and benefits	—	2,063,549
Rent	—	106,597
General and administrative	176,939	563,595
Expenses before credit from Gladstone Management	5,449,490	4,254,854
Credit to management fee for fees collected by Gladstone Management (Refer to Note 13)	(977,100)	—
Total expenses net of credit to management fee	4,472,390	4,254,854
NET INVESTMENT INCOME BEFORE INCOME TAXES	13,619,766	10,790,825
Income tax expense	138,678	—
NET INVESTMENT INCOME	13,481,088	10,790,825
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Realized gain on sale of investment	29,750	12,500
Unrealized depreciation on derivative	(58,007)	(134,643)
Net unrealized depreciation on investments	(298,352)	(849,132)
Net realized and unrealized gain (loss) on investments	(326,609)	(971,275)
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 13,154,479	$ 9,819,550
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE:		
Basic	$ 1.17	$ 0.97
Diluted	$ 1.13	$ 0.95
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic	11,288,784	10,091,576
Diluted	11,602,986	10,336,733

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Notes Receivable From Sale of Common Stock	Distributions Less Than/(in Excess of) Net Investment Income	Realized Gain on Sale of Investment	Unrealized Appreciation/ (Depreciation) of Investments	Unrealized Appreciation/ (Depreciation) of Derivatives	Total Stockholders' Equity
Balance at September 30, 2003	10,081,844	$ 10,082	$ 140,416,674	$ (8,985,940)	$ (416,094)	$ —	$ (222,340)	$ —	$ 130,802,382
Issuance of Common Stock under Stock option Plan	31,600	32	479,837	(350,010)	—	—	—	—	129,859
Repayment of Principal on Notes Receivable	—	—	—	103,252	—	—	—	—	103,252
Shelf Offering Costs	—	—	(43,598)	—	—	—	—	—	(43,598)
Net Increase in Stockholders' Equity Resulting from Operations	—	—	—	—	10,790,825	12,500	(849,132)	(134,643)	9,819,550
Distributions Declared ($1.005 per common share)	—	—	—	—	(10,142,870)	—	—	—	(10,142,870)
Balance at June 30, 2004	10,113,444	$ 10,114	$ 140,852,913	$ (9,232,698)	$ 231,861	$ 12,500	$ (1,071,472)	$ (134,643)	$ 130,668,575
Balance at September 30, 2004	11,278,510	$ 11,279	$ 164,294,781	$ (9,432,678)	$ 298,098	$ 12,500	$ (2,743,066)	$ (214,259)	$ 152,226,655
Issuance of Common Stock under Stock Option Plan	25,000	25	427,325	(157,100)	—	—	—	—	270,250
Repayment of Principal on Notes Receivable	—	—	—	797,429	—	—	—	—	797,429
Shelf Offering Costs	—	—	(111,233)	—	—	—	—	—	(111,233)
Net Increase in Stockholders' Equity Resulting from Operations	—	—	—	—	13,481,088	29,750	(298,352)	(58,007)	13,154,479
Distributions Declared ($1.11 per common share)	—	—	—	—	(12,531,746)	—	—	—	(12,531,746)
Balance at June 30, 2005	11,303,510	$ 11,304	$ 164,610,873	$ (8,792,349)	$ 1,247,440	$ 42,250	$ (3,041,418)	$ (272,266)	$ 153,805,834

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30, 2005	Nine Months Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in stockholders' equity resulting from operations	$ 13,154,479	$ 9,819,550
Adjustments to reconcile net increase in stockholders' equity resulting from operations to net cash provided by operating activities:		
Depreciation	—	24,356
Net amortization of premiums and discounts	(6,949)	835
Amortization of deferred financing costs	284,487	252,797
Unrealized depreciation on derivative	58,007	134,643
Change in net unrealized depreciation	298,352	849,132
(Increase) decrease in interest receivable	(340,303)	338,894
(Increase) decrease in funds due from custodian	(11,027,346)	579,328
Decrease (increase) in prepaid assets	120,054	(295,627)
Decrease (increase) in due from affiliate	109,639	(61,079)
Increase in other assets	(11,973)	(274,306)
Increase in accounts payable	100,478	122,885
(Decrease) increase in accrued expenses and deferred liabilities	(599,277)	324,804
Increase in fees due to affiliate	205,900	—
Increase in funds held in escrow	200,000	—
Increase in investment balance due to payment in kind interest	(348,509)	(412,659)
Net cash provided by operating activities	2,197,039	11,403,553
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(126,195,458)	(82,267,500)
Principal repayments on investments	77,990,345	33,890,716
Proceeds from repurchase agreements	—	240,114,596
Repayment of repurchase agreements	(21,345,997)	(264,655,000)
Receipt of principal on notes receivable - employees	797,429	103,252
Disposal of furniture & equipment, net	—	9,498

Net cash used in investing activities	(68,753,681)	(72,804,438)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from the lines of credit	136,800,000	61,750,000
Repayments on the lines of credit	(122,953,547)	(28,229,334)
Distributions paid	(12,531,746)	(13,469,879)
Shelf offering costs	(111,233)	(43,598)
Deferred financing costs	(105,000)	—
Exercise of stock options	270,250	129,851
Net cash provided by financing activities	1,368,724	20,137,040
NET DECREASE IN CASH AND CASH EQUIVALENTS (1)	(65,187,918)	(41,263,845)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	65,954,840	101,166,221
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 766,922	$ 59,902,376
CASH PAID DURING PERIOD FOR INTEREST	$ 1,073,417	$ 129,910
CASH PAID DURING PERIOD FOR INCOME TAXES	$ 138,678	$ —
NON-CASH FINANCING ACTIVITIES		
Notes receivable issued in exchange for common stock associated with the exercise of employee stock options	$ 157,100	$ 350,010

(1) Cash and cash equivalents consist of demand deposits and highly liquid investments with original maturities of three months or less when purchased.

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

GLADSTONE CAPITAL CORPORATION

FINANCIAL HIGHLIGHTS

(UNAUDITED)

	Three Months Ended	
	June 30, 2005	**June 30, 2004**
Per Share Data (1)		
Net asset value at beginning of period	$ 13.64	$ 12.71
Income from investment operations:		
Net investment income (2)	0.39	0.47
Realized gain on sale of investment (2)	—	—
Net unrealized gain/(loss) on investments (2)	(0.03)	0.10
Net unrealized (loss) on derivatives (2)	—	(0.01)
Total from investment operations	0.36	0.56
Less distributions:		
Distributions from net investment income	(0.39)	(0.34)
Total distributions	(0.39)	(0.34)
Issuance of common stock under stock option plan	—	0.01
Repayment of principal on notes receivable	—	0.01
Dilutive effect of share issuance	—	(0.03)
Net asset value at end of period	$ 13.61	$ 12.92
Per share market value at beginning of period	$ 21.22	$ 22.41
Per share market value at end of period	23.40	20.15
Total Return (3)(4)	12.19%	-5.73%
Shares outstanding at end of period	11,303,510	10,113,444
Ratios/Supplemental Data		
Net assets at end of period	$ 153,805,834	$ 130,668,575
Average net assets	$ 152,484,868	$ 128,285,309
Ratio of expenses to average net assets-annualized (5)	5.23%	6.59%
Ratio of net expenses to average net assets-annualized (6)	4.60%	6.59%
Ratio of net investment income to average net assets-annualized	11.47%	14.33%

(1) Basic per share data.
(2) Based on weighted average basic per share data.
(3) Total return equals the increase of the ending market value over the beginning market value plus monthly dividends divided by the monthly beginning market value, assuming monthly dividend reinvestment.
(4) Amounts were not annualized.
(5) Ratio of expenses to average net assets is computed using expenses before credit from Gladstone Management and income tax expense.
(6) Ratio of net expenses to average net assets is computed using total expenses net of credits to management fee and income tax expense.

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

	Nine Months Ended	
	June 30, 2005	**June 30, 2004**

Per Share Data (1)		
Net asset value at beginning of period	$ 13.50	$ 12.97
Income from investment operations:		
Net investment income (2)	1.19	1.07
Realized gain on sale of investment (2)	—	—
Net unrealized gain/(loss) on investments (2)	(0.03)	(0.08)
Net unrealized (loss) on derivatives (2)	(0.01)	(0.01)
Total from investment operations	1.15	0.98
Less distributions:		
Distributions from net investment income	(1.11)	(1.01)
Total distributions	(1.11)	(1.01)
Offering costs	(0.01)	—
Issuance of common stock under stock option plan	0.02	0.01
Repayment of principal on notes receivable	0.07	0.01
Dilutive effect of share issuance	(0.01)	(0.04)
Net asset value at end of period	$ 13.61	$ 12.92
Per share market value at beginning of period	$ 22.71	$ 19.45
Per share market value at end of period	23.40	20.15
Total Return (3)(4)	8.08%	8.61%
Shares outstanding at end of period	11,303,510	10,113,444
Ratios/Supplemental Data		
Net assets at end of period	$ 153,805,834	$ 130,668,575
Average net assets	$ 152,067,700	$ 128,269,663
Ratio of expenses to average net assets-annualized (5)	4.90%	4.56%
Ratio of net expenses to average net assets-annualized (6)	4.04%	4.56%
Ratio of net investment income to average net assets-annualized	11.82%	11.08%

(1) Basic per share data.
(2) Based on weighted average basic per share data.
(3) Total return equals the increase of the ending market value over the beginning market value plus monthly dividends divided by the monthly beginning market value, assuming monthly dividend reinvestment.
(4) Amounts were not annualized.
(5) Ratio of expenses to average net assets is computed using expenses before credit from Gladstone Management and income tax expense.
(6) Ratio of net expenses to average net assets is computed using total expenses net of credits to management fee and income tax expense.

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

GLADSTONE CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

(UNAUDITED)

NOTE 1. ORGANIZATION

Gladstone Capital Corporation (the “Company”) was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001 as a closed-end investment company. The Company has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended (the “1940 Act”). In addition, the Company has elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended (the “Code”). The Company’s investment objectives are to achieve a high level of current income by investing in debt and equity securities of established private businesses.

Gladstone Capital Advisers, Inc. is a wholly-owned subsidiary of the Company. The financial statements of this subsidiary are consolidated with those of the Company.

Gladstone Business Loan LLC, a wholly-owned subsidiary of the Company, was established on February 3, 2003 for the purpose of owning the Company’s portfolio of loan investments. The financial statements of this subsidiary are consolidated with those of the Company.

NOTE 2. UNAUDITED INTERIM FINANCIAL STATEMENTS

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company’s Form 10-K for the fiscal year ended September 30, 2004, as filed with the Securities and Exchange Commission.

NOTE 3. STOCK OPTIONS

The following tables set forth the pro-forma effect of fair value option accounting for the three and nine months ended June 30, 2005 and June 30, 2004 in accordance with Statement of Financial Accounting Standards (SFAS) Statement No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure”.

	Three Months Ended	
	June 30, 2005	June 30, 2004
Net increase in stockholders' equity resulting from operations as reported:	$ 3,934,153	$ 5,609,893
Deduct: Total stock-based compensation expense determined using the fair value based method for all awards	(74,042)	(436,209)
Pro forma net increase in stockholders' equity resulting from operations	$ 3,860,111	$ 5,173,684
Per share:		
As reported - basic	$ 0.35	$ 0.56
As reported - diluted	$ 0.34	$ 0.54
Pro forma-basic	$ 0.34	$ 0.51
Pro forma-diluted	$ 0.33	$ 0.50

	Nine Months Ended	
	June 30, 2005	June 30, 2004
Net increase in stockholders' equity resulting from operations as reported:	$ 13,154,479	$ 9,819,550
Deduct: Total stock-based compensation expense determined using the fair value based method for all awards	(222,618)	(1,250,990)
Pro forma net increase in stockholders' equity resulting from operations	$ 12,931,861	$ 8,568,560
Per share:		
As reported - basic	$ 1.17	$ 0.97
As reported - diluted	$ 1.13	$ 0.95
Pro forma-basic	$ 1.15	$ 0.85
Pro forma-diluted	$ 1.11	$ 0.83

In December 2004, the Financial Accounting Standards Board ("FASB") approved the revision of SFAS 123, "Accounting for Stock-Based Compensation, and issued the revised SFAS Statement No. 123(R), "Share-Based Payment." SFAS 123(R) effectively replaces SFAS 123, and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The new standard is effective for awards that are granted, modified, or settled in cash for annual periods beginning after June 15, 2005. The adoption of SFAS 123(R) will require the Company to begin expensing unvested or newly granted stock options as compensation cost at the start of the Company's 2006 fiscal year.

The Company currently accounts for the issuance of stock options through the Amended and Restated 2001 Equity Incentive Plan (the "Plan") in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." In connection with the externalization of the Company's management, all of its officers and employees became direct employees of Gladstone Management Corporation as of October 1, 2004, the start of fiscal year 2005. However, these individuals continue to be eligible to receive stock options under the Plan. Effective October 1, 2004, the Company accounted for any options granted to employees of Gladstone Management Corporation, who qualify as leased employees of the Company under FIN 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25."

NOTE 4. INCREASE IN STOCKHOLDERS' EQUITY PER SHARE RESULTING FROM OPERATIONS

The following table sets forth the computation of basic and diluted net increase in stockholders' equity per share resulting from operations for the three and nine months ended June 30, 2005 and June 30, 2004:

	Three Months Ended	
	June 30, 2005	June 30, 2004
Numerator for basic and diluted net increase in stockholders' equity resulting from operations	$ 3,934,153	$ 5,609,893
Denominator for basic weighted average shares	11,299,010	10,105,270
Dilutive effect of stock options	279,627	196,120
Denominator for diluted weighted average shares	11,578,637	10,301,390
Basic net increase in stockholers' equity per share resulting from operations	$ 0.35	$ 0.56
Diluted net increase in stockholers' equity per share resulting from operations	$ 0.34	$ 0.54

	Nine Months Ended	
	June 30, 2005	June 30, 2004
Numerator for basic and diluted net increase in stockholders' equity resulting from operations	$ 13,154,479	$ 9,819,550
Denominator for basic weighted average shares	11,288,784	10,091,576
Dilutive effect of stock options	314,202	245,157
Denominator for diluted weighted average shares	11,602,986	10,336,733
Basic net increase in stockholers' equity per share resulting from operations	$ 1.17	$ 0.97
Diluted net increase in stockholers' equity per share resulting from operations	$ 1.13	$ 0.95

NOTE 5. DIVIDENDS

The Company is required to pay out as a dividend 90% of its ordinary income and short-term capital gains for each taxable year in order to maintain its status as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. It is the policy of the Company to pay out as a dividend up to 100% of those amounts. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based on the annual earnings estimated by the management of the Company. Based on that estimate, three monthly dividends are declared each quarter. At year-end the Company may pay a bonus dividend, in addition to the quarterly dividends, to ensure that it has paid out at least 90% of its ordinary income and short-term capital gains for the year. The Company has a policy of retaining long-term capital gains, if any, and not paying them out as dividends. Effective October 31, 2003, the Company began paying a monthly dividend. The following table lists the per share dividends paid since December 2001:

Fiscal Year	Record Date	Payment Date	Dividend per Share		Monthly or Quarterly
2005	Sep. 22, 2005	Sep. 30, 2005	$	0.135	Monthly
	Aug. 23, 2005	Aug. 31, 2005	$	0.135	Monthly
	Jul. 21, 2005	Jul. 29, 2005	$	0.135	Monthly
	Jun. 16, 2005	Jun. 30, 2005	$	0.13	Monthly
	May 13, 2005	May 27, 2005	$	0.13	Monthly
	Apr. 15, 2005	Apr. 29, 2005	$	0.13	Monthly
	Mar. 18, 2005	Mar. 31, 2005	$	0.12	Monthly
	Feb. 11, 2005	Feb. 28, 2005	$	0.12	Monthly
	Jan. 14, 2005	Jan. 28, 2005	$	0.12	Monthly
	Dec. 17, 2004	Dec. 30, 2004	$	0.12	Monthly
	Nov. 17, 2004	Nov. 30, 2004	$	0.12	Monthly
	Oct. 18, 2004	Oct. 29, 2004	$	0.12	Monthly
2004	Sep. 17, 2004	Sep. 30, 2004	$	0.12	Monthly
	Aug. 18, 2004	Aug. 31, 2004	$	0.12	Monthly
	Jul. 19, 2004	Jul. 30, 2004	$	0.12	Monthly
	Jun. 17, 2004	Jun. 30, 2004	$	0.115	Monthly
	May 17, 2004	May 28, 2004	$	0.115	Monthly
	Apr. 19, 2004	Apr. 30, 2004	$	0.115	Monthly
	Mar. 18, 2004	Mar. 31, 2004	$	0.11	Monthly
	Feb. 16, 2004	Feb. 27, 2004	$	0.11	Monthly
	Jan. 19, 2004	Jan. 30, 2004	$	0.11	Monthly
	Dec. 18, 2003	Dec. 31, 2003	$	0.11	Monthly
	Nov. 17, 2003	Nov. 28, 2003	$	0.11	Monthly
	Oct. 20, 2003	Oct. 31, 2003	$	0.11	Monthly
2003	Sept. 30, 2003	Oct. 6, 2003	$	0.33	Quarterly
	Jun. 30, 2003	Jul. 7, 2003	$	0.29	Quarterly
	Mar. 31, 2003	Apr. 7, 2003	$	0.25	Quarterly
	Dec. 31, 2002	Jan. 7, 2003	$	0.23	Quarterly
2002	Sept. 30, 2002	Oct. 7, 2002	$	0.21	Quarterly
	Jun. 28, 2002	Jul. 8, 2002	$	0.21	Quarterly
	Mar. 28, 2002	Apr. 8, 2002	$	0.21	Quarterly
	Dec. 31, 2001	Jan. 15, 2002	$	0.18	Quarterly

NOTE 6. INVESTMENT VALUATION

The Company carries its investments at fair value, as determined by its Board of Directors. Securities that are publicly traded are valued at the closing price on the valuation date. Securities for which a limited market exists, such as participations in syndicated loans, are valued at the indicative bid price on the valuation date from the respective originating syndication agent's trading desk. Debt and equity securities that are not publicly traded are valued at fair value as determined in good faith by the Board of Directors. The Company currently engages Standard & Poor's Loan Evaluation Service (S&P) to perform independent valuations of its investments. The Board of Directors uses the recommended valuations as prepared by S&P as a component of the foundation for the final fair value determination. In making such determination, the Board of Directors values non-convertible debt securities at cost plus amortized original issue discount plus payment in kind ("PIK") interest, if any, unless adverse factors lead to a determination of a lesser valuation. In valuing convertible debt, equity, success or exit fees or other equity like securities, the Board of Directors determines the fair value based on the collateral, the issuer's ability to make payments, the earnings of the issuer, sales to third parties of similar securities, the comparison to publicly traded securities, discounted cash flow and other pertinent factors. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have resulted 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 ultimately realized on these investments to be different than the valuation currently assigned. Because there is a lag between when the Company closes a loan and when the loan can be evaluated by S&P, new loans are not valued immediately by S&P; rather, the Board of Directors makes its own determination about the value of the loan in accordance with the Company's valuation policy without the input of S&P. Because S&P does not perform independent valuations of mortgage loans or equity securities, the Board of Directors also determines the fair value

of these investments without the input of S&P. The Board of Directors considers a number of qualitative and quantitative factors in current market conditions when performing valuations.

NOTE 7. PAYMENT IN KIND INTEREST

The Company seeks to avoid payment in kind ("PIK") interest, however the Company has a few loans in its portfolio that contain a PIK provision. A PIK provision requires the borrower to accrue a payment to the Company but the borrower does not have to pay that interest until the loan is paid in full. The PIK interest is added to the principal balance of the loan and recorded as income to the Company even though the cash has not been received. To maintain the Company's status as a RIC (as discussed in Note 5, above), this non-cash source of income must be paid out to stockholders in the form of cash dividends, even though the Company has not yet collected the cash. For the three and nine months ended June 30, 2005, the Company recorded PIK interest income of $63,597 and $334,872, respectively, and for the three and nine months ended June 30, 2004, the Company recorded PIK interest income of $136,647 and $413,052, respectively. At June 30, 2005 and September 30, 2004 the Company had accrued on its balance sheets, a total in PIK income of $1,282,916 and $1,138,727 respectively. The Company does not hold any investments issued at original issue discount and accordingly, has not realized any original issue discount income for the three and nine months ended June 30, 2005 or June 30, 2004.

NOTE 8. REPURCHASE AGREEMENT

A repurchase agreement involves the purchase by an investor, such as the Company, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. Such interest rate is effective for the period of time during which the investor's money is invested in the arrangement and is related to current market interest rates rather than the coupon rate on the purchased security. The Company requires the continual maintenance by its custodian or the correspondent in its account with the Federal Reserve/Treasury Book Entry System of underlying securities in an amount at least equal to the repurchase price. If the seller were to default on its repurchase obligation, the Company might suffer a loss to the extent that the proceeds from the sale of the underlying securities were less than the repurchase price. A seller's bankruptcy could delay or prevent a sale of the underlying securities.

The Company had no outstanding repurchase agreement as of June 30, 2005. On September 29, 2004, the Company entered into a repurchase agreement (the "Repurchase Agreement") with Ferris Baker Watts for $44,984,950. On September 30, 2004, this amount was reduced to $21,345,997 with the application of the net proceeds from the Company's public offering of common stock in September 2004. This remaining balance was settled on October 1, 2004. The Repurchase Agreement was recorded at cost and was fully collateralized by a United States Treasury Bill with a fair value of $50,000,000, a carrying value of $49,984,950 that matured on October 7, 2004 and earned interest of $2,133. The interest rate charged on the Repurchase Agreement was 4.25% for a cost of $7,831.

NOTE 9. CONTRACTUAL OBLIGATIONS

As of June 30, 2005, the Company was a party to a signed and non-binding term sheet for one potential investment for the Company's portfolio. The Company expects to fund this potential investment as follows:

		Payment Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Investment	4,000,000	4,000,000			
Total	$ 4,000,000	$ 4,000,000	$ —	$ —	$ —

All prospective investments are subject to, among other things, the satisfactory completion of the Company's due diligence investigation of each borrower, acceptance of terms and structure and receipt of necessary consents. With respect to each prospective loan, the Company will only agree to provide the loan if, among other things, the results of its due diligence investigations are satisfactory, the terms and conditions of the loan are acceptable and all necessary consents are received. The Company has initiated its due diligence investigations of the potential borrowers, however there can be no guarantee that facts will not be discovered in the course of completing the due diligence that would render a particular investment imprudent or that any of these investments will actually be made.

NOTE 10. LINES OF CREDIT

In June 2004, the Company entered into a $15.0 million line of credit agreement with Branch Banking and Trust Company ("BB&T Agreement") which matured in June 2005. The line of credit agreement was extended through September 30, 2005. Interest on outstanding borrowings is based upon the one month London Interbank Offered Rate ("LIBOR") plus 2.5% per annum. The unused portion of the line of credit is subject to a fee of 0.2% per annum. The BB&T Agreement requires the Company to meet and maintain certain covenants and ratios with respect to leverage and liquidity. As of June 30, 2005, there were no borrowings outstanding under the BB&T line of credit and $15.0 million of available borrowings. At June 30, 2005 the Company was in compliance with all covenants under the BB&T Agreement.

Through its wholly-owned subsidiary Gladstone Business Loan LLC ("Business Loan"), the Company has a $100 million revolving credit facility (the "DB Facility) with Deutsche Bank AG, as administrative agent, pursuant to which Business Loan pledged the loans it holds to secure future advances by certain institutional lenders. The interest rate charged on the advances under the DB Facility is based on LIBOR, the Prime Rate or the Federal Funds Rate, depending on market conditions, and adjusts periodically. In May 2005, the Company renewed its line of credit through May 26, 2006. As of June 30, 2005, the outstanding principal balance under the DB Facility was approximately $54.6 million at an interest rate of 3.2%. 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, 2005, the remaining borrowing capacity available under the DB Facility was approximately $33.3 million.

The DB Facility contains covenants that require Business Loan to maintain its status as a separate entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions); and restrict material changes to the Company's credit and collection policies. The 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, 2005, Business Loan was in compliance with all of the facility covenants.

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 the Company. At June 30, 2005, the amount due from custodian was $12,230,425 and at September 30, 2004, the amount due from custodian was $1,203,079.

Effective July 12, 2004, Gladstone Management, the Company's affiliated external adviser also services the loans pledged under the DB Facility. As a condition to this servicing arrangement, the Company executed a performance guaranty pursuant to which it guaranteed that Management would comply fully with all of its obligations under the DB Facility. The performance guaranty requires the Company 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, 2005, the Company was in compliance with all covenants under the performance guaranty. Gladstone Management services these loans for an annual fee of 1.5% of the monthly aggregate outstanding loan balance of the loans pledged under the DB Facility. For the three and nine months ended June 30, 2005, the Company recorded loan servicing fees of $687,971 and $1,804,465, respectively. At June 30, 2005, the Company owed $201,380 of unpaid loan servicing fees to Gladstone Management, which are recorded in fees due to affiliate. At September 30, 2004, the Company owed $113,511 in loan servicing fees to Gladstone Management, recorded in fees due to affiliate. There were no loan servicing fees incurred for the three and nine months ended June 30, 2004, as prior to July 12, 2004, the loans pledged under the DB Facility were serviced by Gladstone Capital Advisers, Inc., wholly-owned subsidiary of the Company.

While Gladstone Management began receiving loan servicing fees as of July 12, 2004, such loan servicing fees received by Gladstone Management are credited to the Company's advisory fee payable to Gladstone Management under the advisory agreement between the Company and Gladstone Management. Accordingly, the advisory fee payable by the Company to Gladstone Management for the three and nine months ended June 30, 2005 was reduced by $687,971 and $1,804,465, respectively, in respect of these fees received by Gladstone Management.

NOTE 11. INTEREST RATE CAP AGREEMENT

Pursuant to the Deutsche Bank AG line of credit, the Company has an interest rate cap agreement that effectively limits the interest rate on a portion of the borrowings under the line of credit.

The use of a cap involves risks that are different from those associated with ordinary portfolio securities transactions. Cap agreements may be considered to be illiquid. Although the Company will not enter into any such agreements unless it believes that the other party to the transaction is creditworthy, the Company does bear the risk of loss of the amount expected to be received under such agreements in the event of default or bankruptcy of the agreement counterparty.

In February 2004, the Company entered into an interest rate cap agreement with a notional amount of $35.0 million at a cost of $304,000. The interest rate cap agreement's current notional amount is $29.5 million and a current fair value of approximately $31,734 which is recorded in other assets on the Company's consolidated balance sheet at June 30, 2005. At September 30, 2004, the interest rate cap agreement had a fair value of $89,741. The Company records changes in the fair value of the interest rate cap agreement monthly based on the current market valuation at month end as unrealized depreciation or appreciation on derivative on the Company's consolidated statement of operations. The interest rate cap agreement expires in February 2009. The agreement provides that the Company's floating interest rate or cost of funds on a portion of the portfolio's borrowings will be capped at 5% when the LIBOR rate is in excess of 5%.

NOTE 12. FEE INCOME

The 1940 Act requires that a business development company make available managerial assistance to its portfolio companies. The 1940 Act defines managerial assistance as the service made available to a portfolio company to provide "significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company." Prior to the start of fiscal year 2005, the Company provided managerial assistance and other services to its portfolio companies through its wholly-owned subsidiary, Gladstone Capital Advisers, Inc. and therefore recorded managerial assistance and other fee revenue in connection with these activities. Effective October 1, 2004, the Company offers managerial assistance and other services to its portfolio companies through its external investment adviser, Gladstone Management. Neither the Company nor its external investment adviser, Gladstone Management, charges a fee for managerial assistance. However, in the past the Company and, since October 1, 2004, Gladstone Management, have provided other services to portfolio companies in addition to managerial assistance. These other services include a wide variety 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 loans, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. Gladstone Management is charging for these services and is crediting the funds received from these other services to the Company as a credit against the investment advisory fee due from the Company under the investment advisory agreement. Such fees are normally paid in part at the time of signing a non-binding letter of intent, with the remainder paid upon completion of the services, and are generally non-recurring. For the three and nine months ended June 30, 2005, the Company recorded no revenue from fees since, as described above, these fees were remitted by the borrower directly to Gladstone Management. For the three and nine months ended June 30, 2004, the Company recorded $399,375 and $1,010,606, respectively, of fee revenue.

While Gladstone Management began receiving all fees in connection with the Company's investments as of October 1, 2004, such fees received by Gladstone Management are credited to the Company as a reduction of the advisory fee payable to Gladstone Management under the advisory agreement between the Company and Gladstone Management. For the three and nine months ended June 30, 2005, Gladstone Management received $240,600 and $977,100, respectively for fees for services rendered to portfolio companies. None of these fees were for managerial assistance even though Gladstone Management provided managerial assistance to many of the Company's portfolio companies. Accordingly, the advisory fee payable by the Company to Gladstone Management for the three and nine months ended June 30, 2005 was reduced by $240,600 and $977,100, respectively, in respect of these fees received by Gladstone Management.

NOTE 13. ADVISORY AGREEMENT WITH GLADSTONE MANAGEMENT CORPORATION

Effective October 1, 2004, the Company entered into an advisory agreement with Gladstone Management, an unconsolidated affiliate of the Company, whereby Gladstone Management serves as an external adviser to the Company. As compensation for the services of Gladstone Management, the Company pays Gladstone Management an annual advisory fee of 1.25% of 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 total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.1875%, for a total annual fee of 2.0% (0.50% quarterly) of total assets (as reduced by cash and cash equivalents pledged to creditors). The Company continues to pay direct expenses including, but not limited to, directors' fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance.

Gladstone Management services the loans held by Business Loan, in return for which, Gladstone Management receives a 1.5% annual fee based on the monthly aggregate balance of loans held by Business Loan. Since the Company owns these loans, all loan servicing fees paid to Gladstone Management are also credited directly against the 2% management fee. These credits reduce the amount of the investment advisory fee and are shown above the direct credits line item in the table below. For the three months ended June 30, 2005, March 31, 2005 and December 31, 2004, these loan servicing fees totaled $687,971, $585,542 and $530,952, respectively, all of which were credited against the 2% management fee in order to derive the management fee which is presented as the line item management fee in the consolidated statement of operations. Under the advisory agreement, Gladstone Management also provides the managerial assistance and other services that the Company previously made available to its portfolio companies through its wholly-owned subsidiary Gladstone Capital Advisers, Inc. To the extent that Gladstone Management receives any fees directly from a portfolio company for such services, Gladstone Management credits these fees directly against the 2% management fee and these

amounts are shown in the table below as a credit to the management fee. For the three months ended June 30, 2005, March 31, 2005 and December 31, 2004, Gladstone Management recorded $240,600, $450,000 and $286,500, respectively, of such fees and credited this amount against the 2% management fee received from the Company and reflected on the consolidated statement of operations as credit to management fees for fees collected by Gladstone Management. Overall, the management fee due to Gladstone Management cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year. Because the Company was internally managed at all times prior to October 1, 2004, no management fee was recorded for the three months ended June 30, 2004, March 31, 2004 or December 31, 2003.

The following table sets forth the quarterly computation of the management fee for the three months ended June 30, 2005, March 31, 2005 and December 31, 2004, based on the quarterly increment of 0.50% (0.3125% quarterly advisory fee and 0.1875% quarterly administrative fee):

	June 30, 2005	March 31, 2005	December 31, 2004
Fee:			
Total assets	$ 209,320,463	$ 213,753,998	$ 194,085,591
Less: Borrowings under line of credit *(a)*	—	(18,644,179)	(22,435,000)
Total assets subject to fee	209,320,463	195,109,819	171,650,591
Quarterly fee rate	0.50%	0.50%	0.50%
Gross management fee before loan servicing fee credit	1,046,602	975,549	858,254
Less: loan servicing fee from Gladstone Business Loan LLC	687,971	585,542	530,952
Management fee before credit:	358,631	390,007	327,302
Direct Credit to Management Fee:			
Fee revenue recorded by Gladstone Management:	240,600	450,000	286,500
Net management fee for the three months ended:	$ 118,031	$ (59,993)	$ 40,802

(a) This amount represents borrowings under one of the Company's lines of credit that were held in cash and cash equivalents as of June 30, 2005, March 31, 2005 and

December 31, 2004, respectively of each quarterly computation, for the purpose of satisfying the Company's asset diversification requirements under the Code. There were no borrowings outstanding for this purpose at June 30, 2005. Solely for the purposes of calculating the amount of the management fee due to Gladstone Management, the Company treats any such amounts as "cash and cash equivalents pledged to creditors" under the terms of the Company's advisory agreement with Gladstone Management. As a result, such amounts are deducted from the Company's total assets for purposes of computing the asset base upon which the management fee is determined.

NOTE 14. FEDERAL AND STATE INCOME TAXES

The Company has historically operated, and intends to continue to operate, in a manner to qualify for treatment as a RIC under Subchapter M of the Code. As a RIC, the Company is not subject to federal or state income tax on the portion of its taxable income and gains distributed to stockholders. To qualify as a RIC, the Company is required to distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code and as such no income tax provisions have been recorded for the individual companies of Gladstone Capital Corporation and Gladstone Business Loan LLC.

Gladstone Capital Advisers, Inc., a wholly-owned subsidiary of Gladstone Capital Corporation, is subject to federal and state income taxation on the income it has recorded such as fees received from portfolio companies resulting in aggregate federal and state income taxes of $138,678.

NOTE 15. SUBSEQUENT EVENTS

In July 2005, MedAssets, Inc. repaid its senior term debt of approximately $1.4 million and its senior subordinated term debt of approximately $6.5 million.

ITEM 2. 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" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 14, 2004. We caution readers not to place undue reliance on any such forward-looking statements, which are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, 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 Form 10-Q.

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

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 1940 Act.

We seek out small and medium-sized businesses that meet certain criteria, including (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 finance growth, restructure their balance sheets or effect a change of control.

Our loans typically range from $5 million to $15 million, mature in no more than seven years and accrue interest at a fixed or variable rate that exceeds the prime rate. A number of our loans have 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 "payment 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. The amount of cost basis PIK interest accrued on our balance sheet as of June 30, 2005 was approximately $1,283,000.

Because our loans will generally be subordinated 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. We cannot accurately predict what ratings these loans might receive if they were in fact rated, and therefore we cannot determine whether or not they could be considered to be "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 and receive an equity interest in the borrower at the same time. To the extent that the price paid for the equity is not at market value, the Company 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 regulated investment company (“RIC”) distribution requirements, whereas the cash is received, if at all, when the equity instrument is sold.

In addition, as a business development company under the 1940 Act, we are required to make available significant managerial assistance to our portfolio companies. Prior to the externalization of our management on October 1, 2004, the start of the 2005 fiscal year, we provided these services through our wholly-owned subsidiary, Gladstone Capital Advisers, Inc. Since the externalization of our management on October 1, 2004, our investment adviser, Gladstone Management Corporation (“Gladstone Management”), began to provide these services on our behalf through its officers who are also our officers. In addition, Gladstone Management 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 Gladstone Management 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 Gladstone Management. Any such fees received, with the exception of the recurring fees, by Gladstone Management are credited against the management advisory fee payable to Gladstone Management pursuant to the terms of our advisory agreement, which has the effect of reducing our expenses to the extent of any such fees received by Gladstone Management. The specific services Gladstone Management provides vary by portfolio company, but generally include a wide variety 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 loans, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. Prior to the start of fiscal year 2005, Gladstone Capital Advisers, Inc. provided these services and received these fees and we have recorded fees for these services as fee income for the periods in which these fees were earned by us.

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 and reaching agreement on the legal documentation for the loan. Upon execution of the non-binding term sheet, the potential borrower generally pays Gladstone Management a non-refundable fee for its services rendered through the date of the non-binding term sheet. Prior to the externalization of our management on October 1, 2004, we recognized this as fee revenue upon execution of the non-binding term sheet. Effective October 1, 2004, these fees are received by Gladstone Management and are offset against amounts due to Gladstone Management, which has the effect of reducing our expenses to the extent of any such fees received by Gladstone Management.

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 proposed transaction. Any amounts collected for expenses incurred by Gladstone Management in connection with unconsummated investments will be reimbursed to Gladstone Management. Amounts collected for these expenses incurred by us will be reimbursed to us and will be recognized as “other income” in the period in which such reimbursement is received. Also, in the event that we have incurred significant legal fees in connection with the transaction, we will typically seek reimbursement for these expenses from the proposed borrower. However, there can be no guarantee that we will be successful in collecting any such reimbursements.

The only significant continuing revenue associated with the investments we have already closed is interest income and, potentially, capital gains realized in connection with the liquidation of any associated equity interest (e.g., warrants).

During the nine months ended June 30, 2005, we extended, directly or through participations, approximately $126.2 million of new loans to a total of 19 companies. Also, during the nine months ended June 30, 2005, eight borrowers repaid their loans ahead of contractual maturity and we sold two loan investments for an aggregate return of capital of approximately $60.0 million and we received scheduled contractual principal repayments of approximately $18.0 million, for total principal repayments of approximately $78.0 million. Since our initial public offering in August 2001, we have made 68 different loans to, or investments in, 41companies for a total of approximately $345.2 million, before giving effect to principal repayments on investments and divestitures.

We are earnestly working toward the consummation of more investments. 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 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.

External Adviser

Effective October 1, 2004, pursuant to our advisory agreement with Gladstone Management, we pay Gladstone Management 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%. This fee is then directly reduced by the amount of loan servicing fees paid to Gladstone Management and any other fees received by Gladstone Management from our borrowers and potential borrowers. We continue to pay direct expenses including, but not limited to, directors’ fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance.

Effective July 12, 2004, Gladstone Management assumed the responsibility for servicing our loan portfolio pursuant to a loan servicing agreement with Gladstone Business Loan LLC (“Business Loan”). Gladstone Management services these loans in return for a 1.5% annual fee, based on the monthly aggregate outstanding loan balance of the loans pledged under the facility. For the three and nine months ended June 30, 2005, we incurred approximately $688,000 and $1.8 million, respectively, in loan servicing fees. Prior to July 12, 2004, our loans were serviced under a similar agreement between Business Loan and Gladstone Capital Advisers Inc., our wholly-owned subsidiary, although the fees from these intercompany transactions were eliminated through the consolidation of our financial results with those of Business Loan and Gladstone Capital Advisers.

For the three months ended June 30, 2005, the gross management fee, before reductions for loan servicing fees and other fees was approximately $1.0 million. After being reduced by loan servicing fees of approximately $688,000 and other fees received by Gladstone Management of approximately $241,000, our net management fee for the three months ended June 30, 2005 was approximately $118,000. For the three months ended March 31, 2005, the gross management fee, before reductions for loan servicing fees and other fees was approximately $976,000. After being reduced by loan servicing fees of approximately $586,000 and other fees received by Gladstone Management of $450,000, our net management fee for the three months ended March 31, 2005 was a credit of approximately $60,000. For the three months ended December 31, 2004, the gross management fee, before reductions for loan servicing fees and other fees was approximately $858,000. After being reduced by loan servicing fees of approximately $531,000 and other fees received by Gladstone Management of approximately $286,500, our net management fee for the three months ended December 31, 2004 was $40,802. Since the fees are computed quarterly it is necessary to sum the three quarters in order to derive the year to date management fee, therefore the nine months ended June 30, 2005 gross management fee before reductions was approximately $2.9 million and the aggregate net management fee after reductions was approximately $99,000 for the nine months ended June 30, 2005. There was no fee for the three months ended June 30, 2004, March 31, 2004 or December 31, 2003 because we were internally managed at all times until October 1, 2004.

Prior to the externalization of our management, we were party to an expense sharing arrangement with Gladstone Management, which during such time served as the external adviser to Gladstone Commercial Corporation (“Gladstone Commercial”), a real estate investment trust affiliated with us. Under this expense sharing arrangement, Gladstone Management reimbursed Gladstone Capital Advisers for a portion of our total payroll and benefits expenses (based on the percentage of total hours worked by each of our employees on Gladstone Commercial matters). Gladstone Management also reimbursed Gladstone Capital Advisers for its pro rata portion of all other general expenses (based on the percentage of total hours worked by all of our employees on Gladstone Commercial matters). Gladstone Management further passed its share of these expenses along to Gladstone Commercial under a separate advisory agreement. At September 30, 2004, Gladstone Management owed us $109,639 of reimbursements recorded in fees due from affiliate, all of which was subsequently paid. Following our engagement of Gladstone Management on October 1, 2004, the first day of our 2005 fiscal year, Gladstone Management now directly employs all of our personnel and pays its payroll, benefits, and general expenses directly. Thus, the expense sharing arrangement between Gladstone Capital Advisers and Gladstone Management terminated upon the externalization of our management on October 1, 2004.

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 report. 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: We value our investment portfolio each quarter. We carry our investments at fair value, as determined in good faith by 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 which are not traded on a public exchange or securities market, but for which a limited market exists and that have been rated by a NRSRO (as defined below), such as certain participations in syndicated loans, are valued at the indicative bid price offered by the syndication agent on 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 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 original issue discount, and PIK interest, if any. We then apply the methods set out below in "Valuation Methods." Members of our 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. No single standard for determining fair value in good faith exists since 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.

We currently engage Standard & Poor's Loan Evaluation Service (S&P) to help evaluate the value of the majority of our loan securities (other than those which are publicly traded or for which a limited market exists, as described above), as well as for evaluations on success fees (conditional interest included in some loan securities). We and S&P only evaluate the value of a success fee if the probability of receiving the success fee on a given loan is above 6-8%, a threshold of significance, in which case a value is assigned. 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 presented to S&P. S&P makes its independent assessment of the data that we have assembled and assesses its own data to determine market values for the securities. With regard to its work, S&P has issued the following paragraph:

> S&P provides evaluated price opinions which are reflective of what S&P 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 S&P'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, S&P 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, S&P cannot guarantee their accuracy.

With our assessment and S&P value estimates as a backdrop, our board of directors votes to accept or not accept the analyses and values recommended by management and S&P. At June 30, 2005 and September 30, 2004, the board of directors elected to accept the valuations recommended by S&P on those loans as denoted on the Schedules of Investments as of June 30, 2005 and September 30, 2004 in our consolidated financial statements.

Because there is a delay between when we close a loan and when the loan can be evaluated by S&P, some new loans are not valued immediately by S&P; rather, the board of directors makes its own determination about the value of these loans in accordance with our valuation policy. Because S&P does not provide values for mortgage loans or equity securities, our board of directors also determines the fair value of these investments using our valuation policy without the input of S&P.

Credit Information: We monitor a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance. We require our portfolio companies to provide annual audited and either monthly or quarterly unaudited financial statements. Using these statements, we calculate and evaluate the credit statistics. For purposes of analyzing the financial performance of our portfolio companies, we may make certain adjustments to their cash flow statements to reflect the pro forma results of a company consistent with a change of control transaction, to reflect anticipated cost savings resulting from a merger or restructuring, costs related to new product development, compensation to previous owners, and other acquisition or restructuring related items. For those investments for which S&P prepares valuation recommendations, we provide this credit information to S&P for its use in preparing its recommendations. For those investments for which S&P does not prepare valuation recommendations, management uses this credit information in connection with its preparation of valuation recommendations.

Loan Grading and Risk Rating: As part of our valuation procedures we risk rate all of our loans. Our risk rating system uses a scale of 0 to 10. This system is used to estimate the probability of default on our 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 those investments for which S&P prepares valuation recommendations, we compile this information and provide it to S&P for its consideration in determining its valuation recommendations. For those investments for which S&P does not prepare valuation recommendations, management uses this information to develop valuation recommendations.

We seek to have our risk rating system mirror the risk rating systems of major risk rating organizations such as those provided by nationally recognized statistical rating organizations ("NRSRO") as defined in Rule 2a-7 under the 1940 Act. While we seek to mirror the NRSRO systems, we cannot provide any assurance that our risk rating system provides the same risk rating as a NRSRO. 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 we have established our system to rate 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. It is our understanding that most debt securities of middle market 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 BBB as the best risk rating.

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 22.0% 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 10.0% to 13.3%
2	Caa2	CCC	PD is 35% and the EL is 13.3% to 16.7%
1	Caa3	CC	PD is 65% and the EL is 16.7% to 20%
0	N/a	D	PD is 85% or there is a Payment Default: and the EL is greater than 20%

(a) the default rates set forth herein are for a ten year term debt, 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. The following table lists the risk ratings for all of the debt securities outstanding at June 30, 2005, March 31, 2005, December 31, 2004 and September 30, 2004:

Rating	**June 30, 2005**	**Mar. 31, 2005**	**Dec. 31, 2004**	**Sept. 30, 2004**
Average	**7.1**	**7.2**	**7.2**	**7.6**
Weighted Average	**7.2**	**7.2**	**7.2**	**7.6**
Highest	**10.0**	**10.0**	**10.0**	**9.0**
Lowest	**5.0**	**5.0**	**5.0**	**5.0**

Our policy is to stop accruing interest on an investment if we determine that interest is no longer collectible. To date we have not placed any investments on non-accrual. At June 30, 2005 and September 30, 2004, no payments were past due on any of our debt securities. We do not risk rate our equity securities.

Valuation Methods: For debt securities, we first determine if the debt security is publicly traded (i.e., if it is listed on an exchange or securities market). If it is publicly traded, then we determine the value based on the closing price for the security on the exchange or securities market on which it is listed on the valuation date. If the security is not publicly traded, but a limited market for the security exists, such as for syndicated loans, and if the security has been rated by a NRSRO, then we value the loan at the indicative bid price offered by the syndication agent on the valuation date. At June 30, 2005, none of the debt securities in our portfolio were publicly traded and there was a limited market for 11 debt securities in our portfolio. At September 30, 2004, none of the debt securities in our portfolio were publicly traded and there was a limited market for five debt securities in our portfolio.

For debt securities that either are not publicly traded, 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 described above. Using the risk rating designation above, we seek to determine the value of the security as if we intended to sell the security in a current sale. To determine the current sale price of the security, we consider some or all of the following factors:

- financial standing of the issuer of the security;
- comparison of the business and financial plan of the issuer with actual results;
- the cost of the security;
- the size of the security held as it relates to the liquidity of the market for such securities;
- contractual restrictions on the disposition of the security;
- pending public offering of the issuer of the security;
- pending reorganization activity affecting the issuer such as mergers or debt restructuring;
- reported prices of similar securities of the issuer or comparable issuers;
- ability of the issuer to obtain needed financing;
- changes in the economy affecting the issuer;
- recent purchases or sale of a security of the issuer;
- pricing by other buyers or sellers of similar securities;
- financial statements of the borrower;
- reports from portfolio company senior management and ownership;
- the type of security;
- cost at date of purchase;
- size of holding;
- discount from market value of unrestricted securities of the same class at the time of purchase;
- special reports prepared by analysts;
- information as to any transactions or offers with respect to the security;
- existence of merger proposals or tender offers affecting the securities;
- the collateral;
- the issuer's ability to make payments;
- the current and forecasted earnings of the issuer;
- sales to third parties of similar securities;
- statistical ratios compared to lending standards;
- statistical ratios compared to other similar securities; and

- other pertinent factors.

For those debt securities for which S&P prepares valuation recommendations, we provide the foregoing information to S&P for its use in preparing its recommendations.

For convertible debt, equity, success fees or other equity-like securities, we first determine if there is any market for the security. If there is a market, then we determine the value based on the market prices for the security, even if that market is not robust. At June 30, 2005 and September 30, 2004 there was no market for any of the equity securities we owned. If there is no market for the equity securities, then 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 consist of: discounted cash flow of the expected sale price in the future, valuation of the securities based on recent sales in comparable transactions, and a review of similar companies that are publicly traded and the market multiple of their equity securities. At June 30, 2005 and September 30, 2004 we had $37,000 invested, at cost, in equity securities compared to our debt portfolio with a cost basis of $197,712,877 and $149,152,306, respectively.

At June 30, 2005, we had total unrealized depreciation of $4,372,364, which was mainly composed of unrealized depreciation in our senior subordinated term debt investment in Finn Corporation (excluding the warrants) of $3,150,000 and our senior subordinated term debt investment in Marcal Paper Mills, Inc. of $338,625, and our first mortgage loan to Marcal Paper Mills, Inc. of $194,878, partially offset by unrealized appreciation, most notably, the value of our warrants of Finn Corporation had an unrealized appreciation of $593,360 and Woven Electronics Corporation had unrealized appreciation of $405,567. This aforementioned unrealized appreciation plus unrealized appreciation of $181,519 on certain other investments, primarily in our originated loan investments and certain syndicate participation, most notably Infor Global Solutions, which had unrealized appreciation of $150,500, for overall unrealized appreciation of $1,330,946.

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 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.

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 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.

Payment in Kind Interest

We also have some 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.

Fee Income

The 1940 Act requires that a business development company make available managerial assistance to its portfolio companies by providing significant guidance and counsel concerning the management, operations, or business objective and policies of the respective portfolio company. Prior to October 1, 2004, we provided managerial assistance to our portfolio companies in connection with our investments through our wholly-owned subsidiary, Gladstone Capital Advisers, Inc. Effective October 1, 2004, we began providing these and other services through our external adviser, Gladstone Management. Currently, neither we nor Gladstone Management receive fees in connection with managerial assistance. However, effective October 1, 2004 our adviser, Gladstone Management, receives the fees for the other services it provides, and those fees for other services are credited to the investment advisory fees due to Gladstone Management. These other fees are generally paid to Gladstone Management in part at the time a prospective portfolio company signs a non-binding term sheet with us, with the remainder paid at the closing of the investment. These fees are generally non-recurring, are recognized as revenue when earned and are paid directly to Gladstone Management by the

borrower or potential borrower, effective October 1, 2004 and for all future periods. The services Gladstone Management provides vary by investment, but generally include a wide variety 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 loans, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. Any services of this nature subsequent to the closing would generally generate a separate fee at the time of completion. From time to time, we are invited to participate as a co-lender in a transaction. In the event that we do not provide significant services in connection with our investment, loan fees paid directly to Gladstone Management in such situations are deferred and amortized over the life of the loan.

RESULTS OF OPERATIONS

Comparison of the three months ended June 30, 2005 to the three months ended June 30, 2004

Investment Income

Investment income for the three months ended June 30, 2005 was approximately $6.1 million as compared to approximately $6.7 million for the three months ended June 30, 2004. This decrease was primarily the result of a decline in fee revenue resulting from the receipt of such fees by our external investment adviser as well as a decline in other income, which is mainly composed of prepayment penalty fees, due to a decline in prepayments as compared to the three months ended June 30, 2004.

Interest income from our investments in debt securities of private companies was approximately $5.8 million, including approximately $64,000 of PIK interest, for the three months ended June 30, 2005 as compared to approximately $5.7 million for the three months ended June 30, 2004, which included approximately $137,000 of PIK interest. This increase was primarily a result of a net increase in investments of $38.9 million over June 30, 2004. This increase consisted of $130.2 million of new investments, offset by principal repayments and investment sales of approximately $91.3 million.

The annualized weighted average yield on our portfolio for the three months ended June 30, 2005 was 11.4% (without giving effect to PIK interest) and 11.8% (after giving effect to PIK interest). The annualized weighted average yield on our portfolio for the three months ended June 30, 2004 was 16% (without giving effect to PIK interest) and 16.4% (after giving effect to PIK interest). The decline is due to the early repayments of principal balances on certain loans.

Interest income from invested cash and cash equivalents for the three months ended June 30, 2005 was approximately $8,000, as compared to approximately $15,000 for the three months ended June 30, 2004. This decrease was primarily a result of a decrease in invested cash and cash equivalents resulting from a net increase in investments of $38.9 million over June 30, 2004, which consisted of $130.2 million of new investments, offset by principal repayments and investment sales of approximately $91.3 million.

For the three months ended June 30, 2005 and June 30, 2004, we recorded approximately $108,000 and $113,000, respectively, in interest income from loans to our employees in connection with the exercise of employee stock options.

No fee income was recorded for the three months ended June 30, 2005, as compared to $399,000 for the three months ended June 30, 2004. This decrease was the result of the externalization of our management, effective October 1, 2004, through the engagement of our affiliate Gladstone Management to serve as our external investment adviser. As noted above, Gladstone Management receives all fees in connection with our investments and prospective investments, which fees are offset against the advisory fee payable to Gladstone Management. During the three months ended June 30, 2005, Gladstone Management received an aggregate of $240,600 in such fees.

For the three months ended June 30, 2005, we recorded approximately $245,000 of other income as compared to $483,000 of other income for the three months ended June 30, 2004. 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 ahead of scheduled payment dates 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 for the three months ended June 30, 2005 were approximately $1.8 million, as compared to approximately $2.0 million for the three months ended June 30, 2004. Operating expenses for the three months ended June 30, 2005 reflected a significant reduction in direct operating expenses as a result of the externalization of our management effective October 1, 2004, offset by the loan servicing fees and management fee incurred as a result of this externalization, and increases in interest expense, professional fees, and stockholder related costs.

Loan servicing fees of approximately $688,000 were incurred for the three months ended June 30, 2005. These fees were incurred in connection with a loan servicing agreement between Gladstone Business Loan LLC ("Business Loan") and Gladstone Management, which became effective July 12, 2004. These fees were directly credited against the amount of the management fee due to Gladstone Management. During the three months ended June 30, 2004, our loan portfolio was serviced under a similar agreement with Gladstone Capital Advisers Inc., our wholly-owned subsidiary, and the fees Business Loan paid to Gladstone Capital Advisers, Inc. were eliminated upon consolidation of our financial results.

Effective October 1, 2004, we entered into an advisory agreement with Gladstone Management whereby Gladstone Management serves as our external adviser. As compensation for the services of Gladstone Management, we pay Gladstone Management an annual advisory fee of 1.25% of 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 total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.1875%, for a total fee of 2% of total assets (as reduced by cash and cash equivalents pledged to creditors). We continue to pay direct expenses including, but not limited to, directors' fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance. Under the advisory agreement, Gladstone Management provides the managerial assistance and other services to our portfolio companies that we previously provided through our wholly-owned subsidiary Gladstone Capital Advisers, and likewise Gladstone Management directly receives any fees for such services. Any such fees are credited directly against the 2% management fee payable to Gladstone Management. The 2% management fee is also directly reduced by the amount of the monthly loan servicing fees we pay to Gladstone Management. Overall, the management fee due to Gladstone Management cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year. Because we were internally managed at all times prior to October 1, 2004, no management fee was recorded for the three months ended June 30, 2004.

The following table sets forth the computation of the management fee for the three months ended June 30, 2005, based on the quarterly increment of 0.50% (0.3125% quarterly advisory fee plus 0.1875% quarterly administrative fee):

	June 30, 2005
Fee:	
Total assets at June 30, 2005	$ 209,320,463
Less: Borrowings under line of credit at June 30, 2005*(a)*	—
Total assets subject to fee as of June 30, 2005	209,320,463
Quarterly fee rate	0.50%
Gross management fee before loan servicing fee credit	1,046,602
Less: loan servicing fee from Gladstone Business Loan LLC	687,971
Management fee before credit:	358,631
Direct Credit to Management Fee:	
Fee revenue recorded by Gladstone Management:	240,600
Net management fee for the three months ended June 30, 2005:	$ 118,031

(a) There were no borrowings under our lines of credit that were held in cash and cash equivalents as of June 30, 2005 for the purpose of satisfying our asset diversification requirements under the Internal Revenue Code. If such borrowings did exist then, for the purposes of calculating the amount of the management fee due to Gladstone Management, we treat any such amounts as "cash and cash equivalents pledged to creditors" under the terms of our advisory agreement with Gladstone Management. As a result, such amounts are deducted from our total assets for purposes of computing the asset base upon which the management fee is determined.

Professional fees, consisting primarily of legal and audit fees, for the three months ended June 30, 2005 were approximately $134,000, as compared to approximately $37,000 for the three months ended June 30, 2004. The increase is due primarily to an increase in non-reimbursable legal fees as well as an increase in audit costs, associated with internal control procedures.

Amortization of deferred financing costs, in connection with our lines of credit, were approximately $101,000 for the three months ended June 30, 2005 and approximately $99,000 for the three months ended June 30, 2004.

Interest expense for the three months ended June 30, 2005 was approximately $563,000 as compared to approximately $211,000 for the three months ended June 30, 2004. This increase is primarily a result of increased borrowings under our lines of credit during the three months ended June 30, 2005, which borrowings were used, in part, to finance our increased investments and to a lesser extent, an increase in the interest rates on our borrowings.

Stockholder related costs for the three months ended June 30, 2005 were approximately $16,000, as compared to approximately $11,000 for the three months ended June 30, 2004. Stockholder related costs include such recurring items as transfer agent fees, securities fees, electronic filing fees and printing and mailing of proxy reports to stockholders.

Directors' fees for the three months ended June 30, 2005 were $27,000, as compared to approximately $28,000 for the three months ended June 30, 2004.

Insurance expense for the three months ended June 30, 2005 was approximately $44,000, as compared to approximately $63,000 for the three months ended June 30, 2004. The decrease is primarily the result of the externalization of our management. Effective October 1, 2004, Gladstone Management pays general insurance expenses directly and such insurance coverage is included in the services we receive in consideration for the 2% management fee we pay to Gladstone Management. Insurance expense incurred during the three months ended June 30, 2005 represents the amortization of our directors and officers insurance premiums, which are expenses for which we continue to be responsible for following the externalization of our management.

Effective October 1, 2004, all of our employees became employees of Gladstone Management and therefore no salaries or benefit expenses were incurred by us for the three months ended June 30, 2005 as compared to approximately $1.3 million for the three months ended June 30, 2004. We reimburse Gladstone Management for its employee services as part of the 2% of total assets (excluding cash and cash equivalents pledged to creditors) management fee.

Effective October 1, 2004, our external adviser, Gladstone Management, began to pay rent directly and therefore for the three months ended June 30, 2005 no rent expense was incurred by us as compared to approximately $35,000 for the three months ended June 30, 2004. General overhead expenses such as rent are also included as part of the management fee to Gladstone Management.

General and administrative expenses were approximately $64,000 for the three months ended June 30, 2005, as compared to approximately $247,000 for the three months ended June 30, 2004. This decrease is primarily a result of Gladstone Management handling general overhead type expenses. The expenses for the three months ended June 30, 2005 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 Unrealized Appreciation (Depreciation) on Derivative

During the three months ended June 30, 2005, we recorded net unrealized depreciation of approximately $49,000 due to a decrease in the fair market value of our interest rate cap agreement, as compared to unrealized depreciation of approximately $130,000 during the three months ended June 30, 2004.

Net Unrealized Depreciation on Investments

For the three months ended June 30, 2005, we recorded net unrealized depreciation on investments of approximately $389,000 as compared to net unrealized appreciation of approximately $1.0 million, for the three months ended June 30, 2004. The unrealized depreciation is mainly attributable to the decrease in the value of our first mortgage loan in Marcal Paper Mills, Inc. and the decline in ARI Holdings, Inc. partially offset by unrealized appreciation on certain of our syndicated loan participations.

Net Increase in Stockholders' Equity from Operations

Overall, we realized a net increase in stockholders' equity resulting from operations of approximately $3.9 million for the three months ended June 30, 2005. Based on a weighted-average of 11,299,010 (basic) and 11,578,637 (diluted) shares outstanding, our net increase in stockholders' equity from operations per weighted average common share for the three months ended June 30, 2005 was $0.35 (basic) and $0.34 (diluted).

For the three months ended June 30, 2004, werealized a net increase in stockholders' equity resulting from operations of approximately $5.6 million. Based on a weighted-average of 10,105,270 (basic) and 10,301,390 (diluted) shares outstanding, our net increase in stockholders' equity resulting from operations per weighted average common share for the three months ended June 30, 2004 was $0.56 (basic) and $0.54 (diluted).

Comparison of the nine months ended June 30, 2005 to the nine months ended June 30, 2004

Investment Income

Investment income for the nine months ended June 30, 2005 was approximately $18.1 million as compared to approximately $15.0 million for the nine months ended June 30, 2004. This increase was primarily a result of increased interest income from an increased number of investments during the nine months ended June 30, 2005, as compared to the same period of the prior year, partially offset by a decline in fee revenue resulting from the receipt of such fees by our external investment adviser.

Interest income from our investments in debt securities of private companies was approximately $16.7 million, including approximately $335,000 of PIK interest, for the nine months ended June 30, 2005 as compared to approximately $13.1 million for the nine months ended June 30, 2004, which included approximately $413,000 of PIK interest. This increase was primarily a result of a net increase in investments of $38.9 million over June 30, 2004. This increase consisted of $130.2 million of new investments, offset by principal repayments and investment sales of approximately $91.3 million.

The annualized weighted average yield on our portfolio for the nine months ended June 30, 2005 was 12.5% (without giving effect to PIK interest) and 12.6% (after giving effect to PIK interest). The annualized weighted average yield on our portfolio for the nine months ended June 30, 2004 was 13.6% (without giving effect to PIK interest) and 13.9% (after giving effect to PIK interest).

Interest income from invested cash and cash equivalents for the nine months ended June 30, 2005 was approximately $29,000, as compared to approximately $81,000 for the nine months ended June 30, 2004. This decrease was primarily a result of a decrease in invested cash and cash equivalents resulting from a net increase in investments of $38.9 million over June 30, 2004, which consisted of $130.2 million of new investments, offset by principal repayments and investment sales of approximately $91.3 million.

For the nine months ended June 30, 2005 and June 30, 2004, we recorded approximately $336,000 and $331,000, respectively, in interest income from loans to our employees in connection with the exercise of employee stock options.

No fee income was recorded for the nine months ended June 30, 2005, as compared to approximately $1,010,000 for the nine months ended June 30, 2004. This decrease was the result of the externalization of our management, effective October 1, 2004, through the engagement of our affiliate Gladstone Management to serve as our external investment adviser. As noted above, Gladstone Management receives all fees in connection with our investments and prospective investments, which fees are offset against the advisory fee payable to Gladstone Management. During the nine months ended June 30, 2005, Gladstone Management received an aggregate of $977,100 in such fees.

For the nine months ended June 30, 2005, we recorded approximately $1.1 million of other income as compared to $505,000 of other income for the nine months ended June 30, 2004. 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 ahead of scheduled payment dates 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 for the nine months ended June 30, 2005 were approximately $4.5 million, as compared to approximately $4.3 million for the nine months ended June 30, 2004. This increase was mainly a result of an increase in interest expense, stockholder related costs and professional fees. Additionally, operating expenses for the nine months ended June 30, 2005 reflected a significant reduction in direct operating expenses, as a result of the externalization of our management effective October 1, 2004, offset by an increase in loan servicing fees and management fee incurred as a result of this externalization.

Loan servicing fees of approximately $1.8 million were incurred for the nine months ended June 30, 2005. These fees were incurred in connection with a loan servicing agreement between Gladstone Business Loan LLC ("Business Loan") and Gladstone Management, which became effective July 12, 2004. These fees were directly credited against the amount of the management fee due to Gladstone Management. During the nine months ended June 30, 2004, our loan portfolio was serviced under a similar agreement with Gladstone Capital Advisers Inc., our wholly-owned subsidiary, and the fees Business Loan paid to Gladstone Capital Advisers, Inc. were eliminated upon consolidation of our financial results.

Effective October 1, 2004, we entered into an advisory agreement with Gladstone Management whereby Gladstone Management serves as our external adviser. As compensation for the services of Gladstone Management, we pay Gladstone Management an annual advisory fee of 1.25% of 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 total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.1875%, for a total fee of 2% of total assets (as reduced by cash and cash equivalents pledged to creditors). We continue to pay direct expenses including, but not limited to, directors' fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance. Under the advisory agreement, Gladstone Management provides the managerial assistance and other services to our portfolio companies that we previously provided through our wholly-owned subsidiary Gladstone Capital Advisers, and likewise Gladstone Management directly receives any fees for such services. Any such fees are credited directly against the 2% management fee payable to Gladstone Management. The 2% management fee is also directly reduced by the amount of the monthly loan servicing fees we pay to Gladstone Management. Overall, the management fee due to Gladstone Management cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year. Because we were internally managed at all times prior to October 1, 2004, no management fee was recorded for the three months ended June 30, 2004, March 31, 2004 or December 31, 2003.

The following table sets forth the quarterly computations of the management fee for the three months ended June 30, 2005, March 31, 2005 and December 31, 2004, based on the quarterly increment of 0.50% (0.3125% quarterly advisory fee plus 0.1875% quarterly administrative fee):

	June 30, 2005	March 31, 2005	December 31, 2004
Fee:			
Total assets	$ 209,320,463	$ 213,753,998	$ 194,085,591
Less: Borrowings under line of credit *(a)*	—	(18,644,179)	(22,435,000)
Total assets subject to fee	209,320,463	195,109,819	171,650,591
Quarterly fee rate	0.50%	0.50%	0.50%
Gross management fee before loan servicing fee credit	1,046,602	975,549	858,254
Less: loan servicing fee from Gladstone Business Loan LLC	687,971	585,542	530,952
Management fee before credit:	358,631	390,007	327,302
Direct Credit to Management Fee:			
Fee revenue recorded by Gladstone Management:	240,600	450,000	286,500
Net management fee for the three months ended:	$ 118,031	$ (59,993)	$ 40,802

(a) This amount represents borrowings under one of our lines of credit that were held in cash and cash equivalents as of March 31, 2005 and December 31, 2004, for each respective quarter, for the purpose of satisfying our asset diversification requirements under the Internal Revenue Code. There were no borrowings outstanding for this purpose at June 30, 2005. Solely for the purposes of calculating the amount of the management fee due to Gladstone Management, we treat any such amounts as "cash and cash equivalents pledged to creditors" under the terms of our advisory agreement with Gladstone Management. As a result, such amounts are deducted from our total assets for purposes of computing the asset base upon which the management fee is determined.

Professional fees, consisting primarily of legal and audit fees, for the nine months ended June 30, 2005 were approximately $529,000, as compared to approximately $461,000 for the nine months ended June 30, 2004. The increase is due primarily to a increase in non-reimbursable legal fees and audit costs incurred in connection with internal control procedures.

Amortization of deferred financing costs, in connection with our lines of credit, were approximately $284,000 for the nine months ended June 30, 2005 and approximately $253,000 for the nine months ended June 30, 2004. The increase is due to the amortization of deferred financing costs for both lines of credit during the nine months ended June 30, 2005 as compared to the amortization of deferred financing costs for only one line of credit for the nine months ended June 30, 2004 and one month of amortization for the line of credit added in June 2004.

Interest expense for the nine months ended June 30, 2005 was approximately $1,175,000 as compared to approximately $391,000 for the nine months ended June 30, 2004. This increase is a result of increased borrowings under our lines of credit during the nine months ended June 30, 2005, which borrowings were used, in part, to finance our increased investments, and to a lesser extent, an increase in the interest rate.

Stockholder related costs for the nine months ended June 30, 2005 were approximately $193,000, as compared to approximately $131,000 for the nine months ended June 30, 2004. Stockholder related costs include such recurring items as transfer agent fees, securities fees, electronic filing fees and printing and mailing of annual reports and proxy statements to stockholders.

Directors' fees for the nine months ended June 30, 2005 were $78,000, as compared to approximately $85,000 for the nine months ended June 30, 2004. This is the result of fewer board meetings held during the nine months ended June 30, 2005 as compared to the nine months ended June 30, 2004.

Insurance expense for the nine months ended June 30, 2005 was approximately $134,000, as compared to approximately $201,000 for the nine months ended June 30, 2004. The decrease is primarily the result of the externalization of our management. Effective October 1, 2004, Gladstone Management pays general insurance expenses directly and such insurance coverage is included in the services we receive in consideration for the 2% management fee we pay to Gladstone Management. Insurance expense incurred during the nine months ended June 30, 2005 represents the amortization of our directors and officers insurance premiums, which are expenses for which we continue to be responsible for following the externalization of our management.

Effective October 1, 2004, all of our employees became employees of Gladstone Management and therefore no salaries or benefit expenses were incurred by us for the nine months ended June 30, 2005 as compared to approximately $2.1million for the nine months ended June 30, 2004. We reimburse Gladstone Management for its employee services as part of the 2% of total assets (excluding cash and cash equivalents pledged to creditors) management fee.

Effective October 1, 2004, our external adviser, Gladstone Management, began to pay rent directly and therefore for the nine months ended June 30, 2005 no rent expense was incurred by us as compared to approximately $107,000 for the nine months ended June 30, 2004. General overhead expenses such as rent are also included as part of the management fee to Gladstone Management.

General and administrative expenses were approximately $177,000 for the nine months ended June 30, 2005, as compared to approximately $564,000 for the nine months ended June 30, 2004. This decrease is primarily a result of Gladstone Management handling general overhead type expenses. The expenses for the nine months ended June 30, 2005 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

Gladstone Capital Advisers, Inc., a wholly-owned subsidiary of Gladstone Capital Corporation, is subject to federal and state income taxation on the income it has recorded such as managerial assistance and other fees. During the nine months ended June 30, 2005, Gladstone Capital Advisers incurred aggregate federal and state income taxes of $138,678 resulting from taxable income it received during the 2004 fiscal year. Following the externalization of our management effective October 1, 2004 substantially all revenues previously received by Gladstone Capital Advisers are now received by Gladstone Management. As a result, we do not anticipate incurring significant tax expense as a result of the activities of Gladstone Capital Advisers in the future.

Realized Gain on Sale of Investment

During the nine months ended June 30, 2005, we sold our $975,000 syndicated participation in Burt's Bees, Inc. for a gain of $9,750 and we sold our $2.0 million syndicated participation in Marietta Corp. for a gain of $20,000, as compared to the nine months ended June 30, 2004 in which we bought and sold our $1.0 million investment in Metokote Corporation for a gain of $12,500.

Net Unrealized Depreciation on Derivative

As a result of the decline in fair market value of our interest rate cap agreement, we recorded net unrealized depreciation on derivative of approximately $58,000 for the nine months ended June 30, 2005, as compared to net unrealized depreciation of approximately $135,000 for the five months the investment was held during the nine months ended June 30, 2004.

Net Unrealized Appreciation (Depreciation) on Investments

For the nine months ended June 30, 2005, we recorded net unrealized depreciation on investments of approximately $298,000 as compared to net unrealized depreciation of approximately $849,000, for the nine months ended June 30, 2004. The decline in unrealized depreciation is mainly attributable to the increase in the value of the Finn warrant of approximately $593,000, and the fair value of the success fee on Woven Electronics of approximately $322,000 as well as unrealized appreciation of approximately $181,000 on certain of our syndicated loan participations, partially offset by unrealized depreciation of approximately $3.2 million on our senior subordinated term debt investment in Finn Corporation.

Net Increase in Stockholders' Equity from Operations

Overall, we realized a net increase in stockholders' equity resulting from operations of approximately $13.2 million for the nine months ended June 30, 2005. Based on a weighted-average of 11,288,784 (basic) and 11,602,986 (diluted) shares outstanding, our net increase in stockholders' equity from operations per weighted average common share for the nine months ended June 30, 2005 was $1.17 (basic) and $1.13 (diluted).

For the nine months ended June 30, 2004, werealized a net increase in stockholders' equity resulting from operations of approximately $9.8 million. Based on a weighted-average of 10,091,576 (basic) and 10,336,733 (diluted) shares outstanding, our net increase in stockholders' equity resulting from operations per weighted average common share for the nine months ended June 30, 2004 was $0.97 (basic) and $0.95 (diluted).

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005, we had investments in debt securities of, or loans to 26 private companies, totaling approximately $197.7 million (cost basis) of total assets. This number includes approximately $264,000 in accrued PIK interest income for the nine months ended June 30, 2005, which as described in "Overview," is added to the carrying value of our investments.

In October 2004, we sold our $975,000 participation in Burt's Bees, Inc. for a gain of $9,750.

During November 2004, we extended a $5.5 million loan to Global Materials Technologies, Inc. a manufacturer of steel wool products and metal fibers and also extended a $7.95 million loan to Santana Plastics, Inc., a manufacturer of polyethylene bathroom partitions. We also purchased syndicated loan participations in Valor Telecommunications, a rural telecommunications company, in the amount of $8.0 million and Tech Lighting LLC, a manufacturer of low voltage lighting systems in the amount of $7.0 million. We also received full principal repayments ahead of contractual maturity of $12.25 million from A & G, Inc. and $12.0 million from America's Water Heater Rentals, Inc., which also remitted $1.4 million of prepayment and success fees with its final payment.

In December 2004 we purchased an additional $2.0 million loan participation of Tech Lighting and an additional $2.0 million loan participation of Valor Telecommunications. We also purchased loan participations of $3.0 million of Polar Corporation, a manufacturer of trailer parts, $2.0 million of Regency Gas Services LLC, a company specializing in midstream gas gathering and processing, $2.0 million of Marietta Corporation, a manufacturer of personal care products, and $7.5 million of Advanced Homecare Management, Inc., a provider home health nursing services.

In January 2005, we sold our entire $2.0 million loan participation in Marietta Corporation for a gain of $20,000. In January 2005, we also purchased an additional $2.5 million loan participation in Polar Corporation, an additional $1.0 million loan participation in Regency Gas Services LLC and a $5.5 million loan participation in John Henry Holdings Inc., an envelope manufacturer.

In February 2005, Inca Metal Products Corporation/Kingway Acquisition, Inc./Clymer Acquisition, Inc. repaid its entire $2.3 million investment, Bear Creek Corporation repaid its entire $6.0 million investment, and Valor Telecommunications repaid its entire $10.0 million investment, along with prepayment fees in the aggregate of approximately $0.5 million.

In March 2005, ARI Holdings, Inc. repaid its entire $1.2 million senior term debt and its entire $3.7 million senior subordinated term debt, and we participated in a new senior loan to ARI Holdings, Inc. in the amount of $3.9 million.

In April 2005, we extended a loan of $6.3 million to Defiance Stamping Company, a manufacturer of metal fasteners, and purchased a loan participation in Infor Global Solutions of $7.0 million, and an additional $3.0 million of Polar Corporation.

In May 2005, we extended a $7.0 million loan to Northern Contours, Inc., a manufacturer of cabinets and purchased a $4.5 million participation in Survey Sampling, telecommunications, and a $5.0 million participation in Penn Engineering, a manufacturer of engines, and an additional purchase of $2.0 million of Regency Gas Services LLC. We also received a full principal repayment from Woven Electronics LLC on the senior term note of approximately $2.5 million.

In June 2005, we received the full repayment of our $10.0 million investment in Maidenform, Inc.

The following table summarizes the new investments and principal repayments that took place during the three and nine months ended June 30, 2005:

	For the three months ended June 30, 2005	For the nine months ended June 30, 2005
New investments	$ 34,732,083	$ 126,195,458
Principal repayments	18,154,719	77,990,345
Net new investments	$ 16,577,364	$ 48,205,113

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

Year	Amount
2005	$ 2,046,823
2006	$ 20,217,440
2007	$ 30,944,369
2008	$ 26,355,125
2009	$ 29,800,034
Thereafter	$ 88,386,086
Total	$ 197,749,877

Net cash provided by operating activities for the nine months ended June 30, 2005, consisting primarily of the items described in “Results of Operations,” was approximately $2.2 million. Net cash used in investing activities was approximately $68.8 million during the nine months ended June 30, 2005 and primarily consisted of new investments in the aggregate amount of approximately $126.2 million and the repayment of the repurchase agreement of approximately $21.3 million, partially offset by principal repayments of approximately $78.0 million from our portfolio companies. Net cash provided by financing activities was approximately $1.4 million for the nine months ended June 30, 2005 and consisted primarily of cash provided from borrowings on our lines of credit, net of repayments, of approximately $13.8 million and the exercise of stock options which provided approximately $270,000, offset by the payment of dividends of approximately $12.5 million, additional fees paid to renew a line of credit of $105,000 and some costs incurred subsequent to the shelf offering in September 2004.

As a result of the above factors, during the nine months ended June 30, 2005, cash and cash equivalents decreased from approximately $66.0 million at the beginning of the period to approximately $767,000 at the end of the period.

On October 1, 2004, we settled an outstanding repurchase agreement (the “Repurchase Agreement”) with Ferris Baker Watts Incorporated for $21,345,997. The interest rate on the Repurchase Agreement was 4.25% for a cost of $7,831. In the future, we may or may not use a similar form of repurchase agreement as an investment option or in order to satisfy certain asset diversification requirements and maintain our status as a RIC under Subchapter M of the Internal Revenue Code. At June 30, 2005, we did not use a repurchase agreement as an investment option in order to satisfy our asset diversification requirement, nor did we have any borrowings outstanding under our lines of credit at June 30, 2005 in order to satisfy our asset diversification requirement.

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 a monthly cash dividend of $0.12 per common share for each of October, November and December 2004 and January, February, and March 2005 and a dividend of $0.13 per common share for each April, May, and June 2005. In July 2005, we declared a monthly dividend of $0.135 per common share for each July, August and September 2005.

We anticipate continuing to borrow funds and, from time to time issuing additional equity securities to obtain additional capital to make further investments. To this end, we have an effective registration statement on file with the Securities and Exchange Commission (“SEC”) that would permit us to issue, through one or more transactions, up to an aggregate of $48.8 million in securities, which may consist of shares of our common stock, preferred stock, and/or debt securities.

Revolving Credit Facilities

Through our wholly-owned subsidiary, Business Loan, we have a $100 million revolving credit facility (the “DB Facility”) with Deutsche Bank AG, as administrative agent, which matured on May 26, 2005 and was renewed by us for another year, maturing on May 26, 2006. 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 the London Interbank Offered Rate (“LIBOR”), the Prime Rate or the Federal Funds Rate, depending on market conditions, and will adjust periodically. As of June 30, 2005, our outstanding principal balance under this DB Facility was approximately $54.6 million at an interest rate of 3.2%. 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 or added and repaid, regardless of whether such repayments are early prepayment or are made as contractually required. At June 30, 2005, the remaining borrowing capacity available under the DB Facility was approximately $33.3 million. We are in the process of negotiating a renewal of this DB Facility, however there can be no guarantee that we will be able to renew the DB Facility on terms that are favorable to us, if at all. In the event that we are not able to renew the DB Facility this could have a material adverse impact on our liquidity and ability to fund new investments.

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, 2005, 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 the Company. For the nine months ended June 30, 2005, the amount due from custodian increased by approximately $11.0 million.

Gladstone Management, our affiliated external 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 Gladstone Management 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, 2005, we were in compliance with our covenants under the performance guaranty.

We also have a $15.0 million line of credit agreement with Branch Banking and Trust Company ("BB&T Agreement") which matured in June 2005. The line of credit was extended through September 30, 2005. Interest on outstanding borrowings is based on the one month LIBOR plus 2.5% per annum. The unused portion of the line of credit is subject to a fee of 0.2% per annum. The BB&T Agreement requires us to meet and maintain certain covenants and ratios with respect to leverage and liquidity. As of June 30, 2005, there were no borrowings outstanding under the BB&T line of credit with a remaining borrowing capacity available under the BB&T Agreement of $15.0 million.

Both lines of credit are available for general corporate purposes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to financial market risks, including changes in interest rates. We expect that ultimately approximately 20% of the loans in our portfolio will be made at fixed rates, with approximately 80% made at variable rates. Currently our portfolio has approximately 17% of the total of the loan portfolio cost basis at fixed rates, approximately 43% of the total loan portfolio cost basis at variable rates with a floor. Approximately 4% of the total loan portfolio cost basis at a variable rate with a floor and ceiling, and the remaining 37% of the total loan portfolio cost basis at variable rates.

In addition, we have two variable rate borrowing facilities. We have a $100 million revolving credit facility with Deutsche Bank AG which matures in May 2006. We also have a $15 million line of credit agreement with Branch Banking and Trust Company which matures in September 2005.

In February 2004, we entered into an interest rate cap agreement in order to fulfill an obligation under our line of credit to enter into certain hedging transactions in connection with our borrowings under the line of credit. We purchased this interest rate cap agreement with a notional amount of $35 million for a one-time, up-front payment of $304,000. The interest rate cap agreement entitles us to receive payments, if any, equal to the amount by which interest payments on $35 million at the point which one month LIBOR exceed the payments on $35 million at 5%. The cap expires in February 2009. This interest rate cap agreement effectively caps our interest payments on our line of credit borrowing, up to the notional amount of the interest rate cap, at five percent. This mitigates our exposure to increases in interest rates on our borrowings on our lines of credit, which are at variable rates. At June 30, 2005, the cap agreement had a fair market value of $31,734 and a current notional amount of $29.5 million. At June 30, 2005, the one month LIBOR rate was approximately 3.34%.

To illustrate the potential impact of changes in interest rates on our net increase in stockholders' equity resulting from operations, we have performed the following analysis, which assumes that our balance sheet remains constant and no further actions beyond the interest rate cap agreement are taken to alter our existing interest rate sensitivity. Under this analysis, a hypothetical increase in the one month LIBOR by 1% would increase our net increase in stockholders' equity resulting from operations by approximately $1.1 million or 8.1%, over the next twelve months, compared to the net increase in stockholders' equity resulting from operations for the twelve months ended June 30, 2005. A hypothetical decrease in the one month LIBOR by 1% would decrease net increase in stockholders' equity resulting from operations by approximately $1.1 million, or 8.1%, over the next twelve months, compared to the net increase in stockholders' equity resulting from operations for the twelve months ended June 30, 2005. Although management believes that this analysis is indicative of our existing interest rate sensitivity, it does not adjust for potential changes in credit quality, size and composition of our loan portfolio on the balance sheet and other business developments that could affect net increase in stockholders' equity resulting from operations. Accordingly, no assurances can be given that actual results would not differ materially from the results under this hypothetical analysis.

In the event that we securitize a portion of our loan portfolio, we believe that we will likely be required to enter into further hedging arrangements in the future with respect to securitized loans. While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments.

ITEM 4. CONTROLS AND PROCEDURES.

As of June 30, 2005, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective in timely alerting management, including the Chief Executive Officer and Chief Financial Officer, of material information about us required to be included in periodic Securities and Exchange Commission filings. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II–OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Neither we, nor any of our subsidiaries, are currently subject to any material legal proceeding, nor, to our knowledge, is any material legal proceeding threatened against us or any of our subsidiaries.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable

ITEM 6. EXHIBITS

See the exhibit index.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLADSTONE CAPITAL CORPORATION

By: /s/ HARRY BRILL

Harry Brill
Chief Financial Officer and Treasurer

Date: August 3, 2005

EXHIBIT INDEX

Exhibit	Description
3.1	Articles of Amendment and Restatement of the Articles of Incorporation, incorporated by reference to Exhibit a.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001.
3.2	By-laws, incorporated by reference to Exhibit b to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001.
3.3	Amendment to by-laws, incorporated by reference to Exhibit 3.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2003 (File No. 814-00237), filed February 17, 2004.
10.30	Amendment No. 5, Consent and Waiver to Credit Agreement dated as of May 27, 2005.
11	Computation of Per Share Earnings (included in the notes to the unaudited financial statements contained in this report).
31.1	Certification of Chief Executive Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.

All other exhibits for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.

Exhibit 10.30

AMENDMENT NO. 5, CONSENT AND WAIVER
TO
CREDIT AGREEMENT

THIS AMENDMENT NO. 5, CONSENT AND WAIVER TO CREDIT AGREEMENT (this "Amendment") dated as of May 27, 2005, is entered into among GLADSTONE BUSINESS LOAN, LLC, as the Borrower, TAHOE FUNDING CORP., LLC and PUBLIC SQUARE FUNDING LLC, as CP Lenders (collectively, the "CP Lenders"), DEUTSCHE BANK AG, NEW YORK BRANCH ("Deutsche Bank") and KEYBANK, NATIONAL ASSOCIATION ("KeyBank"), as Committed Lenders (collectively, the "Committed Lenders"), Deutsche Bank and KeyBank as Managing Agents (in such capacity, collectively the "Managing Agents") and Deutsche Bank as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms used herein without definition shall have the meanings ascribed thereto in the "Credit Agreement" referred to below.

PRELIMINARY STATEMENTS

A. Reference is made to that certain Credit Agreement dated as of May 19, 2003 among the Borrower, Gladstone Advisers, Inc., as Servicer, the CP Lenders, the Committed Lenders, the Managing Agents and the Administrative Agent (as amended, modified or supplemented from time to time, including, without limitation, by that certain Resignation, Appointment and Consent dated as of September 28, 2004, and as further amended, restated, supplemented or modified from time to time, the "Credit Agreement").

B. The parties hereto have agreed to (i) amend certain provisions of the Credit Agreement upon the terms and conditions set forth herein and (ii) consent to the modification by the Borrower and the Servicer of the Credit and Collection Policy.

SECTION 1. Amendment. Subject to the satisfaction of the conditions precedent set forth in Section 4 hereof, the parties hereto hereby agree:

(i) to amend Section 1.1 by adding the following new definitions in alphabetical order, as follows:

Post-Termination Revolver Loan Fundings: means an advance by the Committed Lenders, made on or following the Revolver Loan Funding Date, which may be used for the sole purpose of funding advances requested by Obligors under the Revolver Loans.

Revolver Loan: means each Loan with respect to which the Borrower has a revolving credit commitment to advance amounts to the applicable Obligor during a specified term.

Revolver Loan Funding: has the meaning given to such term in Section 2.14.

Revolver Loan Funding Account: has the meaning given to such term in Section 2.14.

Revolver Loan Funding Account Shortfall: means, on any date, the amount, if any, by which the Revolver Loan Funding Amount at such time exceeds the aggregate amount on deposit in the Revolver Loan Funding Accounts.

Revolver Loan Funding Account Surplus: means, on any date, the amount, if any, by which the amount on deposit in the Revolver Loan Funding Accounts exceeds the Revolver Loan Funding Amount at such time.

Revolver Loan Funding Amount: has the meaning given to such term in Section 2.14.

Revolver Loan Funding Date: means the Termination Date, if Revolver Loans are outstanding on such date.

Servicing Fee Limit Amount: means, for each Payment Date, an amount equal to 50% of the Servicing Fee for the related Settlement Period.

(ii) to delete the definition of "Commitment Termination Date" in its entirety, and substitute the following therefor:

Commitment Termination Date: means May 26, 2006, or such later date to which the Commitment Termination Date may be extended (if extended) in the sole discretion of the Lenders in accordance with the terms of Section 2.1(b).

(iii) to amend the definition of "Credit and Collection Policy" to delete the reference to "Section 7.8(g)" set forth therein and substitute a reference to "Section 7.9(g)" therefor.

(iv) to delete clause (viii) of the definition of "Eligible Loan" and substitute the following therefor:

(viii) the Loan bears interest, which is due and payable no less frequently than quarterly, except for (i) Loans which bear interest which is due and payable no less frequently than semi-annually, provided that the aggregate Outstanding Loan Balances of such Loans do not exceed 10% of the Aggregate Outstanding Loan Balance and (ii) PIK Loans,

(v) to add the following clauses (xxii) and (xxiii) to the definition of "Eligible Loan" in appropriate numeric order therein:

(xxii) if such Loan is a Revolver Loan, it shall be secured by a first priority, perfected security interest on certain assets of the Obligor which shall include, without limitation, accounts receivable and inventory; and

(xxiii) if such Loan is a Revolver Loan, the revolving credit commitment of the Borrower to the applicable Obligor thereunder (A) is between $500,000 and $5,000,000, (B) shall have a term to maturity of one year or less and (C) shall permit borrowings thereunder not more frequently than once per week.

(vi) to delete the definition of "Excess Concentration Amount" and substitute the following therefor:

Excess Concentration Amount: On any date of determination, the sum of, without duplication, (a) the aggregate amount by which the Outstanding Loan Balances of Eligible Loans included as part of the Collateral, the Obligors of which are residents of any one state, exceeds 40% of the Aggregate Outstanding Loan Balance, (b) the aggregate amount by which the Outstanding Loan Balances of Eligible Loans included as part of the

Collateral, the Obligors of which are in the same Industry, exceeds 25% of the Aggregate Outstanding Loan Balance, (c) the aggregate amount by which the Outstanding Loan Balance of each Eligible Loan included as part of the Collateral exceeds the Large Loan Limit applicable to such Eligible Loan, (d) the aggregate amount by which the Outstanding Loan Balances of all Eligible Loans included as part of the Collateral whose interest payments are due and payable less frequently than monthly exceeds 66 2/3% of the Aggregate Outstanding Loan Balance, (e) the aggregate amount by which the Outstanding Loan Balances of all Eligible Loans included as part of the Collateral which are PIK Loans exceeds 40% of the Aggregate Outstanding Loan Balance, (f) the aggregate amount by which the Outstanding Loan Balances of all Eligible Loans included as part of the Collateral which are PIK Loans having a PIK accrual component greater than 3.0% exceeds 25% of the Aggregate Outstanding Loan Balance, (g) the aggregate amount by which the Outstanding Loan Balances of all Eligible Loans that have original terms to maturity greater than 84 months exceeds 10% of the Aggregate Outstanding Loan Balance, (h) the aggregate amount by which the Outstanding Loan Balances of Qualifying Syndicated Loans included as part of the Collateral, for which no Subsequent Delivery Trust Receipt

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(as defined in the Custody Agreement) has been received exceeds $30,000,000, (i) the aggregate Outstanding Loan Balances of all Loans which (A) do not have a long-term credit rating from either S&P or Moody's and (B) are not priced by Standard & Poor's Securities Evaluations, Inc. on a quarterly basis and have not been so priced by Standard & Poor's Securities Evaluations, Inc. for a period in excess of (x) with respect to the Loans described in Annex III to that certain Amendment No. 4 hereto dated as of September 28, 2004, 45 days from September 28, 2004 or (y) otherwise, 135 days from the date such Loan becomes a Transferred Loan, provided, however, that the requirements of this clause (i) shall not apply to the Marcal RE Loan, (j) the aggregate amount by which the Outstanding Loan Balances of all Eligible Loans included as part of the Collateral which are Revolver Loans exceeds $20,000,000 and (k) the aggregate amount by which the Outstanding Loan Balances of all Eligible Loans that are unsecured exceeds 10% of the Aggregate Outstanding Loan Balance.

(vii) to delete the definition of "Payment Date" in its entirety, and substitute the following therefor:

Payment Date: means the seventh (7th) day of each calendar month or, if such day is not a Business Day, the next succeeding Business Day; provided that for purposes of distributions required pursuant to Section 2.8(a)(vii) only, "Payment Date" shall mean any Business Day.

(viii) to amend Section 2.1(a) to delete the sentences "Such Funding Request shall be delivered not later than 5:00 p.m. (New York City time) on the date which is four (4) Business Days prior to the requested Funding Date. Following receipt by the Administrative Agent of a Funding Request, the Administrative Agent shall forward such Funding Request to each Managing Agent not later than 12:00 p.m. (New York City time) on the date which is three (3) Business Days prior to the requested Funding Date." and substitute the following therefor:

Such Funding Request shall be delivered not later than 10:00 a.m. (New York City time) on the date which is one (1) Business Day prior to the requested Funding Date. Following receipt by the Administrative Agent of a Funding Request, the Administrative Agent shall forward such Funding Request to each Managing Agent not later than 11:00 a.m. (New York City time) that day.

(ix) to amend Section 2.2(c) to insert the phrase, "provided that the requirements of this Section 2.2(c) shall apply only with respect to the first Advance to be made with respect to a Revolver Loan" at the end of the first sentence thereof;

(x) to amend Section 2.2(e) to delete the phrase "at least $3,000,000" and substitute the phrase "at least $3,000,000, or, if such Advance is to be made with respect to a Revolver Loan, at least $100,000" therefor;

(xi) to amend Section 2.3(b) to delete the phrase "at least three (3) Business Days prior to the proposed Funding Date (or such shorter period of time or later date as may be agreed to by the Required Committed Lenders)" and substitute the phrase "at least one (1) Business Day prior to the date of such repayment" therefor

(xii) to further amend Section 2.3(b) to delete the phrase "$1,000,000 with integral multiples of $100,000 above such amount" and substitute the phrase "$1,000,000 with integral multiples of $100,000 above such amount, or, with respect to any partial prepayment made in connection with payments received in respect of a Revolver Loan, $100,000 with integral multiples of $100,000 above such amount" therefor;

(xiii) to delete "Section 2.8 Settlement Procedures" in its entirety and substitute the section set forth in Annex I therefor;

(xiv) to amend Article II to add the following Section 2.14 in numeric order therein:

Section 2.14 **Revolver Loan Funding.** (a) Upon the occurrence of a Revolver Loan Funding Date (i) each CP Lender shall make an assignment to its related Committed Lenders of its Advances Outstanding in respect of Revolver Loans at such time and (ii) each Committed Lender shall make an advance (each, a "Revolver Loan Funding") in an amount equal to such Committed Lender's ratable share of the aggregate outstanding unfunded commitments under the Revolver Loans (collectively, the "Revolver Loan Funding Amount"). Upon receipt of the proceeds of such Revolver Loan Funding, the Administrative Agent shall deposit such funds into segregated accounts (each, a "Revolver Loan Funding Account"), in its name, referencing the name of such Committed Lender, and maintained at a Qualified Institution. Each Committed Lender hereby grants to the Administrative Agent full power and authority, on its behalf, to withdraw funds from the applicable Revolver Loan Funding Account at the time of, and in connection with, the funding of any Post-Termination Revolver Loan Fundings to

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be made by the Borrower, and to deposit to the related Revolver Loan Funding Account any funds received in respect of each relevant Committed Lender's ratable share of principal payments under Section 2.8 hereof, all in accordance with the terms of and for the purposes set forth in this Agreement. The deposit of monies in such Revolver Loan Funding Account by any Committed Lender shall not constitute an Advance (and such Committed Lender shall not be entitled to interest on such monies except as provided in clause (d) below) unless and until (and then only to the extent that) such monies are used to make Post-Termination Revolver Loan Fundings pursuant to the first sentence of clause (b) below). On each Payment Date, the Borrower shall pay the Administrative Agent, for the benefit of the Committed Lenders, a fee (the "Revolver Loan Funding Fee") equal to 0.30%, multiplied by the weighted average amount on deposit in the Revolver Loan Funding Accounts during the applicable Settlement Period, calculated on the basis of a year of 360 days for the actual number of days elapsed.

(b) From and after the establishment of a Revolver Loan Funding Account with respect to any Committed Lender, and until the earlier of (i) the reduction to zero of all outstanding commitments in respect of Revolver Loans and (ii) one year following the Revolver Loan Funding Date, all

Post-Termination Revolver Loan Fundings to be made by such Committed Lender hereunder shall be made by withdrawing funds from the applicable Revolver Loan Funding Account. On each Business Day during such time, the Administrative Agent shall, (i) if a Revolver Loan Funding Account Shortfall exists, deposit the lesser of (A) the amount allocable to the repayment of principal to the Committed Lenders and (B) the Revolver Loan Funding Account Shortfall and (ii) if a Revolver Loan Funding Account Surplus exists, pay to the applicable Managing Agent, on behalf of each Committed Lender, such Committed Lender's ratable share of the Revolver Loan Funding Account Surplus. Until the earlier of (i) the reduction to zero of all outstanding commitments in respect of Revolver Loans and (ii) one year following the Revolver Loan Funding Date, all remaining funds then held in such Revolver Loan Funding Account (after giving effect to any Post-Termination Revolver Loan Fundings to be made on such date) shall be paid by the Administrative Agent to the applicable Managing Agent, on behalf of such Committed Lender, and thereafter all payments made in respect of the

Loans (whether or not originally funded from such Committed Lender's Revolver Loan Funding Account) shall be paid directly to the applicable Managing Agent, on behalf of such Committed Lender, in accordance with the terms of Section 2.8.

(c) The Program Agent may, its sole discretion, advance funds withdrawn from the Revolver Loan Funding Accounts to (i) the Borrower or (ii) the applicable Obligor directly, on behalf of the Borrower, and in either case, such funds shall be used solely for the purpose of funding advances requested by an Obligor under a Revolver Loan.

(d) Proceeds in a Revolver Loan Funding Account shall be invested, at the written direction of the applicable Committed Lender (or the applicable Managing Agent on its behalf) to the applicable Revolver Loan Funding Account bank, only in investments which constitute Permitted Investments. The investment earnings with respect to a Revolver Loan Funding Account shall accrue as the Committed Lender and Revolver Loan Funding Account bank shall agree. The Administrative Agent shall direct the Revolver Loan Funding Account bank to pay all such investment earnings from the relevant account directly to the applicable Managing Agent, for the account of the applicable Committed Lender.

(e) Notwithstanding anything herein to the contrary, none of the Administrative Agent, the other Managing Agents, the other Purchasers nor the Revolver Loan Funding Account bank shall have any liability for any loss arising from any investment or reinvestment made by it with respect to a Revolver Loan Funding Account in accordance with, and pursuant to, the provisions hereof.

(xv) to delete "Section 5.2 Hedging Agreement" in its entirety and substitute the section set forth in Annex II therefor;

(xvi) to amend "Section 12.1 Amendments and Waivers" to delete the following language in its entirety:

(x) written notice to Concord delivered two (2) Business Days prior to effectiveness, which notice requirement may be waived in Concord's sole discretion and (y)

(xvii) to delete the form of Monthly Report set forth on Exhibit E to the Credit Agreement in its entirety, and substitute the form of Monthly Report set forth on Exhibit A hereto therefor.

SECTION 2. Waiver. Each of the Managing Agents and the Administrative Agent hereby agrees to waive any Early Termination Event arising solely as a result of the Borrower's failure to comply with the requirements under Section 5.2 of the Credit Agreement prior to its amendment hereunder.

SECTION 3. Consent. Each of the Managing Agents and the Administrative Agent hereby waives the notice and timing requirements set forth in Sections 5.1(r) and 7.9(g) of the Credit Agreement and consents to the amendment to the Credit and Collection Policy, as set forth on Exhibit B hereto.

SECTION 4. Representations and Warranties. The Borrower hereby represents and warrants to each of the other parties hereto, that:

(a) this Amendment constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms; and

(b) on the date hereof, before and after giving effect to this Amendment, other than as amended or waived pursuant to this Amendment, no Early Termination Event or Unmatured Termination Event has occurred and is continuing.

SECTION 5. Conditions Precedent. This Amendment shall become effective on the first Business Day (the "Effective Date") on which the Administrative Agent or its counsel has received counterpart signature pages of this Amendment, executed by each of the parties hereto.

SECTION 6. Reference to and Effect on the Transaction Documents.

(a) Upon the effectiveness of this Amendment, (i) each reference in the Credit Agreement to "this Credit Agreement", "this Agreement", "hereunder", "hereof", "herein" or words of like import shall mean and be a reference to the Credit Agreement as amended or otherwise modified hereby, and (ii) each reference to the Credit Agreement in any other Transaction Document or any other document, instrument or agreement executed and/or delivered in connection therewith, shall mean and be a reference to the Credit Agreement as amended or otherwise modified hereby.

(b) Except as specifically amended, terminated or otherwise modified above, the terms and conditions of the Credit Agreement, of all other Transaction Documents and any other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent, any Managing Agent or any Lender under the Credit Agreement or any other Transaction Document or any other document, instrument or agreement executed in connection

therewith, nor constitute a waiver of any provision contained therein, in each case except as specifically set forth herein.

SECTION 7. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 8. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 9. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

SECTION 10. Fees and Expenses. Seller hereby confirms its agreement to pay on demand all reasonable costs and expenses of the Administrative Agent, Managing Agents or Lenders in connection with the preparation, execution and delivery of this Amendment and any of the other instruments, documents and agreements to be executed and/or delivered in connection herewith, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel to the Administrative Agent, Managing Agents or Lenders with respect thereto.

[Remainder of Page Deliberately Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective officers as of the date first above written.

GLADSTONE BUSINESS LOAN, LLC

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

TAHOE FUNDING CORP., LLC

By: /s/ Andrew L. Stidd
Name: Andrew L. Stidd
Title: President

DEUTSCHE BANK AG, NEW YORK BRANCH, as a Committed Lender, Managing Agent and Administrative Agent

By: /s/ Mark D. O'Keefe
Name: Mark D. O'Keefe
Title: Director

By: /s/ Tina Gu
Name: Tina Gu
Title: Vice President

PUBLIC SQUARE FUNDING LLC

By: /s/ Evelyn Echevarria
Name: Evelyn Echevarria
Title: Vice President

KEYBANK, NATIONAL ASSOCIATION, as a Committed Lender and Managing Agent

By: /s/ Paul E. Henson
Name: Paul E. Henson
Title: Executive Vice President

Annex I

Section 2.8 Settlement Procedures.

On each Payment Date, the Servicer on behalf of the Borrower shall pay for receipt by the applicable Lender no later than 11:00 a.m. (New York City time) to the following Persons, from (i) the Collection Account, to the extent of available funds, (ii) Servicer Advances, and (iii) amounts received in respect of any Hedge Agreement during such Settlement Period (the sum of such amounts described in clauses (i), (ii) and (iii), minus any amounts required to be deposited to the Revolver Loan Funding Accounts in accordance with Section 2.14 below being the "*Available Collections*") the following amounts in the following order of priority

(i) FIRST, to each Hedge Counterparty, any amounts owing that Hedge Counterparty under its respective Hedging Agreement in respect of any Hedge Transaction(s), for the payment thereof, but excluding, to the extent the Hedge Counterparty is not the same Person as the Administrative Agent, any Swap Breakage and Indemnity Amounts;

(ii) SECOND, to the Servicer, in an amount equal to any Unreimbursed Servicer Advances, for the payment thereof;

(iii) THIRD, to the extent not paid by the Servicer, to the Backup Servicer and any Successor Servicer, as applicable, in amount equal to any accrued and unpaid Backup Servicing Fee and, if any, accrued and unpaid Transition Costs, Backup Servicer Expenses and Market Servicing Fee Differential, each for the payment thereof;

(iv) FOURTH, to the extent not paid by the Servicer, to the Collateral Custodian in an amount equal to any accrued and unpaid Collateral Custodian Fee and Collateral Custodian Expenses, if any, for the payment thereof;

(v) FIFTH, to the Servicer, in an amount equal to (A) if the Servicer is Gladstone Advisers, Inc. or any of its Affiliates, its accrued and unpaid Servicing Fees to the end of the preceding Settlement Period, up to the Servicing Fee Limit Amount for such Settlement Period, for the payment thereof and (B) otherwise, its accrued and unpaid Servicing Fees to the end of the preceding Settlement Period for the payment thereof;

(vi) SIXTH, to the Administrative Agent for payment to each Managing Agent, on behalf of the related Lenders, in an amount equal to any accrued and unpaid Interest, Program Fee and Liquidity Commitment Fee for such Payment Date;

(vii) SEVENTH, to the Administrative Agent for payment to each Managing Agent, on behalf of the related Lenders, an amount equal to the excess, if any, of Advances Outstanding over the lesser of (i) the Borrowing Base or (ii) the Facility Amount, together with the amount of Breakage Costs incurred by the

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applicable Lenders in connection with any such payment (as such Breakage Costs are notified to the Borrower by the applicable Lender(s));

(viii) EIGHTH, following the occurrence of the Termination Date resulting from an Early Termination Event, to the Administrative Agent for ratable payment to each Managing Agent, on behalf of the related Lenders, in an amount to reduce Advances Outstanding to zero and to pay any other Obligations in full;

(ix) NINTH, to each Hedge Counterparty, any Swap Breakage and Indemnity Amounts owing that Hedge Counterparty.

(x) TENTH, to the Administrative Agent for payment to each Managing Agent, on behalf of the related Lenders, in the amount of unpaid Breakage Costs (other than Breakage Costs covered in clause (vii) above) with respect to any prepayments made on such Payment Date, Increased Costs and/or Taxes (if any);

(xi) ELEVENTH, to the Administrative Agent, all other amounts then due under this Agreement to the Administrative Agent, the Lenders, the Affected Parties or Indemnified Parties, each for the payment thereof;

(xii) TWELFTH, to the Servicer, in an amount equal to (A) if the Servicer is Gladstone Advisers, Inc. or any of its Affiliates, its accrued and unpaid Servicing Fees to the end of the preceding Settlement Period not otherwise paid pursuant to priority FIFTH above; and

(xiii) THIRTEENTH, all remaining amounts to the Borrower.

Annex II

Section 5.2 Hedging Agreement.

(a) The Borrower shall, on or before the initial Advance hereunder, enter into a Hedge Transaction with a Hedge Counterparty, which shall: (i) be in the form of interest rate caps or swaps having a notional amount equal to (A) on the Closing Date, the Required Notional Amount and (B) thereafter, an amount reflecting amortization at a rate to be determined by the Managing Agents upon consultation with the Borrower and (ii) shall provide for payments to the Borrower to the extent that the LIBO Rate shall exceed a rate agreed upon between the Managing Agents and the Borrower. From and after May 27, 2005, prior to acquiring a fixed-rate Loan, the Borrower will consult with the Managing Agents to determine whether an additional cap or swap will be required in respect of such Loan to maintain compliance with the requirements set forth in the preceding sentence.

(b) As additional security hereunder, the Borrower hereby assigns to the Administrative Agent, as agent for the Secured Parties, all right, title and interest of the Borrower in each Hedging Agreement, each Hedge Transaction, and all present and future amounts payable by a Hedge Counterparty to the Borrower under or in connection with the respective Hedging Agreement and Hedge Transaction(s) with that Hedge Counterparty ("*Hedge Collateral*"), and grants a security interest to the Administrative Agent, as agent for the Secured Parties, in the Hedge Collateral. The Borrower acknowledges that, as a result of that assignment, the Borrower may not, without the prior written consent of the Administrative Agent, exercise any rights under any Hedging Agreement or Hedge Transaction, except for the Borrower's right under any Hedging Agreement to enter into Hedge Transactions in order to meet the Borrower's obligations under Section 5.2(a) hereof. Nothing herein shall have the effect of releasing the Borrower from any of its obligations under any Hedging Agreement or any Hedge Transaction, nor be construed as requiring the consent of the Administrative Agent or any Secured Party for the performance by the Borrower of any such obligations.

Exhibit A

Form of Monthly Report

Please see attached.

Exhibit B

Credit and Collection Policy

On file with Agent.

Exhibit 31.1

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David Gladstone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gladstone Capital Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2005

/s/ DAVID GLADSTONE
David Gladstone
Chief Executive Officer and
Chairman of the Board of Directors

Exhibit 31.2

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Harry Brill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gladstone Capital Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2005

/s/ HARRY BRILL
Harry Brill
Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer of Gladstone Capital Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (“Form 10-Q”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2005

/s/ David Gladstone

David Gladstone
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Financial Officer of Gladstone Capital Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (“Form 10-Q”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2005

/s/ Harry Brill
Harry Brill
Chief Financial Officer