# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended September 30, 2013**

**OR**

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

**For the transition period from ______ to ______**

**Commission file number 814-00237**

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

| | |
|---|---|
| **Maryland**<br>**(State or other jurisdiction of incorporation or organization)** | **54-2040781**<br>**(I.R.S. Employer Identification No.)** |
| **1521 Westbranch Drive, Suite 100**<br>**McLean, Virginia**<br>**(Address of principal executive offices)** | **22102**<br>**(Zip Code)** |

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

**Securities registered pursuant to Section 12(b) of the Act:**

| (Title of each Class) | (Name of each exchange on which registered) |
|---|---|
| Common Stock, $0.001 par value per share | NASDAQ Global Select Market |
| 7.125% Series 2016 Term Preferred Stock, $0.001 par value per share | NASDAQ Global Select Market |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ (Do no check if a smaller reporting company) | Smaller reporting company | ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act). YES ☐ NO ☒.

The aggregate market value of the voting common stock held by non-affiliates of the Registrant on March 28, 2013, based on the closing price on that date of $9.20 on the NASDAQ Global Select Market, was $180,774,763. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 21,000,160 shares of the Registrant's common stock, $0.001 par value per share, outstanding as of November 18, 2013.

**Documents Incorporated by Reference.** Portions of the Registrant's definitive proxy statement filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 2014 Annual Meeting of Stockholders, which will be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the Securities and Exchange Commission not later than 120 days following the end of the registrant's fiscal year ended September 30, 2013.

**GLADSTONE CAPITAL CORPORATION**
**FORM 10-K FOR THE FISCAL YEAR ENDED**
**SEPTEMBER 30, 2013**

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## FORWARD-LOOKING STATEMENTS

**All statements contained herein, other than historical facts, may constitute “forward-looking statements.” These statements may relate to, among other things, our future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with Gladstone Management Corporation and its affiliates, the use of borrowed money to finance our investments, the adequacy of our financing sources and working capital, and our ability to co-invest, among other factors. In some cases, you can identify forward-looking statements by terminology such as “estimate,” “may,” “might,” “believe,” “will,” “provided,” “anticipate,” “future,” “could,” “growth,” “plan,” “intend,” “expect,” “should,” “would,” “if,” “seek,” “possible,” “potential,” “likely” or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) further adverse changes in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone or Terry Lee Brubaker; 4) changes in our investment objectives and strategy; (5) availability, terms and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; (8) our ability to maintain our qualification as a RIC and as business development company; and (9) those factors described in the *“Risk Factors”* section of this Annual Report on Form 10-K. We caution readers not to place undue reliance on any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from historical performance. We have based forward-looking statements on information available to us on the date of this Annual Report on Form 10-K. Except as required by the federal securities laws, 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 Annual Report on Form 10-K. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the Securities and Exchange Commission, including quarterly reports on Form 10-Q and current reports on Form 8-K.**

*In this Annual Report on Form 10-K, or Annual Report, the “Company,” “we,” “us,” and “our” refer to Gladstone Capital Corporation and its wholly-owned subsidiaries unless the context otherwise indicates. Dollar amounts are in thousands unless otherwise indicated.*

# PART I

## ITEM 1. BUSINESS

### Overview

#### *Organization*

We were incorporated under the Maryland General Corporation Law on May 30, 2001, and completed our initial public offering on August 24, 2001. We are externally managed and operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended ( the “1940 Act”). For federal income tax purposes, we have elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). We currently continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment by meeting certain requirements, including minimum distribution requirements.

Our shares of common stock and term preferred stock are traded on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbols “GLAD” and “GLADP,” respectively.

#### *Investment Objectives and Strategy*

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (“U.S.”). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time;

and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $5 million to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We aim to maintain a portfolio allocation of approximately 95.0% debt investments and 5.0% equity investments, at cost.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the London Interbank Offered Rate ("LIBOR")) and, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, have a success fee or deferred interest provision and are primarily interest only with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due upon a change of control in the business. Some debt securities have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called paid-in-kind ("PIK") interest. Typically, our equity investments take the form of preferred or common stock, limited liability company interests, or warrants or options to purchase the foregoing. Often, these equity investments occur in connection with our original investment, recapitalizing a business, or refinancing existing debt.

As of September 30, 2013, our portfolio consisted of loans to 47 companies located in 26 states in 19 different industries with an aggregate fair value of $256.9 million. Since our initial public offering in 2001 through September 30, 2013, we have invested in over 172 different companies, while making over 128 consecutive monthy or quarterly distributions to common stockholders. We expect that our target portfolio over time will primarily include the following four categories of investments in private U.S. companies:

- *Senior Debt Securities:* We seek to invest a portion of our assets in senior debt securities also known as senior loans, senior term loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses senior debt to cover a substantial portion of the funding needs of the business. The senior debt security usually takes the form of first priority liens on the assets of the business. Senior debt securities may include our participation and investment in the syndicated loan market.
- *Senior Subordinated Debt Securities:* We seek to invest a portion of our assets in senior subordinated debt securities, also known as senior subordinated loans and senior subordinated notes. These senior subordinated debts also include second lien notes and may include participation and investment in syndicated second lien loans. Additionally, we may receive other yield enhancements, such as success fees, in connection with these senior subordinated debt securities.
- *Junior Subordinated Debt Securities:* We seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior subordinated debts include second lien notes and unsecured loans. Additionally, we may receive other yield enhancements and warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.
- *Preferred and Common Equity/Equivalents:* In some cases we will purchase equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of the businesses in which we invest.

Additionally, pursuant to the 1940 Act, we must maintain at least 70.0% of our total assets in qualifying assets, which generally include each of the investment types listed above. Therefore, the 1940 Act permits us to invest up to 30.0% of our assets in other non-qualifying assets. See "*Regulation as a BDC — Qualifying Assets*" for a discussion of the types of qualifying assets in which we may invest under Section 55(a) of the 1940 Act.

***Investment Concentrations***

Year over year, our investment concentration as a percentage of fair value and of cost has remained relatively unchanged. As of September 30, 2013, our portfolio allocation is approximately 94.4% debt investments and 5.6% equity investments, at cost. Our portfolio consists primarily of proprietary investments, however, we have and continue to invest in syndicated investments where we participate in a group of other lenders. As of September 30, 2013, we held 18 syndicated investments totaling $61.2 million at cost and $60.6 million at fair value, or 18.4% and 23.6%, respectively, of our total aggregate portfolio. We held 20 syndicated investments totaling $77.8 million at cost and $78.2 million at fair value, or 21.3% and 28.5%, respectively, of our total aggregate portfolio as of September 30, 2012.

The following table outlines our investments by security type at September 30, 2013 and 2012:

| | September 30, 2013 | | | | September 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | Fair Value | | Cost | | Fair Value | |
| Senior debt | **$184,146** | **55.4%** | **$118,134** | **46.0%** | $235,158 | 64.4% | $164,345 | 60.0% |
| Senior subordinated debt | **129,013** | **38.8** | **126,675** | **49.3** | 118,469 | 32.5 | 100,149 | 36.5 |
| Junior subordinated debt | **494** | **0.2** | **561** | **0.2** | 428 | 0.1 | 498 | 0.2 |
| Total debt investments | **313,653** | **94.4** | **245,370** | **95.5** | 354,055 | 97.0 | 264,992 | 96.7 |
| Preferred equity | **12,268** | **3.7** | **4,626** | **1.8** | 6,719 | 1.8 | 1,103 | 0.4 |
| Common equity/equivalents | **6,345** | **1.9** | **6,882** | **2.7** | 4,247 | 1.2 | 7,865 | 2.9 |
| Total equity investments | **18,613** | **5.6** | **11,508** | **4.5** | 10,966 | 3.0 | 8,968 | 3.3 |
| **Total Investments** | **$332,266** | **100.0%** | **$256,878** | **100.0%** | $365,021 | 100.0% | $273,960 | 100.0% |

Our five largest investments at fair value as of September 30, 2013, totaled $96.0 million, or 37.4% of our total aggregate portfolio, as compared to our five largest investments at fair value as of September 30, 2012, totaling $91.8 million, or 33.5% of our total aggregate portfolio.

Our investments at fair value consisted of the following industry classifications at September 30, 2013 and 2012:

| | September 30, 2013 | | September 30, 2012 | |
|---|---|---|---|---|
| Industry Classification | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Healthcare, education and childcare | **$ 45,339** | **17.7%** | $ 32,867 | 12.0% |
| Electronics | **33,711** | **13.1** | 42,111 | 15.4 |
| Personal and non-durable consumer products | **29,032** | **11.3** | 8,399 | 3.1 |
| Printing and publishing | **22,224** | **8.7** | 12,760 | 4.6 |
| Mining, steel, iron and non-precious metals | **17,733** | **6.9** | 31,590 | 11.5 |
| Broadcast and entertainment | **15,534** | **6.0** | 25,505 | 9.3 |
| Oil and gas | **15,174** | **5.9** | 15,386 | 5.6 |
| Cargo Transportation | **12,984** | **5.1** | — | — |
| Aerospace and defense | **11,730** | **4.6** | 16,597 | 6.0 |
| Automobile | **9,701** | **3.8** | 12,168 | 4.4 |
| Textiles and leather | **8,476** | **3.3** | 9,776 | 3.6 |
| Beverage, food and tobacco | **7,038** | **2.7** | 7,258 | 2.6 |
| Machinery | **6,425** | **2.5** | 7,618 | 2.8 |
| Buildings and real estate | **6,392** | **2.5** | 5,920 | 2.2 |
| Finance | **4,489** | **1.7** | — | — |
| Diversified/conglomerate manufacturing | **4,482** | **1.7** | 6,824 | 2.5 |
| Leisure, amusement, motion pictures and entertainment | **2,756** | **1.1** | 5,380 | 2.0 |
| Home and office furnishing, housewares and durable consumer goods | **2,651** | **1.0** | 3,357 | 1.2 |
| Personal, food and miscellaneous services | **1,007** | **0.4** | 7,354 | 2.7 |
| Retail store | — | — | 19,360 | 7.1 |
| Other, < 1.0% | — | — | 3,730 | 1.4 |
| **Total Investments** | **$256,878** | **100.0%** | $273,960 | 100.0% |

Our investments at fair value were included in the following U.S. geographic regions at September 30, 2013 and 2012:

| | September 30, 2013 | | September 30, 2012 | |
|---|---|---|---|---|
| Geographic Region | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Midwest | **$118,570** | **46.2%** | $127,179 | 46.4% |
| South | **68,669** | **26.7** | 62,677 | 22.9 |
| West | **61,737** | **24.0** | 66,268 | 24.2 |
| Northeast | **7,902** | **3.1** | 9,836 | 3.6 |
| Outside continental U.S. | **—** | **—** | 8,000 | 2.9 |
| **Total Investments** | **$256,878** | **100.0%** | $273,960 | 100.0% |

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

## Investment Adviser and Administrator

Gladstone Management Corporation (the "Adviser") is our affiliated investment adviser and a privately-held company led by a management team that has extensive experience in our lines of business. Another of our and the Adviser's affiliates, a privately-held company, Gladstone Administration, LLC (the "Administrator"), employs, among others, our chief financial officer, treasurer, chief compliance officer, internal legal counsel and secretary and their respective staffs. Excluding our chief financial officer and treasurer, all of our executive officers serve as directors or executive officers, or both, of the following of our affiliates: Gladstone Commercial Corporation ("Gladstone Commercial"), a publicly traded real estate investment trust; Gladstone Investment Corporation ("Gladstone Investment"), a publicly traded BDC and RIC; Gladstone Land Corporation ("Gladstone Land"), a publicly traded real estate company that invests in farmland and farm related property; the Adviser; and the Administrator. Our treasurer is also the chief financial officer and treasurer of Gladstone Investment. David Gladstone, our chairman, chief executive officer and president, also serves on the board of managers of our affiliate, Gladstone Securities, LLC ("Gladstone Securities"), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA") and insured by the Securities Investor Protection Corporation.

The Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to: Gladstone Commercial; Gladstone Investment; and Gladstone Land. In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

We have been externally managed by the Adviser pursuant to an investment advisory and management agreement since October 1, 2004. The investment advisory and management agreement originally included administrative services; however, it was amended and restated on October 1, 2006 and at that time we entered into an administration agreement with the Administrator to provide such services. The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Adviser also has offices in several other states.

## Investment Process

### *Overview of Investment and Approval Process*

To originate investments, the Adviser's investment professionals use an extensive referral network comprised primarily of private equity sponsors, venture capitalists, leveraged buyout funds, investment bankers, attorneys, accountants, commercial bankers and business brokers. The Adviser's investment professionals review information received from these and other sources in search of potential financing opportunities. If a potential opportunity matches our investment objectives, the investment professionals will seek an initial screening of the opportunity with our chairman, chief executive officer and president, Mr. Gladstone, to authorize the submission of an indication of interest ("IOI") to the prospective portfolio company. If the prospective portfolio company passes this initial screening and the IOI is accepted by the prospective company, the investment professionals will seek approval to issue a letter of intent ("LOI") from the Adviser's investment committee, which is composed of Mr. Gladstone and Terry Lee Brubaker (our vice chairman and chief operating officer), to the prospective company. If this LOI is issued, then the Adviser and Gladstone Securities (our "Due Diligence Team") will conduct a due diligence investigation and create a detailed profile summarizing the prospective portfolio company's historical financial statements, industry, competitive position and management team and analyzing its conformity to our general investment criteria. The investment professionals then present this profile to the Adviser's investment committee, which must approve each investment. Further, each investment is available for review by the members of our board of directors (our "Board of Directors"), a majority of whom are not "interested persons" as defined in Section 2(a)(19) of the 1940 Act.

***Prospective Portfolio Company Characteristics***

We have identified certain characteristics that we believe are important in identifying and investing in prospective portfolio companies. The criteria listed below provide general guidelines for our investment decisions, although not all of these criteria may be met by each portfolio company.

- *Value-and-Income Orientation and Positive Cash Flow.* Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value-and-income orientation. In seeking value, we focus on established companies in which we can invest at relatively low multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), and that have positive operating cash flow at the time of investment. In seeking income, we typically invest in companies that generate relatively stable to growing sales and cash flow to provide some assurance that they will be able to service their debt. Typically, we do not expect to invest in start-up companies or companies with what we believe to be speculative business plans.
- *Experienced Management.* We generally require that the businesses in which we invest have experienced management teams. We also require the businesses to have in place proper incentives to induce management to succeed and act in concert with our interests as investors, including having significant equity or other interests in the financial performance of their companies.
- *Strong Competitive Position in an Industry.* We seek to invest in businesses that have developed strong market positions within their respective markets and that we believe are well-positioned to capitalize on growth opportunities. We seek businesses that demonstrate significant competitive advantages versus their competitors, which we believe will help to protect their market positions and profitability.
- *Liquidation Value of Assets.* The projected liquidation value of the assets, if any, is an important factor in our investment analysis in collateralizing our debt securities.

***Extensive Due Diligence***

Our Due Diligence Team conducts what we believe are extensive due diligence investigations of our prospective portfolio companies and investment opportunities. The due diligence investigation may begin with a review of publicly available information followed by in depth business analysis, including, but not limited to, some or all of the following:

- a review of the prospective portfolio company's historical and projected financial information, including a quality of earnings analysis;
- visits to the prospective portfolio company's business site(s);
- interviews with the prospective portfolio company's management, employees, customers and vendors;
- review of loan documents and material contracts;
- background checks and a management capabilities assessment on the prospective portfolio company's management team; and
- research on the prospective portfolio company's products, services or particular industry and its competitive position therein.

Upon completion of a due diligence investigation and a decision to proceed with an investment, the Adviser's investment professionals who have primary responsibility for the investment present the investment opportunity to the Adviser's investment committee. The investment committee then determines whether to pursue the potential investment. Additional due diligence of a potential investment may be conducted on our behalf by attorneys and independent accountants, as well as other outside advisers, prior to the closing of the investment, as appropriate.

We also rely on the long-term relationships that the Adviser's investment professionals have with venture capitalists, leveraged buyout funds, investment bankers, commercial bankers, private equity sponsors, and business brokers. In addition, the extensive direct experiences of our executive officers and managing directors in the operations of and providing debt and equity capital to small and medium-sized private businesses plays a significant role in our investment evaluation and assessment of risk.

***Investment Structure***

Once the Adviser has determined that an investment meets our standards and investment criteria, the Adviser works with the management of that company and other capital providers to structure the transaction in a way that we believe will provide us with the greatest opportunity to maximize our return on the investment, while providing appropriate incentives to management of the company. As discussed above, the capital classes through which we typically structure a deal include senior debt, senior subordinated debt, junior subordinated debt, and preferred and common equity or equivalents. Through its risk management process, the Adviser seeks to limit the downside risk of our investments by:

- making investments with an expected total return (including both interest and potential equity appreciation) that it believes compensates us for the credit risk of the investment;
- seeking collateral or superior positions in the portfolio company's capital structure where possible;
- incorporating put rights and call protection into the investment structure where possible;
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility as possible in managing their businesses, consistent with preserving our capital; and
- holding board seats or securing board observation rights at the portfolio company.

We expect to hold most of our investments in senior debt and senior and junior subordinated debt until maturity or repayment, but may sell our investments (including our equity investments) earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company or, in the case of an equity investment in a company, its initial public offering. Occasionally, we may sell some or all of our investment interests in a portfolio company to a third party, such as an existing investor in the portfolio company, in a privately negotiated transaction.

***Hedging Strategies***

We may use interest rate risk management techniques from time to time to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Pursuant to our revolving line of credit, we have agreed to enter into interest rate cap agreements in connection with the borrowings that we make under our revolving line of credit. Refer to *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Revolving Credit Facility"* for more discussion on our revolving line of credit and our interest rate cap agreement. We currently hold one interest rate cap agreement, which is not designated as a hedge for accounting purposes.

**Competitive Advantages**

A large number of entities compete with us and make the types of investments that we seek to make in small and medium-sized privately-owned businesses. Such competitors include private equity funds, leveraged buyout funds, other BDCs, venture capital funds, investment banks and other equity and non-equity based investment funds, and other financing sources, including traditional financial services companies such as commercial banks. Many of our competitors are substantially larger than we are and have considerably greater funding sources that are not available to us. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many of these competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. However, we believe that we have the following competitive advantages over other providers of financing to small and medium-sized businesses.

### *Management Expertise*

Mr. Gladstone, our chairman and chief executive officer, is also the chairman and chief executive officer of the Adviser and its affiliated companies, other than Gladstone Securities, (the "Gladstone Companies"), and has been involved in all aspects of the Gladstone Companies' investment activities, including serving as a member of the Adviser's investment committee. Mr. Gladstone, our chairman, chief executive officer and president, has extensive experience in private equity investing in middle market companies. Mr. Brubaker is our vice chairman and chief operating officer, has substantial experience in acquisitions and operations of companies. Messrs. Gladstone and Brubaker also have principal management responsibility for the Adviser as its executive officers. These two individuals dedicate a significant portion of their time to managing our investment portfolio. Our senior management has extensive experience providing capital to small and medium-sized companies and has worked together at the Gladstone Companies for more than ten years. In addition, we have access to the resources and expertise of the Adviser's investment professionals and support staff who possess a broad range of transactional, financial, managerial and investment skills.

### *Increased Access to Investment Opportunities Developed Through Proprietary Research Capability and an Extensive Network of Contacts*

The Adviser seeks to identify potential investments through active origination and due diligence and through its dialogue with numerous management teams, members of the financial community and potential corporate partners with whom the Adviser's investment professionals have long-term relationships. We believe that the Adviser's investment professionals have developed a broad network of contacts within the investment, commercial banking, private equity and investment management communities, and that their reputation in investment management enables us to identify well-positioned prospective portfolio companies, which provide attractive investment opportunities. Additionally, the Adviser expects to generate information from its professionals' network of accountants, consultants, lawyers and management teams of portfolio companies and other companies.

### *Disciplined, Value and Income-Oriented Investment Philosophy with a Focus on Preservation of Capital*

In making its investment decisions, the Adviser focuses on the risk and reward profile of each prospective portfolio company, seeking to minimize the risk of capital loss without foregoing the potential for capital appreciation. We expect the Adviser to use the same value and income-oriented investment philosophy that its professionals use in the management of the other Gladstone Companies and to commit resources to management of downside exposure. The Adviser's approach seeks to reduce our risk in investments by using some or all of the following approaches:

- focusing on companies with good market positions and cash flow;
- investing in businesses with experienced and established management teams;
- engaging in extensive due diligence from the perspective of a long-term investor;
- investing at low price-to-cash flow multiples; and
- adopting flexible transaction structures by drawing on the experience of the investment professionals of the Adviser and its affiliates.

### *Longer Investment Horizon*

Unlike private equity and venture capital funds that are typically organized as finite-life partnerships, we are not subject to standard periodic capital return requirements. The partnership agreements of most private equity and venture capital funds typically provide that these funds may only invest investors' capital once and must return all capital and realized gains to investors within a finite time period, often seven to ten years. These provisions often force private equity and venture capital funds to seek returns on their investments by causing their portfolio companies to pursue mergers, public equity offerings, or other liquidity events more quickly than might otherwise be optimal or desirable, potentially resulting in a lower overall return to investors and/or an adverse impact on their portfolio companies. In contracst, we are a corporation of perpetual duration and are exchange-traded. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles provides us with the opportunity to achieve greater long-term returns on invested capital.

### *Flexible Transaction Structuring*

We believe our management team's broad expertise and its ability to draw upon many years of combined experience enables the Adviser to identify, assess, and structure investments successfully across all levels of a company's capital structure and manage potential risk and return at all stages of the economic cycle. We are not subject to many of the regulatory limitations that govern traditional lending institutions, such as banks. As a result, we are flexible in selecting and structuring investments, adjusting investment criteria and transaction structures and, in some cases, the types of securities in which we invest. We believe that this approach enables the Adviser to identify attractive investment opportunities that will continue to generate current income and capital gain potential throughout the economic cycle, including during turbulent periods in the capital markets. One example of our flexibility is our ability to exchange our publicly traded stock for the stock of an acquisition target in a tax-free reorganization under the Code. After completing an acquisition in such an exchange, we can restructure the capital of the small company to include senior and subordinated debt.

### *Leverage*

For the purpose of making investments and taking advantage of favorable interest rates, we may issue senior securities up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us to issue senior securities representing indebtedness and senior securities that are stock, to which we refer collectively as "Senior Securities," in amounts such that we maintain an asset coverage ratio, as defined in Section 18(h) of the 1940 Act, of at least 200.0% on our Senior Securities immediately after each issuance of such Senior Securities. We may also incur such indebtedness to repurchase our common stock. As a result of incurring indebtedness generally, such as through our revolving line of credit or issuing Senior Securities representing indebtedness, such as our 7.125% Series 2016 Term Preferred Stock (our "Term Preferred Stock"), we are exposed to the risks of leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. Our Board of Directors is authorized to provide for the issuance of Senior Securities with such preferences, powers, rights and privileges as it deems appropriate, subject to the requirements of the 1940 Act. See "*Regulation as a BDC—Asset Coverage*" for a discussion of our leveraging constraints and "*Risk Factors—Risks Related to Our External Financing"* for further discussion of certain leveraging risks.

## **Ongoing Management of Investments and Portfolio Company Relationships**

The Adviser's investment professionals actively oversee each investment by continuously evaluating the portfolio company's performance and typically working collaboratively with the portfolio company's management to identify and incorporate best resources and practices that help us achieve our projected investment performance.

### *Monitoring*

The Adviser's investment professionals monitor the financial performance, trends, and changing risks of each portfolio company on an ongoing basis to determine if each company is performing within expectations and to guide the portfolio company's management in taking the appropriate courses of action. The Adviser employs various methods of evaluating and monitoring the performance of our investments in portfolio companies, which can include the following:

- monthly analysis of financial and operating performance;
- assessment of the portfolio company's performance against its business plan and our investment expectations;
- assessment of the investment's risks;
- attendance at and/or participation in the portfolio company's board of directors or management meetings;
- assessment of portfolio company management, sponsor, governance and strategic direction;
- assessment of the portfolio company's industry and competitive environment; and
- review and assessment of the portfolio company's operating outlook and financial projections.

### *Relationship Management*

The Adviser's investment professionals interact with various parties involved with a portfolio company, or investment, by actively engaging with internal and external constituents, including:

- management;
- boards of directors;
- financial sponsors;
- capital partners; and
- advisers and consultants.

### *Managerial Assistance and Services*

As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Neither we, nor the Adviser, currently receive fees in connection with the managerial assistance we make available. At times, the Adviser provides other services to certain of our portfolio companies and it receives fees for these other services. We credit 100.0% of most of these fees against the base management fee that we would otherwise be required to pay to the Adviser.

In February 2011, Gladstone Securities started providing other services (such as investment banking and due diligence services) to certain of our portfolio companies. Any such fees paid by portfolio companies to Gladstone Securities do not impact the overall fees we pay to the Adviser or the overall fees credited against the base management fee.

### *Valuation Process*

The following is a general description of the steps the Adviser takes each quarter to determine the value of our investment portfolio. The Adviser values our investments in accordance with the requirements of the 1940 Act. The Adviser values securities for which market quotations are readily available at their market value. The Adviser values all other securities and assets at fair value as determined in good faith by our Board of Directors. In determining the value of our investments, the Adviser has established an investment valuation policy (the "Policy"). The Policy has been approved by our Board of Directors and each quarter the Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether or not to accept the recommended valuation of our investment portfolio. 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. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations. With respect to any investments for which market quotations are not readily available, the Adviser performs the following valuation process each quarter:

- Quarterly, each portfolio company or investment is initially assessed by the Adviser's investment professionals responsible for the investment, using the Policy;
- Preliminary valuation conclusions are then discussed with our management, and documented, along with any independent opinions of value provided by Standard & Poor's Securities Evaluations, Inc. ("SPSE"), for review by our Board of Directors;
- Next, our Board of Directors reviews this documentation and discusses the information provided by our management, and the opinions of value provided by SPSE to arrive at a determination that the Policy has been followed for determining the aggregate fair value of our portfolio of investments.

Our valuation policies, procedures and processes are more fully described under *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investment Valuation."*

## Investment Advisory and Management Agreements

In 2006, we entered into an amended and restated investment advisory and management agreement with the Adviser (the “Advisory Agreement”). In accordance with the Advisory Agreement, we pay the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee. On July 9, 2013, our Board of Directors approved the annual renewal of the Advisory Agreement with the Adviser through August 31, 2014. Mr. Gladstone, our chairman, chief executive officer and president, controls the Adviser.

### *Base Management Fee*

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2.0% computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. Overall, the base management fee cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year. In addition, the following three items are potential adjustments to the base management fee calculation.

- *Loan Servicing Fees*

  The Adviser also services the loans held by our wholly-owned subsidiary, Gladstone Business Loan, LLC (“Business Loan”), in return for which the Adviser receives a 1.5% annual fee based on the monthly aggregate outstanding balance of loans pledged under our revolving line of credit. Since we own these loans, all loan servicing fees paid to the Adviser are treated as reductions directly against the 2.0% base management fee under the Advisory Agreement.

- *Senior Syndicated Loan Fee Waiver Credit*

  Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, for the years ended September 30, 2013 and 2012.

- *Portfolio Company Fees Credit*

  Under the Advisory Agreement, the Adviser has also provided and continues to provide managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under other agreements and may receive fees for services other than managerial assistance. We credit 100.0% of most of these fees against the base management fee that we would otherwise be required to pay to the Adviser.

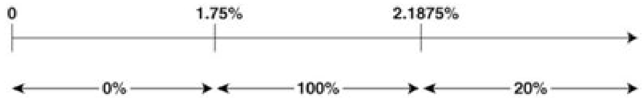
### *Incentive Fee*

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

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);
- 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

***Quarterly Incentive Fee Based on Net Investment Income***

Pre-incentive fee net investment income
(expressed as a percentage of the value of net assets)




Percentage of pre-incentive fee net investment income
allocated to income-related portion of incentive fee

The second part of the incentive fee is a capital gains-based incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20.0% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the entire portfolio's aggregate net unrealized capital depreciation, if any, as of the date of the calculation. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. The entire portfolio's aggregate net unrealized capital depreciation, if any, equals the sum of the difference, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less the entire portfolio's aggregate net unrealized capital depreciation, if any. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. We have not incurred capital gains-based incentive fees from inception through September 30, 2013, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with accounting principles generally accepted in the U.S. ("GAAP"), a capital gains-based incentive fee is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that any such unrealized capital appreciation will be realized in the future. There has been no GAAP accrual recorded for a capital gains-based incentive fee since our inception through September 30, 2013.

Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of the distributions to common stockholders for the years ended September 30, 2013 and 2012 which waivers totaled $1.0 million and $0.3 million, respectively.

***Administration Agreement***

In 2006, we entered into an administration agreement with the Administrator ( the "Administration Agreement"), whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator's overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and salaries and benefits expenses of our chief financial officer, treasurer, chief compliance officer, internal counsel and secretary and their respective staffs. Our allocable portion of expenses is derived by multiplying the Administrator's total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies serviced by the Administrator under similar agreements. These administrative fees are accrued at the end of the quarter when the services are performed and generally paid the following quarter. On July 9, 2013, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2014.

## Material U.S. Federal Income Tax Considerations

### *Regulated Investment Company Status*

To maintain the qualification for treatment as a RIC under the Code, we must distribute to our stockholders, for each taxable year, at least 90.0% of our "investment company taxable income", which is generally our ordinary income plus the excess of our net short-term capital gains over net long-term capital losses. We refer to this as the "annual distribution requirement". We must also meet several additional requirements, including:

- **Business Development Company status.** At all times during the taxable year, we must maintain our status as a BDC.
- **Income source requirements.** At least 90.0% of our gross income for each taxable year must be from dividends, interest, payments with respect to securities loans, gains from sales or other dispositions of securities or other income derived with respect to our business of investing in securities, and net income derived from an interest in a qualified publicly traded partnership.
- **Asset diversification requirements.** As of the close of each quarter of our taxable year: (1) at least 50.0% of the value of our assets must consist of cash, cash items, U.S. government securities, the securities of other regulated investment companies and other securities to the extent that (a) we do not hold more than 10.0% of the outstanding voting securities of an issuer of such other securities and (b) such other securities of any one issuer do not represent more than 5.0% of our total assets; and (2) no more than 25.0% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities or the securities of other regulated investment companies), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships.

### *Failure to Qualify as a RIC*

If we are unable to qualify for treatment as a RIC, we will be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make such distributions. Distributions would be taxable to our stockholders as dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's adjusted tax basis, and then as a gain realized from the sale or exchange of property. If we fail to meet the RIC requirements for more than two consecutive years and then seek to requalify as a RIC, we would be required to recognize a gain on any unrealized appreciation with respect to our assets to the extent that any such unrealized appreciation is recognized during a specified period up to 10-years. Absent such special election, any gain we recognized would be deemed distributed to our stockholders as a taxable distribution.

### *Qualification as a RIC*

If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90.0% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and gains we distribute to stockholders. We would, however, be subject to a 4.0% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, an amount at least equal to the sum of (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding calendar years that were not distributed during such years. For the years ended December 31, 2012, 2011 and 2010, we did not incur any excise taxes.

The federal excise tax would apply only to the amount by which the required distributions exceed the amount of income we distribute, actually or on a deemed basis, to stockholders. We will be subject to regular corporate income tax, currently at rates up to 35.0%, on any undistributed income, including both ordinary income and capital gains.

If we acquire debt obligations that were originally issued at a discount that bear interest at rates that are not either fixed rates or certain qualified variable rates or that are not unconditionally payable at least annually over the life of the obligation, we will be required to include in taxable income each year a portion of the original issue discount ("OID") that accrues over the life of the obligation. Additionally, PIK interest, which is computed at the contractual rate specified in a loan agreement and is added to the principal balance of a loan, is also a non cash source of income that we are required to include in taxable income each year. Both OID and PIK income will be included in our investment company taxable income even though we receive no cash corresponding to such amounts. As a result, we may be required to make additional distributions corresponding to such OID and PIK amounts in order to satisfy the annual distribution requirement and to continue to qualify as a RIC or to avoid the imposition of federal income and excise taxes. In this event, we may be required to sell investments or other assets to meet the RIC distribution requirements. Our OID investments totaled $74.1 million as of September 30, 2013, at cost, which are primarily all syndicated loan investments. For the year ended September 30, 2013, we incurred $0.3 million of OID income and the unamortized balance of OID investments as of September 30, 2013 totaled $1.0 million. As of September 30, 2013, we had three investments which had a PIK interest component and we recorded PIK interest income of $0.3 million during the year ended September 30, 2013. We collected no PIK interest in cash for the year ended September 30, 2013.

**Taxation of Our U.S. Stockholders**

***Distributions***

For any period during which we qualify as a RIC for federal income tax purposes, distributions to our stockholders attributable to our investment company taxable income generally will be taxable as ordinary income to stockholders to the extent of our current or accumulated earnings and profits. We first allocate our earnings and profits to distributions to our preferred stockholders and then to distributions to our common stockholders based on priority in our capital structure. Any distributions in excess of our earnings and profits will first be treated as a return of capital to the extent of the stockholder's adjusted basis in his or her shares of common stock and thereafter as gain from the sale of shares of our common stock. Distributions of our long-term capital gains, reported by us as such, will be taxable to stockholders as long-term capital gains regardless of the stockholder's holding period for its common stock and whether the distributions are paid in cash or invested in additional common stock. Corporate stockholders are generally eligible for the 70.0% dividends received deduction with respect to dividends received from us, other than capital gains dividends, to the extent such amount reported by us does not exceed the dividends received by us from domestic corporations. Any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it were paid by us and received by the stockholders on December 31 of the previous year. In addition, we may elect (in accordance with Section 855(a) of the Code) to relate a dividend back to the prior taxable year if we (1) declare such dividend prior to the later of the due date for filing our return for that taxable year or the 15$^{th}$ day of the ninth month following the close of the taxable year, (2) make the election in that return, and (3) distribute the amount in the 12-month period following the close of the taxable year but not later than the first regular dividend payment of the same type following the declaration. Any such election will not alter the general rule that a stockholder will be treated as receiving a dividend in the taxable year in which the distribution is made, subject to the October, November, December rule described above.

If a common stockholder participates in our "opt in" dividend reinvestment plan, any distributions reinvested under the plan will be taxable to the common stockholder to the same extent, and with the same character, as if the common stockholder had received the distribution in cash. The common stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the common stockholder's account. We do not have a dividend reinvestment plan for our preferred stockholders.

***Sale of Our Shares***

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our common or preferred stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. Under the tax laws in effect as of the date of this filing, individual U.S. stockholders are subject to a maximum federal income tax rate of 20.0% on their net capital gain (*i.e.* the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the same rates applied to their ordinary income (currently up to a maximum of 35.0%). Capital losses are subject to limitations on use for both corporate and non-corporate stockholders. Certain U.S. stockholders who are individuals, estates or trusts generally are subject to a 3.8% Medicare tax on, among other things, dividends on, and capital gain from the sale or other disposition of, shares of our common stock.

### *Backup Withholding*

We may be required to withhold federal income tax, or backup withholding, currently at a rate of 28.0%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the Internal Revenue Service ("IRS") notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is generally his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability, provided that proper information is provided to the IRS.

The Foreign Account Tax Compliance Act ("FATCA") imposes a federal withholding tax on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligation requirements are satisfied. Under delayed effective dates provided for in the Treasury Regulations and other IRS guidance, such required withholding will not begin until July 1, 2014 with respect to dividends on our stock, and January 1, 2017 with respect to gross proceeds from a sale or other disposition of our stock.

## Regulation as a BDC

We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under Section 54 of the 1940 Act. As such, we are subject to regulation under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than "interested persons," as defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding "voting securities," as defined in the 1940 Act.

We intend to conduct our business so as to retain our status as a BDC. A BDC may use capital provided by public stockholders and from other sources to invest in long-term private investments in businesses. A BDC provides stockholders the ability to retain the liquidity of a publicly traded stock while sharing in the possible benefits, if any, of investing in primarily privately owned companies. In general, a BDC must have been organized and have its principal place of business in the U.S. and must be operated for the purpose of making investments in qualifying assets, as described in Sections 55(a)(1) through (a)(3) of the 1940 Act.

### *Qualifying Assets*

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets, other than certain interests in furniture, equipment, real estate, or leasehold improvements ("operating assets") represent at least 70.0% of our total assets, exclusive of operating assets. The types of qualifying assets in which we may invest under the 1940 Act include, but are not limited to, the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer is an eligible portfolio company. An eligible portfolio company is generally defined in the 1940 Act as any issuer which:

- (a) is organized under the laws of, and has its principal place of business in, any State or States in the U.S.;
- (b) is not an investment company (other than a small business investment company wholly owned by the BDC or otherwise excluded from the definition of investment company); and
- (c) satisfies one of the following:
  - (i) it does not have any class of securities with respect to which a broker or dealer may extend margin credit;
  - (ii) it is controlled by the BDC and for which an affiliate of the BDC serves as a director;
  - (iii) it has total assets of not more than $4.0 million and capital and surplus of not less than $2 million;
  - (iv) it does not have any class of securities listed on a national securities exchange; or
  - (v) it has a class of securities listed on a national securities exchange, with an aggregate market value of outstanding voting and non-voting equity of less than $250.0 million.

(2) Securities received in exchange for or distributed on or with respect to securities described in (1) above, or pursuant to the exercise of options, warrants or rights relating to such securities.

(3) Cash, cash items, government securities or high quality debt securities maturing in one year or less from the time of investment.

***Asset Coverage***

Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of Senior Securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of Senior Securities that is stock. In either case, we may only issue such Senior Securities if such class of Senior Securities, after such issuance, has an asset coverage, as defined in Section 18(h) of the 1940 Act, of at least 200.0%.

In addition, our ability to pay dividends or distributions (other than dividends payable in our stock) to holders of any class of our capital stock would be restricted if our Senior Securities representing indebtedness fail to have an asset coverage of at least 200.0% (measured at the time of declaration of such distribution and accounting for such distribution). The 1940 Act does not apply this limitation to privately arranged debt that is not intended to be publicly distributed, unless this limitation is specifically negotiated by the lender. In addition, our ability to pay dividends or distributions (other than dividends payable in our common stock) to our common stockholders would be restricted if our Senior Securities that are stock fail to have an asset coverage of at least 200.0% (measured at the time of declaration of such distribution and accounting for such distribution). If the value of our assets declines, we might be unable to satisfy these asset coverage requirements. To satisfy the 200.0% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to our stockholders. If we are unable to regain asset coverage through these methods, we may be forced to suspend the payment of such dividends.

***Significant Managerial Assistance***

A BDC generally must make available significant managerial assistance to issuers of certain of its portfolio securities that the BDC counts as a qualifying asset for the 70.0% test described above. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. Significant managerial assistance also includes the exercise of a controlling influence over the management and policies of the portfolio company. However, with respect to certain, but not all such securities, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance, or the BDC may exercise such control jointly.

***Investment Policies***

We seek to achieve a high level of current income and capital gains through investments in debt securities and preferred and common stock that we acquired in connection with buyout and other recapitalizations. The following investment policies, along with these investment objectives, may not be changed without the approval of our Board of Directors:

- We will at all times conduct our business so as to retain our status as a BDC. In order to retain that status, we must be operated for the purpose of investing in certain categories of qualifying assets. In addition, we may not acquire any assets (other than non-investment assets necessary and appropriate to our operations as a BDC or qualifying assets) if, after giving effect to such acquisition, the value of our “qualifying assets” is less than 70.0% of the value of our total assets. We anticipate that the securities we seek to acquire will generally be qualifying assets.

- We will at all times endeavor to conduct our business so as to retain our status as a RIC under the Code. To do so, we must meet income source, asset diversification and annual distribution requirements. We may issue Senior Securities, such as debt or preferred stock, to the extent permitted by the 1940 Act for the purpose of making investments, to fund share repurchases, or for temporary emergency or other purposes.

With the exception of our policy to conduct our business as a BDC, these policies are not fundamental and may be changed without stockholder approval.

**Code of Ethics**

We, and all of the Gladstone Companies (and Gladstone Securities), have adopted a code of ethics and business conduct applicable to all of the officers, directors and employees of such companies that complies with the guidelines set forth in Item 406 of Regulation S-K of the Securities Act of 1933 (the "Securities Act"). As required by the 1940 Act, this code establishes procedures for personal investments, restricts certain transactions by such personnel and requires the reporting of certain transactions and holdings by such personnel. This code of ethics and business conduct is publicly available on the Investor Relations section of our website under "Corporate Governance" at www.GladstoneCapital.com. We intend to provide any required disclosure of any amendments to or waivers of the provisions of this code by posting information regarding any such amendment or waiver to our website or in a Current Report on Form 8-K.

**Compliance Policies and Procedures**

We and the Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws, and our Board of Directors is required to review these compliance policies and procedures annually to assess their adequacy and the effectiveness of their implementation. We have designated a chief compliance officer, Jack Dellafiora, Jr., who also serves as chief compliance officer for all other Gladstone Companies and Gladstone Securities.

**Staffing**

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of the Adviser and the Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. No employee of the Adviser or the Administrator will dedicate all of his or her time to us. However, we expect that 25 to 30 full time employees of the Adviser and the Administrator will spend substantial time on our matters during the remainder of calendar year 2013 and all of calendar year 2014. To the extent we acquire more investments, we anticipate that the number of employees of the Adviser and the Administrator who devote time to our matters will increase.

As of November 19, 2013, the Adviser and the Administrator collectively had 60 full-time employees. A breakdown of these employees is summarized by functional area in the table below:

| Number of Individuals | Functional Area |
|---|---|
| 10 | Executive management |
| 14 | Accounting, administration, compliance, human resources, legal and treasury |
| 36 | Investment management, portfolio management and due diligence |

**Available Information**

Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments, if any, to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available free of charge through our website at www.GladstoneCapital.com as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. A request for any of these reports may also be submitted to us by sending a written request addressed to Investor Relations, Gladstone Capital Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102, or by calling our toll-free investor relations line at 1-866-366-5745. The public may read and copy materials that we file with the Securities and Exchange Commission (the "SEC") at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

## ITEM 1A. RISK FACTORS

*You should carefully consider these risk factors, together with all of the other information included in this Annual Report on Form 10-K and the other reports and documents filed by us with the SEC. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose all or part of your investment. The risk factors described below are the principal risk factors associated with an investment in us as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.*

***Risks Related to the Economy and Recent Legislation***

*The failure of U.S. lawmakers to reach an agreement on the national debt ceiling or a budget could have material adverse effect on our business, financial condition and results of operations.*

On October 16, 2013, the U.S. Congress passed legislation to reopen the government through January 15, 2014 and effectively suspend the debt ceiling through February 7, 2014 to permit broader negotiations over budget issues. In the event U.S. lawmakers fail to reach a viable agreement on the national debt ceiling or a budget, the U.S. could default on its obligations, which could negatively impact the trading market for U.S. government securities. This may, in turn, negatively affect our ability to obtain financing for our investments. As a result, it may materially adversely affect our business, financial condition and results of operations. While the U.S. had begun to see improving financial indicators since the 2008 recession, the recent events have created more uncertainty in the U.S. economy and capital markets. Therefore, we remain cautious about a long-term economic recovery.

The recession in general, and the disruptions in the capital markets in particular, have impacted our liquidity options and increased our cost of debt and equity capital. As a result, we do not know if adverse conditions will again intensify, and we are unable to gauge the full extent to which the disruptions will continue to affect us. The longer these uncertain conditions persist, the greater the probability that these factors could continue to increase our costs of, and significantly limit our access to, debt and equity capital and, thus, have an adverse effect on our operations and financial results. Many of our portfolio companies and the companies we may invest in prospectively are also susceptible to these unstable economic conditions, which may affect the ability of one or more of our portfolio companies to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering. These unstable economic conditions could also disproportionately impact some of the industries in which we invest, causing us to be more vulnerable to losses in our portfolio, which could cause the number of non-performing assets to increase and the fair value of our portfolio to decrease. The unstable economic conditions may also decrease the value of collateral securing some of our loans as well as the value of our equity investments, which would decrease our ability to borrow under our revolving line of credit or raise equity capital, thereby further reducing our ability to make new investments.

There is still a great deal of volatility in the marketplace. Although, the temporary debt-ceiling raise, along with the possibility of another government shutdown, have been put off until early in 2014. The unstable economic conditions have affected the availability of credit generally. We do not know when market conditions will stabilize, if adverse conditions will intensify or the full extent to which the disruptions will continue to affect us. Also, it is possible that persistent instability of the financial markets could have other unforeseen material effects on our business.

*A further downgrade of the United States credit rating and the ongoing economic crisis in Europe could negatively impact our liquidity, financial condition and earnings.*

Recent U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns. In August 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from "AAA" to "AA+." On October 15, 2013, Fitch Ratings Service placed the U.S. credit rating on negative watch, warning that a failure by the U.S. Government to honor interest or principal payments on U.S. treasury securities would impact its decision on whether to downgrade the U.S. credit rating. Fitch also stated that the manner and duration of an agreement to raise the debt ceiling and resolve the budget impasse, as well as the perceived risk of such events occurring in the future, would weigh on its ratings.

The impact of any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and deteriorating sovereign debt conditions in Europe, is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. These developments and the government's credit concerns in general could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, the decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price.

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

The majority of our portfolio companies are in industries that are directly impacted by inflation, such as consumer goods and services and manufacturing. Our portfolio companies may not be able to pass on to customers increases in their costs of operations which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies' operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future unrealized losses and therefore reduce our net assets resulting from operations.

*Recent healthcare reform legislation may affect our results of operations and financial condition.*

On March 23, 2010, the President of the United States signed into law the Patient Protection and Affordable Care Act of 2010 and on March 30, 2010, the President signed into law the Health Care and Education Reconciliation Act, which in part modified the Patient Protection and Affordable Care Act (the "Acts"). Together, the two Acts serve as the primary vehicle for comprehensive health care reform in the U.S. The Acts are intended to reduce the number of individuals in the U.S. without health insurance and effect significant other changes to the ways in which health care is organized, delivered and reimbursed. The complexities and ramifications of the new legislation are significant, and have begun being implemented through a phased approach concluding in 2018. At this time, the effects of health care reform and its impact on our portfolio companies' business, results of operations and financial condition and the resulting impact on our operations are not yet known. Accordingly, the Acts could adversely affect the cost of providing healthcare coverage generally and could adversely affect the financial and operational performance of the portfolio companies in which we invest and therefore our financial and operational performance.

***Risks Related to Our External Management***

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

We have no employees. Our chief executive officer and president, chief operating officer, chief financial officer, treasurer, and the employees of the Adviser, do not spend all of their time managing our activities and our investment portfolio. We are particularly dependent upon David Gladstone and Terry Lee Brubaker. Our executive officers and the employees of the Adviser allocate some, and in some cases a material portion, of their time to businesses and activities that are not related to our business. We have no separate facilities and are completely reliant on the Adviser, which has significant discretion as to the implementation and execution of our business strategies and risk management practices. We are subject to the risk of discontinuation of the Adviser's operations or termination of the Advisory Agreement and the risk that, upon such event, no suitable replacement will be found. We believe that our success depends to a significant extent upon the Adviser and that discontinuation of its operations could have a material adverse effect on our ability to achieve our investment objectives.

*Our success depends on the Adviser's ability to attract and retain qualified personnel in a competitive environment.*

The Adviser experiences competition in attracting and retaining qualified personnel, particularly investment professionals and senior executives, and we may be unable to maintain or grow our business if we cannot attract and retain such personnel. The Adviser's ability to attract and retain personnel with the requisite credentials, experience and skills depends on several factors including, but not limited to, its ability to offer competitive wages, benefits and professional growth opportunities. The Adviser competes with investment funds (such as private equity funds and mezzanine funds) and traditional financial services companies for qualified personnel, many of which have greater resources than us. Searches for qualified personnel may divert management's time from the operation of our business. Strain on the existing personnel resources of the Adviser, in the event that it is unable to attract experienced investment professionals and senior executives, could have a material adverse effect on our business.

*The Adviser can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.*

The Adviser has the right to resign under the Advisory Agreement at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If the Adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition, results of operations and cash flows.

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

The management compensation structure that has been implemented under the Advisory Agreement may cause the Adviser to invest in high-risk investments or take other risks. In addition to its management fee, the Adviser is entitled under the Advisory Agreement to receive incentive compensation based in part upon our achievement of specified levels of income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead the Adviser to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining sufficient liquidity, or management of credit risk or market risk, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

*We may be obligated to pay the Adviser incentive compensation even if we incur a loss.*

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

*We may be required to pay the Adviser incentive compensation on income accrued, but not yet received in cash.*

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as debt instruments with PIK interest or OID. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser. Our OID investments totaled $74.1 million as of September 30, 2013, at cost, which are primarily all syndicated loan investments. For the year ended September 30, 2013, we incurred $0.3 million of OID income and the unamortized balance of OID investments as of September 30, 2013 totaled $1.0 million. As of September 30, 2013, we had three investments which had a PIK interest component and we recorded PIK interest income of $0.3 million during the year ended September 30, 2013. We collected no PIK interest in cash for the year ended September 30, 2013.

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

Our ability to achieve our investment objectives will depend on our ability to grow, which in turn will depend on the Adviser's ability to identify and invest in securities that meet our investment criteria. Accomplishing this result on a cost-effective basis will be largely a function of the Adviser's structuring of the investment process, its ability to provide competent and efficient services to us, and our access to financing on acceptable terms. The senior management team of the Adviser has substantial responsibilities under the Advisory Agreement. In order to grow, the Adviser will need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively would likely have a material adverse effect on our business, financial condition, and results of operations.

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

Our executive officers and directors, and the officers and directors of the Adviser, serve or may serve as officers, directors, or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman, chief executive officer and president, is the chairman of the board and chief executive officer of the Adviser, Gladstone Investment, Gladstone Commercial and Gladstone Land. In addition, Mr. Brubaker, our vice chairman and chief operating officer, is the vice chairman and chief operating officer of the Adviser, Gladstone Investment, Gladstone Commercial and Gladstone Land. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Gladstone affiliate with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of the Adviser may face conflicts in the allocation of investment opportunities to other entities managed by the Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser. On October 10, 2012, our Board of Directors approved a revision of our investment objectives and strategies that became effective on January 1, 2013, which may enhance the potential for conflicts in the allocation of investment opportunities to us and other entities managed by the Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of September 30, 2013, our Board of Directors has approved the following types of co-investment transactions:

- Our affiliate, Gladstone Commercial, may, under certain circumstances, lease property to portfolio companies that we do not control. We may pursue such transactions only if (i) the portfolio company is not controlled by us or any of our affiliates, (ii) the portfolio company satisfies the tenant underwriting criteria of Gladstone Commercial, and (iii) the transaction is approved by a majority of our independent directors and a majority of the independent directors of Gladstone Commercial. We expect that any such negotiations between Gladstone Commercial and our portfolio companies would result in lease terms consistent with the terms that the portfolio companies would be likely to receive were they not portfolio companies of ours.
- We may invest simultaneously with our affiliate Gladstone Investment in senior syndicated loans whereby neither we nor any affiliate has the ability to dictate the terms of the loans.
- Additionally, pursuant to an exemptive order granted by the SEC in July 2012, under certain circumstances, we may co-invest with Gladstone Investment and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund), or any combination of the foregoing, subject to the conditions included therein.

Certain of our officers, who are also officers of the Adviser, may from time to time serve as directors of certain of our portfolio companies. If an officer serves in such capacity with one of our portfolio companies, such officer will owe fiduciary duties to the stockholders of the portfolio company, which duties may from time to time conflict with the interests of our stockholders.

In the course of our investing activities, we will pay management and incentive fees to the Adviser and will reimburse the Administrator for certain expenses it incurs. As a result, investors in our common stock will invest on a "gross" basis and receive distributions on a "net" basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through our investors themselves making direct investments. As a result of this arrangement, there may be times when the management team of the Adviser has interests that differ from those of our stockholders, giving rise to a conflict. In addition, as a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Although, neither we nor the Adviser currently receives fees in connection with managerial assistance, the Adviser and Gladstone Securities have, at various times, provided other services to certain of our portfolio companies and received fees for these other services.

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

The Advisory Agreement provides for a base management fee based on our gross assets. Since our 2007 fiscal year, our Board of Directors has accepted on a quarterly basis voluntary, unconditional and irrevocable waivers to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, and any waived fees may not be recouped by the Adviser in the future. However, the Adviser is not required to issue these or other waivers of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these fees will increase. If the Adviser does not issue these waivers in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

*Our business model is dependent upon developing and sustaining strong referral relationships with investment bankers, business brokers and other intermediaries and any change in our referral relationships may impact our business plan.*

We are dependent upon informal relationships with investment bankers, business brokers and traditional lending institutions to provide us with deal flow. If we fail to maintain our relationship with such funds or institutions, or if we fail to establish strong referral relationships with other funds, we will not be able to grow our portfolio of investments and fully execute our business plan.

*Our base management fee may induce the Adviser to incur leverage.*

The fact that our base management fee is payable based upon our gross assets, which would include any investments made with proceeds of borrowings, may encourage the Adviser to use leverage to make additional investments. Under certain circumstances, the use of increased leverage may increase the likelihood of default, which would disfavor holders of our securities. Given the subjective nature of the investment decisions made by the Adviser on our behalf, we will not be able to monitor this potential conflict of interest.

***Risks Related to Our External Financing***

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

We will have a continuing need for capital to finance our investments. As of September 30, 2013, we had $46.9 million in borrowings outstanding under our fourth amended and restated credit agreement (our "Credit Facility"), which provides for maximum borrowings of $137.0 million. Our Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies. The facility also limits payments of distributions to our stockholders to the aggregate net investment income for each of the twelve month periods ending September 30, 2013, 2014, 2015 and 2016. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base in order to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, interest rate type, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage, and a required minimum number of 20 obligors in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our Term Preferred Stock) of $190.0 million plus 50.0% of all equity and subordinated debt raised after January 19, 2012, which equates to $190.0 million as of September 30, 2013, (ii) asset coverage with respect to Senior Securities representing indebtedness of at least 200.0%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of September 30, 2013, we were in compliance with all of our Credit Facility covenants; however, our continued compliance depends on many factors, some of which are beyond our control.

Given the continued uncertainty in the capital markets, the cumulative unrealized depreciation in our portfolio may increase in future periods and threaten our ability to comply with the minimum net worth covenant and other covenants under our Credit Facility. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

*Any inability to renew, extend or replace our Credit Facility on terms favorable to us, or at all, could adversely impact our liquidity and ability to fund new investments or maintain distributions to our stockholders.*

The maturity date of our Credit Facility is January 19, 2016 (the "Maturity Date"). If our Credit Facility is not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before January 19, 2017 (one year after the Maturity Date). Subject to certain terms and conditions, our Credit Facility may be expanded to a total of $237.0 million through the addition of other lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our Credit Facility. There can be no guarantee that we will be able to renew, extend or replace our Credit Facility upon its maturity in 2016 on terms that are favorable to us, if at all. Our ability to expand our Credit Facility, and to obtain replacement financing at the time of its maturity, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand our Credit Facility, or to renew, extend or refinance our Credit Facility at the time of its maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

If we are unable to secure replacement financing, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, and such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. Such circumstances would also increase the likelihood that we would be required to redeem some or all of our outstanding Term Preferred Stock, which could potentially require us to sell more assets. In addition to selling assets, or as an alternative, we may issue equity in order to repay amounts outstanding under our Credit Facility. Based on the recent trading prices of our stock, such an equity offering may have a substantial dilutive impact on our existing stockholders' interest in our earnings, assets and voting interest in us. If we are able to renew, extend or refinance our Credit Facility prior to maturity, any renewal, extension or refinancing of our Credit Facility will potentially result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds to fund investments or maintain distributions to stockholders.

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

The last equity offering we completed was for our Term Preferred Stock in November 2011, and there can be no assurance that we will be able to raise capital through issuing equity in the near future. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

- *Senior Securities.* We may issue debt securities, other evidences of indebtedness (including borrowings under our Credit Facility), Senior Securities representing indebtedness and Senior Securities that are stock up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue Senior Securities representing indebtedness and Senior Securities which are stock (such as our Term Preferred Stock), in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200.0% immediately after each issuance of such Senior Security. As a result of incurring indebtedness (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue Senior Securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our Senior Securities is not at least 200.0%. If the aggregate value of our assets declines, we might be unable to satisfy that 200.0% requirement. To satisfy the 200.0% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to stockholders. Furthermore, if we have to issue common stock at below net asset value ("NAV") per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of Senior Securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of Senior Securities that is stock.

- *Common and Convertible Preferred Stock.* Because we are constrained in our ability to issue debt or Senior Securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our existing common stockholder may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then current NAV per common share, such sales would result in an immediate dilution to the NAV per common share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or \$5 per \$1,000 of NAV. This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has for the last several years. As noted above, the 1940 Act prohibits the issuance of multiple classes of Senior Securities that are stock. As a result, we would be prohibited from issuing convertible preferred stock to the extent that such a security was deemed to be a separate class of stock from our outstanding Term Preferred Stock.

*We financed certain of our investments with borrowed money and capital from the issuance of Senior Securities, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.*

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns on our portfolio, net of expenses. The calculations in the table below are hypothetical, and actual returns may be higher or lower than those appearing in the table below.

| | **Assumed Return on Our Portfolio (Net of Expenses)** | | | | |
|---|---|---|---|---|---|
| | (10.0)% | (5.0)% | 0.0% | 5.0% | 10.0% |
| Corresponding return to common stockholder(A) | (15.6)% | (8.5)% | (1.3)% | 5.9% | 13.0% |

(A) The hypothetical return to common stockholders is calculated by multiplying our total assets as of September 30, 2013 by the assumed rates of return and subtracting all interest accrued on our debt for the year ended September 30, 2013, adjusted for the dividends on our Term Preferred Stock; and then dividing the resulting difference by our total assets attributable to common stock. Based on \$295.1 million in total assets, \$46.9 million in debt, \$38.5 million in aggregate liquidation preference of Term Preferred Stock, and \$206.0 million in net assets, each as of September 30, 2013.

Based on an aggregate outstanding indebtedness of \$46.9 million at cost, as of September 30, 2013, the effective annual interest rate of 5.75% as of that date, and aggregate liquidation preference of our Term Preferred Stock of \$38.5 million, our investment portfolio at fair value would have had to produce an annual return of at least 2.0% to cover annual interest payments on the outstanding debt and dividends on our Term Preferred Stock.

*A change in interest rates may adversely affect our profitability and our hedging strategy may expose us to additional risks.*

We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities. As a result, a portion of our income will depend upon the difference between the rate at which we borrow funds and the rate at which we loan these funds. Higher interest rates on our borrowings will decrease the overall return on our portfolio.

Ultimately, we expect approximately 90.0% of the loans in our portfolio to be at variable rates determined on the basis of the LIBOR and approximately 10.0% to be at fixed rates. As of September 30, 2013, based on the total principal balance of debt outstanding, our portfolio consisted of approximately 85.4% of loans at variable rates with floors, approximately 14.6% at fixed rates.

We currently hold one interest rate cap agreement, which is not designated as a hedge for accounting purposes. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to an interest rate cap agreement is linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement.

*Pending legislation may allow us to incur additional leverage.*

As a BDC, we are generally not permitted to incur indebtedness (which includes senior securities representing indebtedness and senior securities that are stock) unless immediately after such borrowing we have an asset coverage (as defined in Section 18(h) of the 1940 Act) for total of at least 200.0% (i.e. the amount of borrowings may not exceed 50% of the value of our assets). Legislation pending reintroduction to the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of such indebtedness that BDCs may incur by modifying the percentage from 200.0% to 150.0%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase. Our mandatorily redeemable preferred stock is a senior security that is stock and so for this 200.0% asset coverage threshold is included as total indebtedness.

***Risks Related to Our Investments***

*We operate in a highly competitive market for investment opportunities.*

There has been increased competitive pressure in the BDC and investment company marketplace for senior and senior subordinated debt, resulting in lower yields for increasingly riskier investments. A large number of entities compete with us and make the types of investments that we seek to make in small and medium-sized companies. We compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent that they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which would allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The competitive pressures we face could have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. We do not seek to compete based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms, and structure. However, if we match our competitors' pricing, terms, and structure, we may experience decreased net interest income and increased risk of credit loss.

*Our investments in small and medium-sized portfolio companies are extremely risky and could cause you to lose all or a part of your investment.*

Investments in small and medium-sized portfolio companies are subject to a number of significant risks including the following:

- *Small and medium-sized businesses are likely to have greater exposure to economic downturns than larger businesses.*Our portfolio companies may have fewer resources than larger businesses, and thus the recent recession, and any further economic downturns or recessions, are more likely to have a material adverse effect on them. If one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan or engage in a liquidity event, such as a sale, recapitalization or initial public offering would be diminished.

- *Small and medium-sized businesses may have limited financial resources and may not be able to repay the loans we make to them.*Our strategy includes providing financing to portfolio companies that typically do not have readily available access to financing. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower's ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry, or negative economic conditions. Deterioration in a borrower's financial condition and prospects usually will be accompanied by deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guaranties we may have obtained from the borrower's management. As of September 30, 2013, two portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $39.5 million, or 12.6% of the cost basis of all debt investments in our portfolio. While we are working with the portfolio companies to improve their profitability and cash flows, there can be no assurance that our efforts will prove successful. Although we will sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender's security interest.
- *Small and medium-sized businesses typically have narrower product lines and smaller market shares than large businesses.* Because our target portfolio companies are smaller businesses, they will tend to be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and other capabilities and a larger number of qualified managerial, and technical personnel.
- *There is generally little or no publicly available information about these businesses.* Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, the Adviser and its employees, Gladstone Securities and consultants to perform due diligence investigations of these portfolio companies, their operations, and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations.
- *Small and medium-sized businesses generally have less predictable operating results.* We expect that our portfolio companies may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position, or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow, and other coverage tests typically imposed by their senior lenders. A borrower's failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower's ability to repay our loan would be jeopardized.
- *Small and medium-sized businesses are more likely to be dependent on one or two persons.* Typically, the success of a small or medium-sized business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability, or resignation of one or more of these persons could have a material adverse impact on our borrower and, in turn, on us.
- *Small and medium-sized businesses may have limited operating histories.* While we intend to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Portfolio companies with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

- *Debt securities of small and medium-sized private companies typically are not rated by a credit rating agency.*Typically a small or medium-sized private business 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. Investors should assume that these loans would be at rates below what is today considered "investment grade" quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered high risk as compared to investment-grade debt instruments.

*Because the loans we make and equity securities we receive when we make loans are not publicly traded, there is uncertainty regarding the value of our privately held securities that could adversely affect our determination of our NAV.*

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has the investment valuation policy established by the Adviser and consistently applied valuation procedures used to determine the fair value of these securities quarterly. These procedures for the determination of value of many of our debt securities rely on the opinions of value submitted to the Adviser by SPSE or the use of internally developed discounted cash flow ("DCF") methodologies or indicative bid prices ("IBP") offered by the respective originating syndication agent's trading desk, or secondary desk, specifically for our syndicated loans, or internal methodologies based on the total enterprise value ("TEV") of the issuer used for certain of our equity investments. SPSE will only evaluate the debt portion of our investments for which the Adviser specifically requests evaluation, and SPSE may decline to make requested evaluations for any reason in its sole discretion. However, to date, SPSE has accepted each of the Adviser's requests for evaluation.

The Adviser's use of these fair value methods is inherently subjective and is based on estimates and assumptions of each security. In the event that we are required to sell a security, we may ultimately sell for an amount materially less than the estimated fair value calculated by SPSE, or utilizing the TEV, IBP or the DCF methodology.

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

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

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

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

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

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to quickly obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important investment opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, the Adviser, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

Due to the uncertainty inherent in valuing these securities, the Adviser's determinations of fair value may differ materially from the values that could be obtained if a ready market for these securities existed. Our NAV could be materially affected if the Adviser's determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities.

*When we are a debt or minority equity investor in a portfolio company, which we expect will generally be the case, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.*

We anticipate that most of our investments will continue to be either debt or minority equity investments in our portfolio companies. Therefore, we are and will remain subject to risk that a portfolio company may make business decisions with which we disagree, and the shareholders and management of such company may take risks or otherwise act in ways that do not serve our best interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

In addition, we will generally not be in a position to control any portfolio company by investing in its debt securities. This is particularly true when we invest in syndicated loans, which are loans made by a larger group of investors whose investment objectives of the other lenders may not be completely aligned with ours. As of September 30, 2013, syndicated loans made up approximately 18.4% of our portfolio at cost, or $61.2 million. We therefore are subject to the risk that other lenders in these investments may make decisions that could decrease the value of our portfolio holdings.

*We typically invest in transactions involving acquisitions, buyouts and recapitalizations of companies, which will subject us to the risks associated with change in control transactions.*

Our strategy, in part, includes making debt and equity investments in companies in connection with acquisitions, buyouts and recapitalizations, which subjects us to the risks associated with change in control transactions. Change in control transactions often present a number of uncertainties. Companies undergoing change in control transactions often face challenges retaining key employees and maintaining relationships with customers and suppliers. While we hope to avoid many of these difficulties by participating in transactions where the management team is retained and by conducting thorough due diligence in advance of our decision to invest, if our portfolio companies experience one or more of these problems, we may not realize the value that we expect in connection with our investments, which would likely harm our operating results and financial condition.

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

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

*Prepayments of our investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.*

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. For the year ended September 30, 2013, we received principal payments of a combined $110.5 million, of which an aggregate of $79.6 million resulted from 14 portfolio companies who paid off early at par. We will first use any proceeds from prepayments to repay any borrowings outstanding on our Credit Facility. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

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

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

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

As of September 30, 2013, we had investments in 47 portfolio companies, of which there were five investments that comprised approximately $96.0 million or 37.4% of our total investment portfolio, at fair value. A consequence of a concentration in a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such investments or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25.0% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25.0% of the value of our total assets. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us. As of September 30, 2013, our largest industry concentrations of our total investments at fair value were in healthcare, education and childcare companies, representing 17.7%; electronic companies, representing 13.1%; and personal and non-durable consumer product companies, representing 11.3%. Therefore, we are susceptible to the economic circumstances in these industries, and a downturn in one or more of these industries could have a material adverse effect on our results of operations and financial condition.

*Our investments are typically long term and will require several years to realize liquidation events.*

Since we generally make five to seven year term loans and hold our loans and related warrants or other equity positions until the loans mature, you should not expect realization events, if any, to occur over the near term. In addition, we expect that any warrants or other equity positions that we receive when we make loans may require several years to appreciate in value and we cannot give any assurance that such appreciation will occur.

*The disposition of our investments may result in contingent liabilities.*

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

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

Even though we have structured some of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investments and subordinate all, or a portion, of our claims to that of other creditors. Holders of debt instruments ranking senior to our investments typically would be entitled to receive payment in full before we receive any distributions. After repaying such senior creditors, such portfolio company may not have any remaining assets to use to repay its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or in instances in which we exercised control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance.

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

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

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

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

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

As a BDC we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. We will record decreases in the market values or fair values of our investments as unrealized depreciation. Since our inception, we have, at times, incurred a cumulative net unrealized depreciation of our portfolio. Any unrealized depreciation in our investment portfolio could result in realized losses in the future and ultimately in reductions of our income available for distribution to stockholders in future periods.

***Risks Related to Our Regulation and Structure***

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

To maintain our qualification as a RIC, we must meet income source, asset diversification, and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90.0% of our investment company taxable income to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create “original issue discount,” which we must recognize as ordinary income over the term of the debt investment and which will increase the amounts we are required to distribute to maintain RIC status. Because such warrants will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we will need to use cash from other sources to satisfy such distribution requirements. The asset diversification requirements must be met at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our shares. For additional information regarding asset coverage ratio and RIC requirements, see *“Business—Material U.S. Federal Income Tax Considerations—Regulated Investment Company Status*”

From time to time, some of our debt investments may include success fees that would generate payments to us if the business is ultimately sold. Because the satisfaction of these success fees, and the ultimate payment of these fees, is uncertain, we do not recognize them as income until we have received payment. We sought and received approval for a change in accounting method from the IRS related to our tax treatment for success fees. As a result, we, in effect, will continue to account for the recognition of income from the success fees upon receipt, or when the amounts become fixed. Prior to January 1, 2011, we treated the success fee amounts as a capital gain for tax characterization purposes. However, effective January 1, 2011, the success fee amounts are characterized as ordinary income for tax purposes. The approved change in accounting method does not require us to retroactively change the capital gains treatment of the success fees received prior to January 1, 2011. As a result, we are required to distribute such amounts to our stockholders in order to maintain RIC status for success fees we receive after January 1, 2011.

*Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.*

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us or our portfolio companies to comply with these laws or regulations may adversely affect our business. For additional information regarding the regulations to which we are subject, see "*Business—Material U.S. Federal Income Tax Considerations*" and "*Business— Regulation as a Business Development Company*."

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

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

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

- any person who beneficially owns 10.0% or more of the voting power of our common stock (an "interested stockholder");
- an affiliate of ours who at any time within the two-year period prior to the date in question was an interested stockholder; or
- an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our Board of Directors and approved by the affirmative vote of at least 80.0% of the votes entitled to be cast by holders of our outstanding shares of common stock and two-thirds of the votes entitled to be cast by holders of our common stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders' interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our Board of Directors prior to the time that someone becomes an interested stockholder.

Our articles of incorporation permit our Board of Directors to issue up to 50.0 million shares of capital stock. In addition, our Board of Directors, without any action by our stockholders, may amend our articles of incorporation from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series of stock that we have authority to issue. Our Board of Directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our Board of Directors could authorize the issuance of preferred stock with terms and conditions that could have a priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock, which it did in connection with our issuance of 1.5 million shares of Term Preferred Stock. Preferred stock, including our Term Preferred Stock, could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

***Risks Related to an Investment in Our Securities***

*We may experience fluctuations in our quarterly and annual operating results.*

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

*There is a risk that you may not receive distributions or that distributions may not grow over time.*

Our current intention is to distribute at least 90.0% of our investment company taxable income to our stockholders on a quarterly basis by paying monthly distributions. We expect to retain some or all net realized long-term capital gains by first offsetting them with realized capital losses, and secondly through a deemed distribution to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine in certain cases to distribute these gains to our common stockholders. In addition, our Credit Facility restricts the amount of distributions we are permitted to make. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions.

*Investing in our securities may involve an above average degree of risk.*

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies may be highly speculative, and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

*Distributions to our stockholders have included and may in the future include a return of capital.*

Our Board of Directors declares monthly distributions based on estimates of taxable income for each fiscal year, which may differ, and in the past have differed, from actual results. Because our distributions are based on estimates of taxable income that may differ from actual results, future distributions payable to our stockholders may also include a return of capital. Moreover, to the extent that we distribute amounts that exceed our accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a stockholder's original investment in shares of our stock and should not be confused with a distribution from earnings and profits. Although return of capital distributions may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the sale of our shares by reducing the investor's tax basis for such shares. Such returns of capital reduce our asset base and also adversely impact our ability to raise debt capital as a result of the leverage restrictions under the 1940 Act, which could have a material adverse impact on our ability to make new investments.

*The market price of our shares may be volatile and fluctuate significantly.*

The trading price of our common stock and our preferred stock may fluctuate substantially. In part due to the extreme volatility and disruption that have affected the capital and credit markets over the past few years, we have experienced greater than usual stock price volatility.

The market price and marketability of our shares may from time to time be significantly affected by numerous factors, including many over which we have no control and that may not be directly related to us. These factors include, but are not limited to, the following:

- general economic trends and other external factors;
- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of shares of RICs, BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs;

- loss of BDC or RIC status;
- changes in our earnings or variations in our operating results;
- changes in prevailing interest rates;
- changes in the value of our portfolio of investments;
- any shortfall in our revenue or net income or any increase in losses from levels expected by securities analysts;
- departure of key personnel;
- operating performance of companies comparable to us;
- short-selling pressure with respect to our shares or BDCs generally;
- the announcement of proposed, or completed, offerings of our securities, including a rights offering; and
- loss of a major funding source.

Fluctuations in the trading prices of our shares may adversely affect the liquidity of the trading market for our shares and, if we seek to raise capital through future equity financings, our ability to raise such equity capital.

*The issuance of subscription rights to our existing stockholders may dilute the ownership and voting powers of existing stockholders in our common stock, dilute the NAV of their shares and have a material adverse effect on the trading price of our common stock.*

There are significant capital raising constraints applicable to us under the 1940 Act when our common stock is trading below its NAV per share. In the event that we issue subscription rights to our existing stockholders to subscribe for and purchase additional shares of our common stock, there is a significant possibility that the rights offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their subscription rights should expect that they will, upon completion of the rights offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their subscription rights. In addition, because the subscription price of the rights offering is likely to be less than our most recently determined NAV per common share, our common stockholders are likely to experience an immediate dilution of the per share NAV of their shares as a result of the offer. As a result of these factors, any future rights offerings of our common stock, or our announcement of our intention to conduct a rights offering, could have a material adverse impact on the trading price of our common stock.

*Shares of closed-end investment companies frequently trade at a discount from NAV.*

Shares of closed-end investment companies frequently trade at a discount from NAV per common share. Since our inception, our common stock has at times traded above NAV, and at times below NAV per share. During the past year, our common stock has consistently, and at times significantly, traded below NAV. Subsequent to September 30, 2013, our common stock has traded at discounts of up to 15.4% of our NAV per share, which was $9.81 as of September 30, 2013. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our NAV. Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our common stockholders and our independent directors. Additionally, at times when our common stock is trading below its NAV per share, our dividend yield may exceed the weighted average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional shares in such circumstances. Thus, for as long as our common stock trades below NAV we will be subject to significant constraints on our ability to raise capital through the issuance of common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

*Common stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current NAV per share of our common stock.*

At our most recent annual meeting of stockholders on February 14, 2013, our stockholders approved a proposal designed to allow us to sell shares of our common stock below the then current NAV per share of our common stock in one or more offerings for a period of one year from the date of such approval, subject to certain conditions (including, but not limited to, that the number of common shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale). Absent such stockholder approval, we would not be able to access the capital markets in an offering at below the then current NAV per share due to restrictions applicable to BDCs under the 1940 Act. At the upcoming annual stockholders meeting scheduled for February 13, 2014, our stockholders will again be asked to vote in favor of renewing this proposal for another year. During the past year, our common stock has consistently, and at times significantly, traded below NAV. Any decision to sell shares of our common stock below the then current NAV per share of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders' best interests.

If we were to sell shares of our common stock below NAV per share, such sales would result in an immediate dilution to the NAV per share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. The greater the difference between the sale price and the NAV per share at the time of the offering, the more significant the dilutive impact would be. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect, if any, cannot be currently predicted. However, if, for example, we sold an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who did not participate in that offering for its proportionate interest would suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV.

*If we fail to pay dividends on our Term Preferred Stock for two years, the holders of our Term Preferred Stock will be entitled to elect a majority of our directors.*

The terms of our Term Preferred Stock provide for annual dividends in the amount of $1.7813 per outstanding share of Term Preferred Stock. In accordance with the terms of our Term Preferred Stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of Term Preferred Stock will be entitled to elect a majority of our Board of Directors.

*Our Term Preferred Stock magnifies the potential for gain or loss for our holders of common stock and the risks of investing in our common stock in the same way as our borrowings.*

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders. Preferred stockholders are less subject to our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

*An investment in Term Preferred Stock with a fixed interest rate bears interest rate risk.*

Our Term Preferred Stock, in general, pays dividends at a fixed dividend rate of 7.125% per year. Prices of fixed income investments generally vary inversely with changes in market yields. The market yields on securities comparable to our Term Preferred Stock may increase, which would likely result in a decline in the secondary market price of our Term Preferred Stock prior to the term redemption date. This risk may be even more significant in light of the low nature of the currently prevailing market interest rates.

*A liquid secondary trading market for our Term Preferred Stock may not develop.*

Although our Term Preferred Stock is listed for trading on the NASDAQ, such shares are thinly traded. The market for such shares is relatively illiquid compared to the market for other types of securities, with the spread between the bid and ask prices considerably greater than the spreads of other securities with comparable terms and features.

*Our Term Preferred Stock is not rated.*

We have not had our Term Preferred Stock rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, there is a risk that the shares of our Term Preferred Stock may trade at a price that is lower than they might otherwise trade if they were rated by a rating agency.

*Our Term Preferred Stock bears a risk of early redemption by us.*

We may voluntarily redeem some or all of our Term Preferred Stock on or after December 31, 2012, which is four years prior to its mandatory redemption date of December 31, 2016. We also may be forced to redeem some or all of our Term Preferred Stock to meet regulatory requirements and the asset coverage requirements of such shares, and any such redemption may occur at a time that is unfavorable to holders of our Term Preferred Stock. We may have an incentive to redeem our Term Preferred Stock voluntarily before the mandatory redemption date if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the fixed dividend rate on our Term Preferred Stock. To date, we have not redeemed any of our Term Preferred Stock.

*Claims of holders of our Term Preferred Stock are subject to a risk of subordination relative to holders of our debt instruments.*

Rights of holders of our Term Preferred Stock are subordinated to the rights of holders of our indebtedness. Therefore, dividends, distributions and other payments to holders of Term Preferred Stock in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. In addition, under some circumstances the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of holders of our Term Preferred Stock.

*Holders of our Term Preferred Stock are subject to inflation risk.*

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

*Holders of our Term Preferred Stock bear reinvestment risk*

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

*Holders of our Term Preferred Stock bear dividend risk*

We may be unable to pay dividends on our Term Preferred Stock under some circumstances. The terms of our indebtedness preclude the payment of dividends in respect of equity securities, including our Term Preferred Stock, under certain conditions.

*There is a risk of delay in our redemption of our Term Preferred Stock, and we may fail to redeem such securities as required by their terms.*

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to obtain cash equal to the value at which we record our investments quickly if a need arises. If we are unable to obtain sufficient liquidity prior to the term redemption date, we may be forced to engage in a partial redemption or to delay a required redemption. If such a partial redemption or delay were to occur, the market price of our Term Preferred Stock might be adversely affected.

***Other Risks***

*We could face losses and potential liability if intrusion, viruses or similar disruptions to our technology jeopardize our confidential information, whether through breach of our network security or otherwise.*

Maintaining our network security is of critical importance because our systems store highly confidential financial models and portfolio company information. Although we have implemented, and will continue to implement, security measures, our technology platform is and will continue to be vulnerable to intrusion, computer viruses or similar disruptive problems caused by transmission from unauthorized users. The misappropriation of proprietary information could expose us to a risk of loss or litigation.

*Terrorist attacks, acts of war, or national disasters may affect any market for our common stock, impact the businesses in which we invest, and harm our business, operating results, and financial conditions.*

Terrorist acts, acts of war, or national disasters have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or national disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results, and financial condition. Losses from terrorist attacks and national disasters are generally uninsurable.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We do not own any real estate or other physical properties material to our operations. The Adviser is the current leaseholder of all properties in which we operate. We occupy these premises pursuant to our Advisory and Administration Agreements with the Adviser and Administrator, respectively. The Adviser and Administrator are both headquartered in McLean, Virginia, a suburb of Washington, D.C., and the Adviser also has offices in several other states.

## ITEM 3. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ under the symbol "GLAD." The following table reflects, by quarter, the high and low sales prices per share of our common stock on the NASDAQ, the high and low sales prices as a percentage of NAV per common share and quarterly distributions declared per share for each quarter during the last two fiscal years. Amounts presented for each quarter of fiscal years 2013 and 2012 represent the cumulative amount of the distributions declared per common share for the months composing such quarter.

| | Quarter Ended | NAV (A) | Sales Price High | Sales Price Low | (Discount) Premium of High to NAV(B) | Discount of Low to NAV(B) | Declared Common Distributions |
|---|---|---|---|---|---|---|---|
| **FY 2013** | **09/30/13** | **$ 9.81** | **$8.92** | **$ 8.05** | **(9.1)%** | **(17.9)%** | **$ 0.210** |
| | **06/30/13** | **8.60** | **9.45** | **7.76** | **9.9** | **(9.8)** | **0.210** |
| | **03/31/13** | **8.91** | **9.46** | **8.24** | **6.2** | **(7.5)** | **0.210** |
| | **12/31/12** | **9.17** | **9.02** | **7.25** | **(1.6)** | **(20.9)** | **0.210** |
| FY 2012 | 09/30/12 | $ 8.98 | $9.19 | $ 7.86 | 2.3% | (12.5)% | $ 0.210 |
| | 06/30/12 | 8.91 | 8.46 | 7.30 | (5.1) | (18.1) | 0.210 |
| | 03/31/12 | 9.62 | 9.33 | 7.69 | (3.0) | (20.1) | 0.210 |
| | 12/31/11 | 9.90 | 8.74 | 6.46 | (11.7) | (34.7) | 0.210 |

(A) NAV per common share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per common share on the date of the high and low sales prices. The NAVs shown are based on outstanding common shares at the end of each period.

(B) The (discounts) premiums set forth in these columns represent the high or low, as applicable, sales price per share for the relevant quarter minus the NAV per common share as of the end of such quarter, and therefore may not reflect the (discount) premium to NAV per common share on the date of the high and low sales prices.

As of November 15, 2013, there were approximately 46 record owners of our common stock. This number does not include stockholders for whom shares are held in "street name."

**Distributions**

We currently intend to distribute in the form of cash distributions a minimum of 90.0% of our investment company taxable income, if any, on a quarterly basis to our stockholders in the form of monthly distributions. We intend to retain some or all of our long-term capital gains, but to designate the retained amount as a deemed distribution, after giving effect to any prior year realized losses that are carried forward, to supplement our equity capital and support the growth of our portfolio. However, in certain cases, our Board of Directors may choose to distribute our net realized long-term capital gains by paying a one-time special distribution. Additionally, our Credit Facility contains a covenant that limits payments of distributions to our aggregate net investment income for each of the twelve month periods ending September 30, 2013, 2014, 2015 and 2016.

**Recent Sales of Unregistered Securities and Purchases of Equity Securities**

We did not sell any unregistered shares of stock or repurchase any shares of our stock during the fiscal year ended September 30, 2013.

## ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data for the fiscal years ended September 30, 2013, 2012, 2011, 2010 and 2009 are derived from our audited *Consolidated Financial Statements*. The other data included in the second table below is unaudited. The data should be read in conjunction with our accompanying *Consolidated Financial Statements* and notes thereto and *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included elsewhere in this report.

**GLADSTONE CAPITAL CORPORATION**
**CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA**
**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT DATA)**

| | As of and for the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** | **2009** |
| **Statement of Operations Data:** | | | | | |
| Total Investment Income | **$ 36,154** | $ 40,322 | $ 35,211 | $ 35,539 | $ 42,618 |
| Total Expenses, Net of Credits from Adviser | **17,768** | 21,278 | 16,799 | 17,780 | 21,587 |
| Net Investment Income | **18,386** | 19,044 | 18,412 | 17,759 | 21,031 |
| Net Realized and Unrealized Gain (Loss) on Investments, Borrowings and Other | **13,833** | (27,052) | (39,511) | (1,365) | (17,248) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | **$ 32,219** | $ (8,008) | $ (21,099) | $ 16,394 | $ 3,783 |
| **Per Share Data (A):** | | | | | |
| Net Increase (Decrease) in Net Assets Resulting from Operations per Common Share—Basic and Diluted | **$ 1.53** | $ (0.38) | $ (1.00) | $ 0.78 | $ 0.18 |
| Net Investment Income per Common Share – Basic and Diluted | **0.88** | 0.91 | 0.88 | 0.84 | 1.00 |
| Cash Distributions Declared Per Common Share | **0.84** | 0.84 | 0.84 | 0.84 | 1.26 |
| **Statement of Assets and Liabilities Data:** | | | | | |
| Total Assets | **$ 295,091** | $ 293,402 | $ 317,624 | $ 270,518 | $ 335,910 |
| Net Assets | **205,992** | 188,564 | 213,721 | 249,246 | 249,076 |
| Net Asset Value Per Common Share | **9.81** | 8.98 | 10.16 | 11.85 | 11.81 |
| Common Shares Outstanding | **21,000,160** | 21,000,160 | 21,039,242 | 21,039,242 | 21,087,574 |
| Weighted Common Shares Outstanding – Basic and Diluted | **21,000,160** | 21,011,123 | 21,039,242 | 21,060,351 | 21,087,574 |
| **Senior Securities Data:** | | | | | |
| Borrowings under Credit Facility, at cost (B) | **$ 46,900** | $ 58,800 | $ 99,400 | $ 16,800 | $ 83,000 |
| Mandatorily redeemable preferred stock (B) | **38,497** | 38,497 | — | — | — |
| Asset coverage ratio (C) | **341%** | 296% | 315% | 1,419% | 396% |
| Asset coverage per unit (D) | **$ 3,410** | $ 2,963 | $ 3,150 | $ 14,187 | $ 3,963 |

(A) Per share data for net increase (decrease) in net assets resulting from operations is based on the weighted average common stock outstanding for both basic and diluted.

(B) See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for more information regarding our level of indebtedness.

(C) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200% on our Senior Securities. Our mandatorily redeemable preferred stock is a Senior Security that is stock.

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

| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** | **2009** |
| **Other Unaudited Data:** | | | | | |
| Number of Portfolio Companies at Year End | **47** | 50 | 59 | 39 | 48 |
| Average Size of Portfolio Company Investment at Cost | **$ 7,069** | $ 7,300 | $ 6,488 | $ 7,654 | $ 7,592 |
| Principal Amount of New Investments | **80,418** | 45,050 | 110,903 | 23,245 | 24,911 |
| Proceeds from Loan Repayments and Investments Sold | **117,048** | 73,857 | 50,002 | 85,634 | 96,693 |
| Weighted Average Yield on Investments(A) | **11.63%** | 11.25% | 11.21% | 11.03% | 10.05% |
| Total Return(B) | **9.90** | 41.39 | (33.77) | 37.46 | (30.94) |

(A) Weighted average yield on investments equals interest income on investments divided by the weighted average interest-bearing principal balance throughout the year.

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

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**The following analysis of our financial condition and results of operations should be read in conjunction with our accompanying *Consolidated Financial Statements* and the notes thereto contained elsewhere in this Annual Report on Form 10-K. Historical financial condition and results of operations and percentage relationships among any amounts in the financial statements are not necessarily indicative of financial condition or results of operations for any future periods. Except per share amounts, dollar amounts are in thousands unless otherwise indicated.**

### OVERVIEW

#### General

We were incorporated under the Maryland General Corporation Law on May 30, 2001. We operate as an externally managed, closed-end, non-diversified management investment company, and have elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, for federal income tax purposes we have elected to be treated as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code"). As a BDC and a RIC, we are subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

We were established for the purpose of investing in debt and equity securities of established private business operating in the United States ("U.S."). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our investment objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $5 million to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We also aim to maintain a portfolio allocation of approximately 95.0% debt investment and 5.0% equity investment, at cost.

We focus on investing in small and medium-sized private businesses in the U.S. that meet certain criteria, including, but not limited to, the following: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower's cash flow, reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds) and, to a lesser extent, the potential to realize appreciation and gain liquidity in our equity position, if any. We lend to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the London Interbank Offered Rate ("LIBOR")) and, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, have a success fee or deferred interest provision and are primarily interest only with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due upon a change of control in the business. Some debt securities have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called paid-in-kind ("PIK") interest.

Typically, our equity investments consist of common stock, preferred stock, limited liability company interests, or warrants to purchase the foregoing. Often, these equity investments occur in connection with our original investment, recapitalizing a business, or refinancing existing debt.

We are externally managed by our investment advisor, Gladstone Management Corporation (the “Adviser”), a Securities and Exchange Commission (“SEC”) registered investment adviser and an affiliate of ours, pursuant to an investment advisory and management agreement (the “Advisory Agreement”). The Adviser manages our investment activities. We have also entered into an administration agreement (the “Administration Agreement”) with Gladstone Administration, LLC (the “Administrator”), an affiliate of ours and the Adviser, whereby we pay separately for administrative services.

Our shares of common stock and term preferred stock are traded on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbols “GLAD” and “GLADP,” respectively.

**Business Environment**

The strength of the global economy and the U.S. economy in particular, continues to be uncertain and volatile. Recently, we experienced the first U.S. government shutdown in 17 years along with a stalemate in the U.S. Congress over whether to raise the debt ceiling. The U.S. government budget concerns remain until early 2014 when the U.S. Congress will revisit the debt ceiling debate again. Prior to this recent U.S. fiscal crisis, economic conditions generally appeared to be improving, albeit slowly, since the 2008 recession. We have continued to remain cautious about a long-term economic recovery. The impacts from the 2008 recession in general, and the resulting disruptions in the capital markets in particular, have had lingering effects on our liquidity options and increased our cost of debt and equity capital. Many of our portfolio companies, as well as those small and medium-sized companies that we evaluate for investment, are still feeling the adverse impacts of these political and economic conditions, and if these conditions persist, it may affect their ability to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering. These political and economic conditions could also disproportionately impact some of the industries in which we have invested, causing us to be more vulnerable to losses in our portfolio, which could cause the number of our non-performing assets to increase and the fair market value of our portfolio to decrease.

In addition, there has been increased competitive pressure in the BDC and investment company marketplace for senior and senior subordinated debt, resulting in lower yields for increasingly riskier investments. We believe we are in a protracted economic recovery; however, we do not know if market conditions will continue to improve or if adverse conditions will again intensify, and we do not know the full extent to which the inability of the U.S. government to address its fiscal condition in the near and long term will affect us. If market instability persists or intensifies, we may experience difficulty in raising capital. In summary, we believe that are in a protracted economic recovery, but that the recent U.S. fiscal crisis has temporarily suppressed that recovery. We do not know the full extent to which the impact of the lingering recessionary economic conditions will affect us or our portfolio companies.

***Portfolio Activity***

While conditions remain somewhat challenging in the marketplace, we are seeing a number of new investment opportunities that are consistent with our investment objectives and strategies. During the year ended September 30, 2013, we invested in 15 new proprietary and syndicate investments totaling $80.4 million; however, we experienced a net contraction in our overall portfolio of three portfolio companies, primarily due to 14 portfolio companies paying off early during the year, for an aggregate of $79.6 million in unscheduled payoffs. Subsequent to September 30, 2013, we invested $7.0 million in one new proprietary investment, as discussed under “*Investment Highlights*.”

In addition, in July 2012, the SEC granted us an exemptive order that expands our ability to co-invest with certain of our affiliates by permitting us, under certain circumstances, to co-invest with Gladstone Investment Corporation (“Gladstone Investment”) and any future business development company or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund) or any combination of the foregoing subject to the conditions in the SEC’s order. We believe this ability to co-invest will enhance our ability to further our investment objectives and strategies. We co-invested with Gladstone Investment in two new proprietary investments—one in each of May and October 2013, as discussed under “*Investment Highlights*.”

***Regulatory Compliance***

Challenges in the current market are intensified for us by certain regulatory limitations under the Code and the 1940 Act, as well as contractual restrictions under the agreement governing our $137.0 million revolving line of credit (our “Credit Facility,” described more fully under “*Revolving Credit Facility*” below) that further constrain our ability to access the capital markets. To qualify to be taxed as a RIC, we must distribute at least 90.0% of our “investment company taxable income,” which is generally our net ordinary income plus the excess of our net short-term capital gains over net long-term capital losses. Because we are required to satisfy the RIC annual stockholder distribution requirement, and because the illiquidity of many of our investments makes it difficult for us to finance new investments through the sale of current investments, our ability to make new investments is highly dependent upon external financing. Our external financing sources include the issuance of equity securities, debt securities or other leverage, such as borrowings under our Credit Facility. Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act that require us to have an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200.0% on our senior securities representing indebtedness and our senior securities that are stock, to which we refer collectively as “Senior Securities.”

We believe that market conditions have affected the trading price of our common stock and our ability to finance new investments through the issuance of equity. On November 18, 2013, the closing market price of our common stock was $9.44, a 3.9% discount to our September 30, 2013, net asset value (“NAV”) per share of $9.81. When our stock trades below NAV per common share, as it has consistently traded over the last four years, our ability to issue equity is constrained by provisions of the 1940 Act, which generally prohibits the issuance and sale of our common stock below NAV per common share without stockholder approval, other than through sales to our then-existing stockholders pursuant to a rights offering. At our annual meeting of stockholders held on February 14, 2013, our stockholders approved a proposal which authorizes us to sell shares of our common stock at a price below our then current NAV per common share subject to certain limitations (including, but not limited to, that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale) for a period of one year from the date of approval, provided that our board of directors (our “Board of Directors”) makes certain determinations prior to any such sale. At the upcoming annual stockholders meeting scheduled for February 13, 2014, our stockholders will again be asked to vote in favor of renewing this proposal for another year.

The current uncertain and volatile economic conditions may also continue to cause the value of the collateral securing some of our loans to fluctuate, as well as the value of our equity investments, which has impacted and may continue to impact our ability to borrow under our Credit Facility. Additionally, our Credit Facility contains covenants regarding the maintenance of certain minimum loan concentrations and net worth, which are affected by the decrease in value of our portfolio. Failure to meet these requirements would result in a default which, if we are unable to obtain a waiver from our lenders, would cause an acceleration of our repayment obligations under our Credit Facility. As of September 30, 2013, we were in compliance with all of our Credit Facility’s covenants.

We expect that, given these regulatory and contractual constraints in combination with current market conditions, debt and equity capital may be costly for us to access in the near term. However, we believe that our recent amendments to our Credit Facility to decrease the interest rate on advances and extend its maturity until 2016 and our ability to co-invest with Gladstone Investment and certain other affiliated investment funds, should increase our ability to make investments in businesses that we believe will be generally resistant to a recession and, as a result, will be likely to achieve attractive long-term returns for our stockholders. See “*Recent Developments*” for more information on these transactions. Going into fiscal 2014, we will continue to focus on building our pipeline and making investments that meet our objectives and strategies and that provide appropriate returns, given the risks.

**Investment Highlights**

During the year ended September 30, 2013, we invested an aggregate of $80.4 million in 15 new portfolio companies and an aggregate of $9.7 million to existing portfolio companies. Also, during the year ended September 30, 2013, we sold our investments in two portfolio companies for net proceeds of a combined $6.6 million, and we received scheduled and unscheduled contractual principal repayments of a combined $110.5 million from existing portfolio companies, including 14 early payoffs. Since our initial public offering in August 2001, we have made 342 different loans to, or investments in, 172 companies for a total of approximately $1.2 billion, before giving effect to principal repayments on investments and divestitures.

***Investment Activity***

During the year ended September 30, 2013, we executed the following transactions with certain of our portfolio companies:

<u>Issuances and Originations</u>

During the year ended September 30, 2013, we invested an aggregate of $50.2 million to five new proprietary portfolio companies and an aggregate of $30.2 million in 10 new syndicated portfolio companies (Ardent Medical Services, Inc., Blue Coat Systems Inc., First American Payment Systems, L.P., John Henry Holdings, Inc., New Trident Holdcorp, Inc., RP Crown Parent, LLC, Steinway Musical Instruments, Inc., SumTotal Systems, Inc., Wall Street Systems Holdings, Inc., and W3, Co.). We also invested in additional equity in RBC Acquisition Corp. ("Reliable") and Midwest Metal Distribution, Inc. ("Midwest Metal"). Below are significant issuances and originations during the year ended September 30, 2013:

- In December 2012, we invested $14.0 million in AG Transportation Holdings, LLC ("AG Trucking") through a combination of senior subordinated term debt and equity. AG Trucking, headquartered in Goshen, Indiana, is a regional food-grade liquid and dry bulk carrier providing a variety of bulk transportation services, including liquid transportation, dry bulk dumps, freight brokering, private fleet conversion and project runs to large international agricultural and food manufacturing firms.
- In December 2012, we invested $19.5 million in Allen Edmonds Shoe Corporation ("Allen Edmonds") through senior subordinated term debt that we purchased from one of Allen Edmonds' existing lenders. Allen Edmonds, headquartered in Port Washington, Wisconsin, manufactures premium men's footwear and accessories, which it sells through its retail stores, catalog and internet site and also wholesale and e-commerce channels.
- In March 2013, we acquired a controlling equity position in Reliable and invested $2.0 million in additional equity capital in the form of preferred equity. In addition, we invested $0.3 million in preferred equity in August 2013 and an aggregate of $1.1 million in line of credit draws to Reliable during the year ended September 30, 2013. As of September 30, 2013, Reliable was classified as a Control portfolio company. Reliable was known as Reliable Biopharmaceutical Holdings, Inc. before its recapitalization in March 2013 and is therefore included on our accompanying Consolidated Schedule of Investments as of September 30, 2012 under the name Reliable Biopharmaceutical Holdings, Inc.
- In May 2013, we invested $8.8 million in Funko, LLC ("Funko"), through a combination of senior subordinated term debt and equity. Funko, headquartered in Lynnwood, WA, is a designer, importer and marketer of pop-culture collectibles. This was our first co-investment with our affiliate fund, Gladstone Investment, pursuant to the aforementioned exemptive order granted by the SEC. Gladstone Investment invested an additional $8.8 million in Funko under the same terms as us.
- In July 2013, we invested $8.9 million in Ashland Acquisition, LLC ("Ashland") through a combination of senior term debt and common equity, where we hold 20.0% of the voting securities. Ashland, through its wholly-owned subsidiary that is headquartered in Ashland, Ohio, provides publishing services including digital and offset printing, warehousing, distribution, and content and marketing services.

<u>Repayments and Exits</u>

During the year ended September 30, 2013, 34 borrowers made principal repayments totaling $110.5 million in the aggregate, consisting of $103.1 million of unscheduled principal and revolver repayments, as well as $7.4 million in contractual principal amortization. Below are significant repayments and exits during the year ended September 30, 2013:

- Included in the unscheduled principal payments were the net proceeds at par from early payoffs of the following:
    - <u>Syndicated investment payoffs:</u> Airvana Network Solutions, Inc. of $0.2 million; Applied Systems, Inc. of $1.0 million; Blue Coat Systems, Inc. of $8.5 million; HGI Holdings, Inc. of $1.6 million; Hubbard Radio, LLC of $0.5 million; John Henry Holdings, Inc. of $5.0; Keypoint Government Solutions, Inc. of $6.4 million; Mood Media Corporation of $8.0 million; National Surgical Hospitals Inc. of $1.6 million; Springs Window Fashions, LLC of $7.0 million; SRAM, LLC of $2.5 million and Wall Street Systems Holdings, Inc. of $3.0 million. In connection with eight of these early payoffs, we received an aggregate of $0.9 million in prepayment fees during the year ended September 30, 2013.
    - <u>Proprietary investment payoffs:</u> Westlake Hardware, Inc. ("Westlake") of $20.0 million in December 2012 and CMI Acquisition, LLC ("CMI") of $14.4 million in September 2013. In relation to the Westlake and CMI early payoffs at par, we received $1.1 million and $0.6 million, respectively, in success fees during the year ended September 30, 2013.

- In November 2012, we sold our investments in Viapack, Inc. ("Viapack") for net proceeds of $5.9 million, which resulted in a realized loss of $2.4 million recorded in the three months ended December 31, 2012. Viapack was partially on non-accrual status at the time of the sale.
- In November 2012, we wrote off our investment in Access Television Network, Inc. ("Access TV"), which resulted in a realized loss of $0.9 million recorded in the three months ended December 31, 2012. Access TV was on non-accrual status at the time of the write off.
- In April 2013, we sold our investment in Kansas Cable Holdings, Inc. ("KCH") for net proceeds of $0.6 million, which resulted in a realized loss of $2.9 million recorded in the three months ended June 30, 2013. KCH was on non-accrual status at the time of the sale.
- In September 2013, we sold substantially all of the assets in Lindmark Acquisition, LLC ("Lindmark") for net proceeds of $14.4 million, which paid down our debt investments in full at par. Lindmark was on non-accrual status at the time of the repayment.

Refer to Note 16—*Subsequent Events* in the accompanying *Consolidated Financial Statements* included elsewhere in this Annual Report on Form 10-K for investment activity occurring subsequent to September 30, 2013. Of note, the following significant new origination occurred subsequent to September 30, 2013:

- In October 2013, we invested $7.0 million in Alloy Die Casting Co. ("ADC") through a combination of senior term debt and equity. ADC, headquartered in Buena Park, CA, is a manufacturer of high quality, finished aluminum and zinc castings for aerospace, defense, aftermarket automotive and industrial applications. This was a co-investment with Gladstone Investment, which invested an additional $16.3 million in ADC under the same terms as us.

## Recent Developments

### *Notes Receivable from Employees*

In July 2013, we received $1.0 million in full repayment of the outstanding principal and accrued interest owed on our employee note receivable from our chairman, chief executive officer and president, David Gladstone. Simultaneously, Mr. Gladstone's related redemption agreement was terminated pursuant to its terms.

### *Amendment of Credit Facility*

On April 26, 2013, we, through our wholly-owned subsidiary, Gladstone Business Loan, LLC ("Business Loan"), entered into Amendment No. 6 to our Credit Facility to extend the maturity date for one year to January 19, 2016. We incurred fees of $0.7 million in April 2013 in connection with this amendment, which are being amortized through the maturity date of our Credit Facility. All other terms of our Credit Facility remained generally unchanged at the time of this amendment.

On January 29, 2013, we, through Business Loan, entered into Amendment No. 4 to our Credit Facility to remove the one month London Interbank Offered Rate ("LIBOR") minimum of 1.5% on advances. We incurred fees of $0.6 million in January 2013 in connection with this amendment, which are being amortized through the maturity date of our Credit Facility. All other terms of our Credit Facility remained generally unchanged at the time of this amendment.

### *Registration Statement*

On November 29, 2012, we filed a universal shelf registration statement (our "Registration Statement") on Form N-2 (File No. 333-185191) that was amended on January 17, 2013, and which the SEC declared effective on January 18, 2013. Our Registration Statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock or preferred stock, including through a combined offering of such securities. We have not issued any securities to date under our Registration Statement.

***Executive Officers***

On April 9, 2013, our Board of Directors appointed Melissa Morrison, the Company's then current chief accounting officer, as chief financial officer. Concurrently, David Watson resigned as the chief financial officer of the Company to focus on his position as the Company's treasurer and on his position as chief financial officer and treasurer for Gladstone Investment, an affiliate of the Company.

On February 5, 2013, our Board of Directors appointed David Gladstone as the Company's interim president to fill the vacancy created by the resignation of George Stelljes III, effective January 31, 2013, the Company's former president, chief investment officer and a director. Mr. Gladstone will hold this position until our Board of Directors finds a suitable replacement. Mr. Gladstone founded the Company and has also served as the chairman of our Board of Directors and the Company's chief executive officer since its inception in 2001.

**RESULTS OF OPERATIONS**

**Comparison of the Year Ended September 30, 2013 to the Year Ended September 30, 2012**

| | For the Year Ended September 30, | | | |
|---|---|---|---|---|
| | **2013** | **2012** | **$ Change** | **%Change** |
| INVESTMENT INCOME | | | | |
| Interest income | **$33,533** | $ 36,077 | $ (2,544) | (7.1)% |
| Other income | **2,621** | 4,245 | (1,624) | (38.3) |
| Total investment income | **36,154** | 40,322 | (4,168) | (10.3) |
| EXPENSES | | | | |
| Base management fee | **5,622** | 6,165 | (543) | (8.8) |
| Incentive fee | **4,343** | 4,691 | (348) | (7.4) |
| Administration fee | **647** | 753 | (106) | (14.1) |
| Interest expense on borrowings | **3,182** | 4,374 | (1,192) | (27.3) |
| Dividend expense on mandatorily redeemable preferred stock | **2,744** | 2,491 | 253 | 10.2 |
| Amortization of deferred financing fees | **1,211** | 1,243 | (32) | (2.6) |
| Other expenses | **1,540** | 2,609 | (1,069) | (41.0) |
| Expenses before credits from Adviser | **19,289** | 22,326 | (3,037) | (13.6) |
| Credits to fees from Adviser | **(1,521)** | (1,048) | (473) | (45.1) |
| Total expenses net of credits | **17,768** | 21,278 | (3,510) | (16.5) |
| NET INVESTMENT INCOME | **18,386** | 19,044 | (658) | (3.5) |
| REALIZED AND UNREALIZED GAIN (LOSS) | | | | |
| Net realized loss on investments | **(5,231)** | (12,819) | 7,588 | 59.2 |
| Net unrealized appreciation (depreciation) of investments | **15,673** | (11,194) | 26,867 | NM |
| Net unrealized depreciation (appreciation) of other | **3,391** | (3,039) | 6,430 | NM |
| Net gain (loss) from investments and other | **13,833** | (27,052) | 40,885 | 151.1 |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | **$32,219** | $ (8,008) | $40,227 | NM |
| PER BASIC AND DILUTED COMMON SHARE | | | | |
| Net investment income | **$ 0.88** | $ 0.91 | $ (0.03) | (3.3) |
| Net increase (decrease) in net assets resulting from operations | **$ 1.53** | $ (0.38) | $ 1.91 | NM |

NM = Not Meaningful

***Investment Income***

Total interest income decreased by 7.1%, which was driven by a decrease of $2.4 million or 6.7% on interest income on our investments in debt securities for the year ended September 30, 2013, as compared to the year ended September 30, 2012. This was primarily due to the increase in early payoffs at par during the year, partially offset by an increase in our weighted average yield on our interest-bearing investment portfolio. The level of interest income on our investments is directly related to the principal balance of our interest-bearing investment portfolio during the year, multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2013, was $287.3 million, compared to $317.5 million for the prior year, a decrease of $30.2 million or 9.5%. The weighted average yield on the principal balance of our interest-bearing investments for the year ended September 30, 2013, was 11.6%, as compared to 11.3% for the prior year. The weighted average yield on our portfolio increased during the year ended September 30, 2013, as compared to the prior year, due to the purchase of higher yielding new proprietary investments coupled with the early payoffs of 12 of our syndicated investments, which generally bear lower interest rates than our proprietary investments.

As of September 30, 2013, two portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $39.5 million, or 12.6% of the cost basis of all debt investments in our portfolio. As of September 30, 2012, six portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately $61.1 million, or 17.3% of the cost basis of all debt investments in our portfolio. During the year ended September 30, 2013, we sold our investments in two portfolio companies that had been on non-accrual status, wrote off our investment in one portfolio company that had been on non-accrual status, and sold substantially all of the assets of one portfolio company that had been on non-accrual status. See "*Overview – Investment Highlights*" for more information. There were no portfolio companies that changed from accrual status to non-accrual during the year ended September 30, 2013.

Other income for the years ended September 30, 2013 and 2012, consisted primarily of success fees, which we generally recognize when payment is received. During the year ended September 30, 2013, we received an aggregate of $1.7 million in success fees, which resulted from the early payoffs at par of Westlake for $1.1 million in December 2012 and CMI for $0.6 million in September 2013. In addition, we received prepayment fees in the aggregate of $0.9 million during the year ended September 30, 2013, which resulted from the early payoffs of eight of our syndicate investments at par during the year. During the year ended September 30, 2012, we received an aggregate of $4.0 million in success fees, which resulted from the early payoffs at par of Winchester Electronics ("Winchester") for $1.2 million, Global Materials Technologies ("GMT") for $1.1 million, RCS Management Holding Co. ("RCS") for $0.9 million and Northern Contours, Inc. ("Northern Contours") for $0.8 million. In addition, we received prepayment fees in the aggregate of $0.2 million during the year ended September 30, 2012, which resulted from the early payoffs of five of our syndicate investments at par during the year.

The following tables list the investment income for our five largest portfolio company investments at fair value during the respective years:

| | As of September 30, 2013 | | Year Ended September 30, 2013 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| RBC Acquisition Corp. | $ 30,991 | 12.1% | $ 2,416 | 6.7% |
| Allen Edmonds Shoe Corporation(A) | 19,604 | 7.6 | 1,717 | 4.8 |
| Midwest Metal Distribution, Inc. | 17,733 | 6.9 | 2,240 | 6.2 |
| Francis Drilling Fluids, Ltd. | 14,667 | 5.7 | 1,977 | 5.4 |
| AG Transportation Holdings, LLC(A) | 12,984 | 5.1 | 1,407 | 3.9 |
| **Subtotal—five largest investments** | **95,979** | **37.4** | **9,757** | **27.0** |
| Other portfolio companies | 160,899 | 62.6 | 26,265 | 72.6 |
| Other non-portfolio company income | — | — | 132 | 0.4 |
| **Total investment portfolio** | **$256,878** | **100.0%** | **$ 36,154** | **100.0%** |

| | As of September 30, 2012 | | Year Ended September 30, 2012 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| Reliable Biopharmaceutical Holdings, Inc. | $ 25,439 | 9.3% | $ 3,193 | 7.9% |
| Westlake Hardware, Inc.(B) | 19,360 | 7.1 | 2,592 | 6.4 |
| Midwest Metal Distribution, Inc. | 17,824 | 6.5 | 2,249 | 5.6 |
| Francis Drilling Fluids, Ltd.(C) | 15,385 | 5.6 | 750 | 1.9 |
| CMI Acquisition, LLC(D) | 13,766 | 5.0 | 2,021 | 5.0 |
| **Subtotal—five largest investments** | **91,774** | **33.5** | **10,805** | **26.8** |
| Other portfolio companies | 182,186 | 66.5 | 29,257 | 72.6 |
| Other non-portfolio company income | — | — | 260 | 0.6 |
| **Total investment portfolio** | **$273,960** | **100.0%** | **$ 40,322** | **100.0%** |

(A) New investment added in December 2012
(B) Investment exited in December 2012.
(C) New investment added in May 2012.
(D) Investment exited in September 2013.

***Operating Expenses***

Operating expenses, net of credits from the Adviser, decreased for the year ended September 30, 2013, by $3.5 million, or 16.5%, as compared to the year ended September 30, 2012. This decrease was primarily due to a decrease in interest expense on our Credit Facility, other expenses and incentive fees, partially offset by an increase in dividend expense on our Term Preferred Stock.

Interest expense decreased by $1.2 million for the year ended September 30, 2013, as compared to the prior year, due primarily to decreased borrowings under our Credit Facility, resulting from a net contraction in the size of our portfolio. The weighted average balance outstanding on our Credit Facility during the year ended September 30, 2013 was approximately $53.2 million, as compared to $72.2 million in the prior year, a decrease of 26.3%. Additionally, the decrease in interest expense for the year ended September 30, 2013, as compared the prior year, was due to the January 2013 amendment of our Credit Facility to remove the LIBOR minimum of 1.5% on advances.

Other expenses decreased $1.1 million for the year ended September 30, 2013, as compared to the prior year, primarily due to the receipt of certain reimbursable deal expenses in the current year, as well as a decrease in legal expenses incurred in connection with troubled loans during the year ended September 30, 2013, as compared to the year ended September 30, 2012.

The decrease of $1.1 million in net incentive fees earned by the Adviser during the year ended September 30, 2013, as compared to the prior year, was primarily due to the increase in the incentive fee waiver in the current year. Incentive fees were earned by the Adviser during the year ended September 30, 2013 and 2012; however, the incentive fees were partially waived by the Adviser to ensure distributions to stockholders were covered entirely by net investment income during both years.

The base management fee, incentive fee and associated credits are computed quarterly, as described under "*Investment Advisory and Management Agreement*" in Note 4 of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the table below:

| | Year Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Average total assets subject to base management fee(A) | **$ 281,100** | $ 308,250 |
| Multiplied by annual base management fee of 2% | **2.0%** | 2.0% |
| **Base management fee (B)** | **5,622** | 6,165 |
| Credit for fees received by Adviser from the portfolio companies | **(324)** | (342) |
| Fee reduction for the voluntary, irrevocable waiver of 2% fee on senior syndicated loans to 0.5% per annum | **(183)** | (428) |
| **Net Base Management Fee** | **$ 5,115** | $ 5,395 |
| **Incentive fee (B)** | **$ 4,343** | $ 4,691 |
| Credit from voluntary, irrevocable waiver issued by Adviser's board of directors | **(1,014)** | (278) |
| **Net Incentive Fee** | **$ 3,329** | $ 4,413 |
| Credit for fees received by Adviser from the portfolio companies | **$ (324)** | $ (342) |
| Fee reduction for the voluntary, irrevocable waiver of 2% fee on senior syndicated loans to 0.5% per annum | **(183)** | (428) |
| Credit from voluntary, irrevocable waiver issued by Adviser's board of directors | **(1,014)** | (278) |
| **Credits to Fees from Adviser (B)** | **$ (1,521)** | $ (1,048) |

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

(B) Reflected, in total, as a line item on our accompanying *Consolidated Statement of Operations* located elsewhere in this report.

***Realized Loss and Unrealized Appreciation (Depreciation) on Investments***

Realized Losses

For the year ended September 30, 2013, we recorded a net realized loss on investments of $5.2 million, which primarily consisted of realized losses of $2.9 million related to the sale of KCH, $2.4 million related to the sale of Viapack and $0.9 million related to the write off of Access TV. These realized losses were partially offset by realized gains of $1.0 million, which consisted of a combined $0.5 million of escrowed proceeds and tax refunds received in connection with exits on two investments in fiscal year 2012 and an aggregate of $0.5 million of unamortized discounts related to the early payoffs at par of 12 syndicated investments during the year.

For the year ended September 30, 2012, we recorded a net realized loss on investments of $12.8 million, which primarily consisted of realized losses of $7.4 million related to the sale of Newhall Holdings Inc. ("Newhall"), $1.0 million related to the restructure of KMBQ Corporation ("KMBQ"), $1.8 million related to the sale of BERTL, Inc. ("BERTL") and $3.2 million related to the sale of U.S. Healthcare ("USHC"). These realized losses were partially offset by realized gains of $0.5 million, which consisted of a combined $0.2 million of escrowed proceeds received in connection with exits on two investments in each of fiscal year 2012 and 2010 and an aggregate of $0.3 million of unamortized discounts related to the early payoffs at par of 8 syndicated investments during the year.

Net Unrealized Appreciation (Depreciation)

Net unrealized appreciation (depreciation) of investments is the net change in the fair value of our investment portfolio during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are actually realized. During the year ended September 30, 2013, we recorded net unrealized appreciation of investments in the aggregate amount of $15.7 million, which included the reversal of an aggregate of $26.0 million in combined unrealized depreciation primarily related to the repayment of principal in full at par on Lindmark, the sales of Viapack and KCH, and the write off of Access TV. Excluding reversals, we recorded $10.4 million in net unrealized depreciation for the year ended September 30, 2013. Over our entire portfolio, the net unrealized depreciation (excluding reversals) consisted of approximately $5.3 million of depreciation on our debt investments and approximately $5.1 million of depreciation on our equity investments for the year ended September 30, 2013.

The net realized (losses) gains and unrealized (depreciation) appreciation across our investments for the year ended September 30, 2013, were as follows:

| | Year Ended September 30, 2013 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized (Loss) Gain** | **Unrealized (Depreciation) Appreciation** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net Gain (Loss)** |
| Lindmark Acquisition, LLC | $ — | $ (224) | $ 14,006 | $13,782 |
| Viapack, Inc. | (2,407) | — | 6,660 | 4,253 |
| RBC Acquisition Corp. | — | 2,159 | — | 2,159 |
| Sunshine Media Holdings | — | 1,632 | — | 1,632 |
| Westlake Hardware, Inc. | — | — | 640 | 640 |
| GFRC Holdings, LLC | — | 572 | — | 572 |
| North American Aircraft Services LLC | — | 505 | 8 | 513 |
| CMI Acquisition, LLC | — | (927) | 1,426 | 499 |
| Kansas Cable Holdings, Inc. | (2,906) | 401 | 2,922 | 417 |
| Funko | — | 396 | — | 396 |
| FedCap Partners, LLC | — | 384 | — | 384 |
| Allison Publications, LLC | — | 265 | — | 265 |
| Access Television Network, Inc. | (872) | — | 903 | 31 |
| Saunders & Associates | — | (296) | — | (296) |
| WP Evenflo Group Holdings, Inc. | — | (443) | 3 | (440) |
| Francis Drilling Fluids, Ltd. | — | (718) | — | (718) |
| Westland Technologies, Inc. | — | (825) | — | (825) |

| | | | | |
|---|---|---|---|---|
| Targus Group International, Inc. | — | (881) | | (881) |
| Heartland Communications Group | — | (951) | — | (951) |
| AG Transportation Holdings, LLC | — | (1,078) | — | (1,078) |
| Precision Acquisition Group Holdings, Inc. | — | (1,193) | — | (1,193) |
| LocalTel, LLC | — | (1,209) | — | (1,209) |
| BAS Broadcasting | — | (1,493) | — | (1,493) |
| Legend Communications of Wyoming, LLC | — | (1,557) | — | (1,557) |
| Sunburst Media – Louisiana, LLC | — | (1,650) | — | (1,650) |
| Midwest Metal Distribution, Inc. | — | (2,101) | — | (2,101) |
| Defiance Integrated Technologies, Inc. | — | (2,246) | — | (2,246) |
| Other, net (<$250) | 954 | 1,123 | (540) | 1,537 |
| **Total:** | **$(5,231)** | **$(10,355)** | **$26,028** | **$10,442** |

The largest driver of our net unrealized appreciation for the year ended September 30, 2013, was the reversal of unrealized depreciation on Lindmark of $14.0 million, due to the repayment of principal in full at par on the outstanding debt. Additionally there were reversals of unrealized depreciation of $6.7 million on Viapack and $2.9 million on KCH, each of which were related to our exits in these companies during the year. Excluding reversals, there was unrealized appreciation on Reliable of $2.2 million and Sunshine Media Holdings ("Sunshine") of $1.6 million during the year ended September 30, 2013, due to an incremental improvement in the financial and operational performance of these portfolio companies. This appreciation was partially offset by unrealized depreciation of $2.2 million on Defiance Integrated Technologies, Inc. ("Defiance") and $2.1 million on Midwest Metal, due to a decline in these portfolio companies' financial and operation performance.

During the year ended September 30, 2012, we recorded net unrealized depreciation of investments in the aggregate amount of $11.2 million, which included the reversal of an aggregate of $17.0 million in combined unrealized depreciation primarily related to the sales of Newhall, USHC and BERTL and the restructure of KMBQ. Excluding reversals, we recorded $28.2 million in net unrealized depreciation for the year ended September 30, 2012. Over our entire portfolio, the net unrealized depreciation consisted of approximately $21.8 million on our debt investments and approximately $6.4 million of depreciation on our equity investments for the year ended September 30, 2012.

The net realized (losses) gains and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2012, were as follows:

| | Year Ended September 30, 2012 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized (Loss) Gain** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation** | **Net Gain (Loss)** |
| Newhall Holdings, Inc. | $ (7,327) | $ — | $ 9,978 | $ 2,651 |
| FedCap Partners, LLC | — | 1,010 | — | 1,010 |
| Midwest Metal Distribution, Inc. | — | 630 | — | 630 |
| Mood Media Corporation | — | 622 | — | 622 |
| Northern Contours, Inc. | — | — | 444 | 444 |
| Global Materials Technologies, Inc. | — | 422 | — | 422 |
| Vision Solutions, Inc. | — | 374 | — | 374 |
| Keypoint Government Solutions, Inc. | — | 271 | — | 271 |
| Allison Publications, LLC | — | 264 | — | 264 |
| RCS Management Holding Company | — | (81) | 306 | 225 |
| KMBQ Corporation | (1,044) | — | 1,135 | 91 |
| US Healthcare Communications, LLC | (3,173) | — | 3,189 | 16 |
| BERTL, Inc. | (1,771) | (4) | 1,782 | 7 |
| CMI Acquisitions, LLC | — | (571) | — | (571) |
| Francis Drilling Fluids, Ltd. | — | (614) | — | (614) |
| Kansas Cable Holdings, Inc. | — | (658) | — | (658) |
| LocalTel, LLC | — | (962) | — | (962) |
| Precision Acquisition Group Holdings, Inc. | — | (1,078) | — | (1,078) |
| Saunders & Associates | — | (1,150) | — | (1,150) |
| Reliable Pharmaceutical Holdings, Inc. | — | (1,344) | — | (1,344) |
| International Junior Golf Training Acquisition Company | — | (1,415) | — | (1,415) |
| Sunburst Media – Louisiana, LLC | — | (1,612) | — | (1,612) |
| Lindmark Acquisition, LLC | — | (1,739) | — | (1,739) |

| | | | | |
|---|---|---|---|---|
| Viapack, Inc. | — | (1,760) | — | (1,760) |
| Defiance Integrated Technologies, Inc. | — | (3,422) | — | (3,422) |
| GFRC Holdings, LLC | — | (3,845) | — | (3,845) |
| BAS Broadcasting | — | (4,367) | — | (4,367) |
| Sunshine Media Holdings | — | (7,847) | — | (7,847) |
| Other, net (<$250) | 496 | 682 | 166 | 1,344 |
| **Total:** | **$(12,819)** | **$(28,194)** | **$17,000** | **$(24,013)** |

The largest drivers of our net unrealized depreciation for the year ended September 30, 2012, were the unrealized depreciation of Sunshine of $7.8 million, BAS Broadcasting (“BAS”) of $4.4 million, GFRC Holdings, LLC (“GFRC”) of $3.8 million and Defiance of $3.4 million, all primarily due to a decline in the financial and operational performance of these portfolio companies. Of note, Sunshine was put on non-accrual status during the year ended September 30, 2012.

As of September 30, 2013, the fair value of our investment portfolio was less than its cost basis by approximately $75.4 million and our entire investment portfolio was valued at 77.3% of cost, as compared to cumulative net unrealized depreciation of $91.1 million and a valuation of our entire portfolio at 75.0% of cost as of September 30, 2012. This decrease year over year in the cumulative unrealized depreciation on investments represents net unrealized appreciation of $15.7 million for the year ended September 30, 2013. Of our current investment portfolio, 16 portfolio companies originated before December 31, 2007, which represented 46.5% of the entire cost basis of our portfolio, were valued at 61.5% of cost and included our two investments that were on non-accrual status. Our 31 portfolio companies that originated after December 31, 2007, representing 53.5% of the entire cost basis of our portfolio, were valued at 91.0% of cost and none of which were on non-accrual status.

We believe that our aggregate investment portfolio was valued at a depreciated value as of September 30, 2013, primarily due to the lingering effects of the recession that began in 2008 and its affect on the performance of certain of our portfolio companies and also because we were invested in certain industries that have been disproportionately impacted by the recession. The cumulative net unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

***Net Unrealized Depreciation (Appreciation) of Other***

Net unrealized depreciation (appreciation) of other includes the net change in the fair value of our Credit Facility and our interest rate swap during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. During the year ended September 30, 2013, we recorded a net unrealized depreciation of other of $3.4 million, compared to a net unrealized appreciation of $3.0 million for the year ended September 30, 2012. Our Credit Facility was fair valued at $47.1 million and $62.5 million as of September 30, 2013 and 2012, respectively. The interest rate swap was fair valued at $4 as of September 30, 2013 and there was no interest rate swap outstanding during the year ended September 30, 2012.

**Comparison of the Year Ended September 30, 2012 to the Year Ended September 30, 2011**

| | For the Year Ended September 30, | | | |
|---|---|---|---|---|
| | 2012 | 2011 | $ Change | %Change |
| INVESTMENT INCOME | | | | |
| Interest income | **$ 36,077** | $ 33,068 | $ 3,009 | 9.1% |
| Other income | **4,245** | 2,143 | 2,102 | 98.1 |
| Total investment income | **40,322** | 35,211 | 5,111 | 14.5 |
| EXPENSES | | | | |
| Base management fee | **6,165** | 5,731 | 434 | 7.6 |
| Incentive fee | **4,691** | 4,598 | 93 | 2.0 |
| Administration fee | **753** | 729 | 24 | 3.3 |
| Interest expense on borrowings | **4,374** | 2,676 | 1,698 | 63.5 |
| Dividend expense on mandatorily redeemable preferred stock | **2,491** | — | 2,491 | 100.0 |
| Amortization of deferred financing fees | **1,243** | 1,420 | (177) | (12.5) |
| Other expenses | **2,609** | 2,288 | 321 | 14.0 |
| Expenses before credits from Adviser | **22,326** | 17,442 | 4,884 | 28.0 |
| Credits to fees from Adviser | **(1,048)** | (643) | (405) | (63.0) |
| Total expenses net of credits | **21,278** | 16,799 | 4,479 | 26.7 |
| NET INVESTMENT INCOME | **19,044** | 18,412 | 632 | 3.4 |
| REALIZED AND UNREALIZED LOSS | | | | |
| Net realized loss on investments | **(12,819)** | (1,280) | (11,539) | (901.5) |
| Net unrealized depreciation of investments | **(11,194)** | (38,759) | 27,565 | 71.1 |
| Net unrealized (appreciation) depreciation of borrowings | **(3,039)** | 528 | (3,567) | NM |
| Net loss from investments and borrowings | **(27,052)** | (39,511) | 12,459 | 31.5 |
| NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS | **$ (8,008)** | $(21,099) | $ 13,091 | 62.0 |
| PER BASIC AND DILUTED COMMON SHARE | | | | |
| Net investment income | **$ 0.91** | $ 0.88 | $ 0.03 | 3.4 |
| Net decrease in net assets resulting from operations | **$ (0.38)** | $ (1.00) | $ 0.62 | 62.0 |

NM = Not Meaningful

***Investment Income***

Total interest income increased by 9.1%, which was driven by an increase of $3.2 million, or 9.7% on interest income on our investments in debt securities, for the year ended September 30, 2012, as compared to the year ended September 30, 2011. This was primarily due to the increased investment activity during the second half of fiscal year 2011, offset by several early payoffs of investments in 2012 and a slight decrease in our weighted average yield in 2012, as compared to 2011. The increase in investment activity in 2011 was primarily in syndicated investments. The level of interest income on investments is directly related to the principal balance of our interest-bearing investment portfolio during the year, multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2012, was $317.5 million, compared to $291.2 million for the prior year, an increase of $26.3 million or

9.0%. The weighted average yield on the principal balance of our interest-bearing investments for the year ended September 30, 2012, was 11.3%, as compared to 11.2% for the prior year. The weighted average yield on our portfolio increased slightly during the year ended September 30, 2012, as compared to the prior year, due to the early payoffs of several syndicated investments.

As of September 30, 2012, six portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately $61.1 million, or 17.3% of the cost basis of all debt investments in our portfolio. As of September 30, 2011, eight portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $41.1 million, or 11.0% of the cost basis of all debt investments in our portfolio. During the year ended September 30, 2012, we sold our investments in two portfolio companies that had been on non-accrual status. There were no new non-accruals added during the year ended September 30, 2012.

Other income for the years ended September 30, 2012 and 2011, consisted primarily of success fees, which we generally recognize when payment is received. During the year ended September 30, 2012, we received an aggregate of $4.0 million in success fees, which resulted from the early payoffs at par of Winchester for $1.2 million, GMT for $1.1 million, RCS for $0.9 million and Northern Contours for $0.8 million. In addition, we received prepayment fees in the aggregate of $0.2 million during the year ended September 30, 2012, which resulted from the early payoffs of five of our syndicate investments at par during the year.

During the year ended September 30, 2011, we received an aggregate of $1.0 million of success fees, which resulted from the early payoffs at par of Interfilm Holdings, Inc. (“Interfilm”) for $0.1 million and Pinnacle Treatment Centers, Inc. (“Pinnacle”) for $0.5 million and also a prepaid success fee of $0.4 million from Westlake. In addition, we received an aggregate of $1.0 million from two legal settlements related to portfolio companies, which was recorded in other income during the year ended September 30, 2011.

The following tables list the investment income for our five largest portfolio company investments at fair value during the respective years:

| | As of September 30, 2012 | | Year Ended September 30, 2012 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| Reliable Biopharmaceutical Holdings, Inc. | $ 25,439 | 9.3% | $ 3,193 | 7.9% |
| Westlake Hardware, Inc.(A) | 19,360 | 7.1 | 2,592 | 6.4 |
| Midwest Metal Distribution, Inc. | 17,824 | 6.5 | 2,249 | 5.6 |
| Francis Drilling Fluids, Ltd.(B) | 15,385 | 5.6 | 750 | 1.9 |
| CMI Acquisition, LLC(C) | 13,766 | 5.0 | 2,021 | 5.0 |
| **Subtotal—five largest investments** | **91,774** | **33.5** | **10,805** | **26.8** |
| Other portfolio companies | 182,186 | 66.5 | 29,257 | 72.6 |
| Other non-portfolio company income | — | — | 260 | 0.6 |
| **Total investment portfolio** | **$273,960** | **100.0%** | **$ 40,322** | **100.0%** |

| | As of September 30, 2011 | | Year Ended September 30, 2011 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| Reliable Biopharmaceutical Holdings, Inc. | $ 25,295 | 8.3% | $ 3,090 | 8.8% |
| Westlake Hardware, Inc.(A) | 19,340 | 6.4 | 2,935 | 8.3 |
| Midwest Metal Distribution, Inc. | 17,184 | 5.7 | 2,242 | 6.4 |
| Defiance Integrated Technologies, Inc. | 15,039 | 5.0 | 888 | 2.5 |
| CMI Acquisition, LLC(C) | 14,336 | 4.7 | 1,038 | 3.0 |
| **Subtotal—five largest investments** | **91,194** | **30.1** | **10,193** | **29.0** |
| Other portfolio companies | 211,753 | 69.9 | 24,586 | 69.8 |
| Other non-portfolio company income | — | — | 432 | 1.2 |
| **Total investment portfolio** | **$302,947** | **100.0%** | **$ 35,211** | **100.0%** |

(A) Investment exited in December 2012.
(B) New investment added in May 2012.
(C) Investment exited in September 2013.

***Operating Expenses***

Operating expenses, net of credits from the Adviser, increased for the year ended September 30, 2012, by $4.5 million, or 26.7%, as compared to the year ended September 30, 2011. This increase was primarily due to increases in dividend expense on our Term Preferred Stock, interest expense on our Credit Facility and other expenses, partially offset by the decrease in the net incentive fees.

During the year ended September 30, 2012, we paid $2.5 million of dividends on our Term Preferred Stock. We classify these dividends as dividend expense on our accompanying *Consolidated Statements of Operations*. There was no preferred stock dividends paid in the year ended September 30, 2011, as our Term Preferred Stock offering occurred in November 2011.

Interest expense increased by $1.7 million for the year ended September 30, 2012, as compared to the prior year, due primarily to increased borrowings under our Credit Facility to facilitate the increased investment activity during the year. The weighted average balance outstanding on our Credit Facility during the year ended September 30, 2012, was approximately $72.2 million, as compared to $49.2 million in the prior year, an increase of 46.7%.

Other expenses increased by $0.3 million during the year ended September 30, 2012, as compared to the prior year, primarily due to expenses of $0.2 million being recognized for the termination of an equity distribution agreement, discussed in detail under *"Liquidity and Capital Resources—Equity"* further below and also due to increases in bad debt expense related to receivables from certain portfolio companies.

The decrease of $0.2 million in net incentive fees earned by the Adviser during the years ended September 30, 2012, as compared to the prior year, was due primarily to the increase in the incentive fee waiver in the 2012 fiscal year. Incentive fees were earned by the Adviser during the years ended September 30, 2013 and 2012; however, the incentive fees were partially waived by the Adviser to ensure distributions to stockholders were covered entirely by net investment income during both years.

The base management fee, incentive fee and associated credits are computed quarterly as described under "*Investment Advisory and Management Agreement*" in Note 4 of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the table below:

| | Year Ended September 30, | |
|---|---|---|
| | **2012** | **2011** |
| Average total assets subject to base management fee(A) | **$ 308,250** | $ 286,550 |
| Multiplied by annual base management fee of 2.0% | **2.0%** | 2.0% |
| **Base management fee(B)** | **6,165** | 5,731 |
| Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum | **(428)** | (383) |
| Credit for fees received by Adviser from the portfolio companies | **(342)** | (239) |
| **Net Base Management Fee** | **$ 5,395** | $ 5,109 |
| **Incentive fee(B)** | **$ 4,691** | $ 4,598 |
| Credit from voluntary, irrevocable waiver issued by Adviser's board of directors | **(278)** | (21) |
| **Net Incentive Fee** | **$ 4,413** | $ 4,577 |
| Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum | **$ (428)** | $ (383) |
| Credit for fees received by Adviser from portfolio companies | **(342)** | (239) |
| Credit from voluntary, irrevocable waiver issued by Adviser's board of directors | **(278)** | (21) |
| **Credits to Fees from Adviser(B)** | **$ (1,048)** | $ (643) |

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

(B) Reflected, in total, as a line item on our accompanying *Consolidated Statement of Operations* located elsewhere in this report.

***Realized Loss and Unrealized Depreciation on Investments***

Realized Losses

For the year ended September 30, 2012, we recorded a net realized loss on investments of $12.8 million, which primarily consisted of realized losses of $7.4 million related to the sale of Newhall, $1.0 million related to the restructure of KMBQ, $1.8 million related to the sale of BERTL and $3.2 million related to the sale of USHC. These realized losses were partially offset by realized gains of $0.5 million, which consisted of a combined $0.2 million of escrowed proceeds received in connection with exits on two investments in each of fiscal year 2012 and 2010 and an aggregate of $0.3 million of unamortized discounts related to the early payoffs at par of eight syndicated investments during the year.

For the year ended September 30, 2011, we recorded a net realized loss on investments of $1.3 million, which related primarily to the realized loss on the restructuring of our loans to SCI Cable, Inc. ("SCI"), which resulted in a new Control portfolio company, KCH.

Net Unrealized Depreciation

Net unrealized depreciation of investments is the net change in the fair value of our investment portfolio during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are actually realized. During the year ended September 30, 2012, we recorded net unrealized depreciation of investments in the aggregate amount of $11.2 million, which included the reversal of an aggregate of $17.0 million in combined unrealized depreciation primarily related to the sales of Newhall, USHC and BERTL and the restructure of KMBQ. Excluding reversals, we recorded $28.2 million in net unrealized depreciation for the year ended September 30, 2012. Over our entire portfolio, the net unrealized depreciation consisted of approximately $21.8 million on our debt investments and approximately $6.4 million of depreciation on our equity investments for the year ended September 30, 2012.

The net realized (losses) gains and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2012, were as follows:

| | Year Ended September 30, 2012 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized (Loss) Gain** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation** | **Net Gain (Loss)** |
| Newhall Holdings, Inc. | $ (7,327) | $ — | $ 9,978 | $ 2,651 |
| FedCap Partners, LLC | — | 1,010 | — | 1,010 |
| Midwest Metal Distribution, Inc. | — | 630 | — | 630 |
| Mood Media Corporation | — | 622 | — | 622 |
| Northern Contours, Inc. | — | — | 444 | 444 |
| Global Materials Technologies, Inc. | — | 422 | — | 422 |
| Vision Solutions, Inc. | — | 374 | — | 374 |
| Keypoint Government Solutions, Inc. | — | 271 | — | 271 |
| Allison Publications, LLC | — | 264 | — | 264 |
| RCS Management Holding Company | — | (81) | 306 | 225 |
| KMBQ Corporation | (1,044) | — | 1,135 | 91 |
| US Healthcare Communications, LLC | (3,173) | — | 3,189 | 16 |
| BERTL, Inc. | (1,771) | (4) | 1,782 | 7 |
| CMI Acquisitions, LLC | — | (571) | — | (571) |
| Francis Drilling Fluids, Ltd. | — | (614) | — | (614) |
| Kansas Cable Holdings, Inc. | — | (658) | — | (658) |
| LocalTel, LLC | — | (962) | — | (962) |
| Precision Acquisition Group Holdings, Inc. | — | (1,078) | — | (1,078) |
| Saunders & Associates | — | (1,150) | — | (1,150) |
| Reliable Pharmaceutical Holdings, Inc. | — | (1,344) | — | (1,344) |
| International Junior Golf Training Acquisition Company | — | (1,415) | — | (1,415) |
| Sunburst Media – Louisiana, LLC | — | (1,612) | — | (1,612) |
| Lindmark Acquisition, LLC | — | (1,739) | — | (1,739) |
| Viapack, Inc. | — | (1,760) | — | (1,760) |

| | | | | |
|---|---|---|---|---|
| Defiance Integrated Technologies, Inc. | — | (3,422) | — | (3,422) |
| GFRC Holdings, LLC | — | (3,845) | — | (3,845) |
| BAS Broadcasting | — | (4,367) | — | (4,367) |
| Sunshine Media Holdings | — | (7,847) | — | (7,847) |
| Other, net (<$250) | 496 | 682 | 166 | 1,344 |
| **Total:** | **$(12,819)** | **$(28,194)** | **$17,000** | **$(24,013)** |

The largest drivers of our net unrealized depreciation for the year ended September 30, 2012, were the unrealized depreciation of Sunshine of $7.8 million, BAS of $4.4 million, GFRC of $3.8 million and Defiance of $3.4 million, all primarily due to a decline in the financial and operational performance of these portfolio companies. Of note, Sunshine was placed on non-accrual status during the year ended September 30, 2012.

During the year ended September 30, 2011, we recorded net unrealized depreciation of investments in the aggregate amount of $38.8 million, which included the reversal of $4.0 million related to the restructure of SCI. Excluding reversals, we recorded $42.7 million in net unrealized depreciation for the year ended September 30, 2011. Over our entire portfolio, the net unrealized depreciation was comprised of approximately $46.0 million in depreciation on our debt investments and approximately $3.3 million in appreciation on our equity investments for the year ended September 30, 2011.

The net realized (losses) gains and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2011, were as follows:

| | Year Ended September 30, 2011 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized (Loss) Gain** | **Net Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net Gain (Loss)** |
| Defiance Integrated Technologies, Inc. | $ — | $ 5,992 | $ — | $ 5,992 |
| Midwest Metal Distribution, Inc. | — | 1,637 | — | 1,637 |
| SCI Cable, Inc. | (1,283) | (785) | 3,676 | 1,608 |
| KMBQ Corporation | — | 738 | — | 738 |
| Puerto Rico Cable Acquisition Company, Inc. | (16) | — | 732 | 716 |
| WP Evenflo Group Holdings, Inc. | — | 485 | — | 485 |
| Airvana Network Solutions, Inc. | 177 | 267 | (216) | 228 |
| Westlake Hardware, Inc. | — | (280) | — | (280) |
| Vision Solutions, Inc. | — | (355) | — | (355) |
| BAS Broadcasting | — | (411) | — | (411) |
| LocalTel, LLC | — | (479) | — | (479) |
| Mood Media Corporation | — | (553) | — | (553) |
| International Junior Golf Training Acquisition Company | — | (666) | — | (666) |
| Access Television Network, Inc. | — | (704) | — | (704) |
| Sunburst Media—Louisiana, LLC | — | (847) | — | (847) |
| Heartland Communications Group | — | (871) | — | (871) |
| Legend Communications of Wyoming LLC | — | (975) | — | (975) |
| GFRC Holdings LLC | — | (1,668) | — | (1,668) |
| Kansas Cable Holdings, Inc. | — | (2,665) | — | (2,665) |
| Lindmark Acquisition, LLC | — | (4,547) | — | (4,547) |
| Viapack, Inc. | — | (4,882) | — | (4,882) |
| Newhall Holdings, Inc. | — | (9,339) | — | (9,339) |
| Sunshine Media Holdings | (158) | (21,237) | — | (21,395) |
| Other, net (<$250) | — | (583) | (223) | (806) |
| **Total:** | **$(1,280)** | **$ (42,728)** | **$ 3,969** | **$(40,039)** |

The largest driver of our net unrealized depreciation for the year ended September 30, 2011, was the notable depreciation in Sunshine, which was primarily due to a decline in its financial and operational performance. During the quarter ended March 31, 2011, we restructured our investment in Sunshine and took a controlling position. In addition, there was unrealized depreciation on Newhall of $9.3 million, Viapack of $4.9 million and Lindmark of $4.5 million, all primarily due to a decline in the financial and operational performance of these portfolio companies during the year ended September 30, 2011. Partially offsetting the unrealized depreciation was the unrealized appreciation of $6.0 million on Defiance, which resulted from an improvement in portfolio company performance and in certain comparable multiples. Of note, subsequent to September 30, 2011, Newhall and Viapack were sold and substantially all of Lindmark's assets were sold and its debt outstanding at the time was repaid in full at par.

As of September 30, 2012, the fair value of our investment portfolio was less than its cost basis by approximately $91.1 million, and our entire investment portfolio was valued at 75.0% of cost, as compared to cumulative net unrealized depreciation of $79.9 million and a valuation of our entire portfolio at 79.1% of cost as of September 30, 2011. This increase year over year in the cumulative unrealized depreciation on investments represents net unrealized depreciation of $11.2 million for the year ended September 30, 2012. Of the investment portfolio as of September 30, 2012, 21 portfolio companies originated before December 31, 2007, which represented 57.7% of the entire cost basis of the portfolio, were valued at 61.9% of cost and included the six investments that were on non-accrual status. Of the investment portfolio as of September 30, 2012, 29 portfolio companies that originated after December 31, 2007, representing 42.3% of the entire cost basis of our portfolio, were valued at 93.0% of cost and none of which were on non-accrual status.

We believe that our aggregate investment portfolio was valued at a depreciated value as of September 30, 2012, primarily due to the lingering effects of the recession that began in 2008 and its affect on the performance of certain of our portfolio companies and also because we were invested in certain industries that have been disproportionately impacted by the recession. The cumulative net unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

***Net Unrealized (Appreciation) Depreciation of Borrowings***

Net unrealized (appreciation) depreciation of borrowings is the net change in the fair value of our Credit Facility during the year, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. During the year ended September 30, 2012, we recorded a net unrealized appreciation of borrowings of $3.0 million compared to $0.5 million of net unrealized depreciation for the year ended September 30, 2011. Our Credit Facility was fair valued at $62.5 million and $100.0 million as of September 30, 2012 and September 30, 2011, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

**Operating Activities**

Our cash flows from operations generally come from the interest payments on debt securities that we receive from our portfolio companies, as well as cash proceeds received through repayments or sales of our investments. We utilize this cash primarily to pay interest payments on our Credit Facility, distributions to our stockholders, management fees to the Adviser, and other operating expenses. Net cash provided by operating activities for the year ended September 30, 2013, was $32.1 million as compared to $26.2 million for the year ended September 30, 2012. The increase in cash from operating activities was primarily due to the increase in repayments on investments, partially offset by an increase in purchases of investments during the year ended September 30, 2013. For the year ended September 30, 2011, net cash used in operating activities was $68.4 million, which was primarily driven by increased new investment activity during fiscal year 2011.

As of September 30, 2013, we had loans to, syndicated participations in and/or equity investments in 47 private companies, with an aggregate cost basis of approximately $332.3 million. As of September 30, 2012, we had loans to, syndicated participations in and/or equity investments in 50 private companies, with an aggregate cost basis of approximately $365.0 million.

The following table summarizes our total portfolio investment activity during the years ended September 30, 2013 and 2012:

| | Year Ended September 30, 2013 | 2012 |
|---|---|---|
| Beginning investment portfolio at fair value | **$ 273,960** | $302,947 |
| New investments | **80,418** | 45,050 |
| Disbursements to existing portfolio companies | **9,739** | 23,891 |
| Scheduled principal repayments | **(7,369)** | (7,149) |
| Unscheduled principal repayments | **(103,122)** | (60,221) |
| Proceeds from sales | **(6,557)** | (6,487) |
| Net unrealized depreciation | **(10,355)** | (28,194) |
| Reversal of prior periods' net depreciation on realization | **26,028** | 17,000 |
| Net realized loss | **(5,753)** | (12,998) |
| Increase in investment balance due to PIK interest(A) | **234** | — |
| Net change in premiums, discounts and amortization | **(345)** | 121 |
| **Ending Investment Portfolio at Fair Value** | **$ 256,878** | $273,960 |

(A) PIK interest is a non-cash source of income and is calculated at the contractual rate stated in a loan agreement and added to the principal balance of a loan.

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by year, assuming no voluntary prepayments, at September 30, 2013.

| Year Ending September 30, | Amount |
|---|---|
| 2014 | $ 72,305 |
| 2015 | 44,860 |
| 2016 | 95,288 |
| 2017 | 18,657 |
| 2018 | 45,713 |
| Thereafter | 37,779 |
| **Total Contractual Repayments** | **$314,602** |
| Equity Investments | 18,613 |
| Adjustments to cost basis on debt investments | (949) |
| **Total Cost Basis of Investments Held at September 30, 2013:** | **$332,266** |

**Financing Activities**

Net cash used in financing activities for the year ended September 30, 2013 was $28.1 million and consisted primarily of distributions to common stockholders of $17.6 million and net repayments on our Credit Facility of $11.9 million.

Net cash used in financing activities for the year ended September 30, 2012 was $22.8 million and consisted primarily of net repayments on our Credit Facility of $40.6 million and distributions to common stockholders of $17.7 million. These financing activities were partially offset by proceeds from the issuance of our Term Preferred Stock of $38.5 million in November 2011.

Net cash provided by financing activities for the year ended September 30, 2011 was $67.4 million and primarily consisted of net borrowings on our Credit Facility of $82.6 million, partially offset by distributions to common stockholders of $17.7 million.

**Distributions to Stockholders**

***Common Stock Distributions***

To qualify to be taxed as a RIC and thus avoid corporate level federal income tax on the income we distribute to our stockholders, we are required to distribute to our stockholders on an annual basis at least 90.0% of our investment company taxable income. In accordance with these requirements, we declared and paid monthly cash distributions of $0.07 per common share for each month during the years ended September 30, 2013, 2012 and 2011, which totaled an aggregate of $17.6 million, $17.7 million and $17.7 million, respectively. In October 2013, our Board of Directors declared a monthly distribution of $0.07 per common share for each of October, November and December 2013. Our Board of Directors declared these distributions to our stockholders based on our estimates of net investment income for the fiscal year ending September 30, 2014. Additionally, the covenants in our Credit Facility restrict the amount of distributions to stockholders that we can pay out to be no greater than our net investment income in each fiscal year. As of September 30, 2013, we have paid 120 consecutive monthly cash distributions and prior to that, we paid 8 consecutive quarterly cash distributions.

For each of the years ended September 30, 2013 and 2012, common stockholder distributions declared and paid exceeded our current and accumulated earnings and profits (after taking into account our Term Preferred Stock dividends), which resulted in a partial return of capital of approximately $1.3 million and $1.5 million, respectively. The returns of capital resulted primarily from accounting principles generally accepted in the U.S. ("GAAP") realized losses being recognized as ordinary losses for federal income tax purposes in each of those fiscal years. Our accumulated earnings and profits exceeded common stockholder distributions declared and paid for the year ended September 30, 2011, and we therefore elected to treat $0.7 million of common distributions paid in fiscal year 2011 as having been paid in fiscal year 2012.

***Preferred Stock Distributions***

We also declared and paid monthly cash distributions of $0.1484375 per share of Term Preferred Stock for each month during the year ended September 30, 2013, which totaled an aggregate of $2.7 million. In October 2013, our Board of Directors declared a monthly distribution of $0.1484375 per share of Term Preferred Stock for each of October, November and December 2013. During the year ended September 30, 2012, we declared and paid monthly cash distributions of $0.1484375 per share of Term Preferred Stock for a prorated period in November 2011 and for each month from December 2011 through September 2012, which totaled an aggregate of $2.5 million. In accordance with GAAP, we treat these monthly distributions to preferred stockholders as an operating expense. For federal income tax purposes, distributions paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

***Dividend Reinvestment Plan***

We offer a dividend reinvestment plan for our common stockholders through our transfer agent, Computershare, Inc. This is an “opt in” dividend reinvestment plan, meaning that common stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Common stockholders who do not so elect will receive their dividends in cash. Common stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. The common stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the date on which the shares are credited to the common stockholder’s account. We do not have a dividend reinvestment plan for our preferred stock stockholders.

**Equity**

***Registration Statement***

On November 29, 2012, we filed our Registration Statement on Form N-2 (File No. 333-185191) that was amended on January 17, 2013, and which the SEC declared effective on January 18, 2013. Our Registration Statement is a universal shelf registration statement and permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of such securities. We have not issued any securities to date under our Registration Statement.

***Common Stock***

On May 17, 2010, we and the Adviser entered into an equity distribution agreement (the “Agreement”) with BB&T Capital Markets, a division of Scott & Stringfellow, LLC (the “Agent”), under which we could, from time to time, issue and sell through the Agent, as sales agent, up to 2.0 million shares of our common stock, par value $0.001 per share. In October 2012, we terminated this agreement. No shares were ever issued pursuant to this Agreement. Prepaid costs of $0.2 million related to the origination of this Agreement were expensed in the three months ended September 30, 2012.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. Additionally, when our common stock is trading below NAV, as it has consistently over the last four years, the 1940 Act restricts our ability to obtain additional capital by issuing common stock. Generally, the 1940 Act provides that we may not issue and sell our common stock at a price below our then current NAV per common share, other than to our then existing common stockholders pursuant to a rights offering, without first obtaining approval from our stockholders and our independent directors. As of September 30, 2013, our NAV per common share was $9.81 and as of November 18, 2013 our closing market price was $9.44 per common share. To the extent that our common stock continues to trade at a market price below our NAV per common share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder approval or a rights offering to existing common stockholders.

At our annual meeting of stockholders held on February 14, 2013, our stockholders approved a proposal that authorizes us to sell shares of our common stock at a price below our then current NAV per common share for a period of one year from the date of such approval, provided that our Board of Directors makes certain determinations prior to any such sale. At the upcoming annual meeting of stockholders scheduled for February 13, 2014, our stockholders will again be asked to vote in favor of renewing this proposal for another year. We have not issued any common stock since February 2008 and have never issued common stock below the then current NAV per common share.

***Term Preferred Stock***

Pursuant to our prior registration statement, in November 2011, we completed an offering of 1.5 million shares of Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $38.5 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us were approximately $36.4 million and were used to repay a portion of outstanding borrowings under our Credit Facility. We incurred $2.1 million in total offering costs related to these transactions, which have been recorded as an asset in accordance with GAAP and amortized over the redemption period ending December 31, 2016. No preferred stock had been issued prior to this issuance and we have not issued any additional preferred stock since November 2011.

Our Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly (which equates to approximately $2.7 million per year). We are required to redeem all of our outstanding Term Preferred Stock on December 31, 2016 for cash at a redemption price equal to $25.00 per share plus an amount equal to accumulated but unpaid dividends, if any, to the date of redemption. Our Term Preferred Stock has a preference over our common stock with respect to these dividends, whereby no distributions are payable on our common stock unless the stated dividends, including any accrued and unpaid dividends, on our Term Preferred Stock have been paid in full. In addition, the two other potential redemption triggers for our Term Preferred Stock are as follows: (1) if we fail to maintain an asset coverage ratio (as calculated under Section 18(h) of the 1940 Act) of at least 200%, we are required to redeem a portion of our outstanding Term Preferred Stock or otherwise cure the ratio redemption trigger; and (2) at our sole option, at any time on or after December 31, 2012. No redemptions of our outstanding Term Preferred Stock have been made to date.

Our Term Preferred Stock has been recorded as a liability in accordance with GAAP and, as such, affects our asset coverage, exposing us to additional leverage risks. In addition, our Term Preferred Stock is not convertible into our common stock or any other security. Our Term Preferred Stock is currently traded on the NASDAQ with a trading symbol of "GLADP."

**Revolving Credit Facility**

On April 26, 2013, we, through our wholly-owned subsidiary, Business Loan, entered into Amendment No. 6 to the fourth amended and restated credit agreement (our "Credit Facility") to extend the maturity date for one year to January 19, 2016 (the "Maturity Date"). Our $137.0 million revolving Credit Facility was arranged by Key Equipment Finance Inc. ("Key Equipment") as administrative agent. Keybank National Association ("Keybank"), Branch Banking and Trust Company and ING Capital LLC also joined our Credit Facility as committed lenders. Subject to certain terms and conditions, our Credit Facility may be expanded from $137.0 to a maximum of $237.0 million through the addition of other committed lenders to the facility. The interest rates on advances under our Credit Facility generally bear interest at a 30-day LIBOR plus 3.75% per annum, with a commitment fee of 0.5% per annum on undrawn amounts when our facility is drawn more than 50% and 1.0% per annum on undrawn amounts when our facility is drawn less than 50%. If our Credit Facility is not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before November 30, 2016. We incurred fees of $0.7 million in April 2013 in connection with this amendment, which are being amortized through the Maturity Date of our Credit Facility. All other terms of our Credit Facility remained generally unchanged at the time of this amendment.

Prior to the April 26, 2013 amendment, on January 29, 2013, we, through Business Loan, amended our Credit Facility to remove the LIBOR minimum of 1.5% on advances. In addition, on January 19, 2012, we, through Business Loan, amended our Credit Facility to extend the then current maturity date of our revolving line of credit from March 15, 2012 to January 19, 2015, which has subsequently been amended to January 19, 2016, as described above. We incurred fees of $0.6 million in January 2013 and $1.5 million in January 2012 in connection with these amendments, which are being amortized through the Maturity Date of our Credit Facility. All other terms of our Credit Facility remained generally unchanged at the time of these amendments.

Interest is payable monthly during the term of our Credit Facility. Available borrowings are subject to various constraints imposed under our Credit Facility, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required.

Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with Key Equipment as custodian. Key Equipment, who also serves as the trustee of the account, generally remits the collected funds to us once a month.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies. Our Credit Facility also limits payments of distributions to our stockholders to aggregate net investment income for each of the twelve month periods ending September 30, 2013, 2014, 2015, and 2016. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base in order to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, interest rate type, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a required minimum number of 20 obligors in the borrowing base of our Credit Facility. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our Term Preferred Stock) of $190.0 million plus 50.0% of all equity and subordinated debt raised after January 19, 2012, which equates to $190.0 million as of September 30, 2013, (ii) asset coverage with respect to Senior Securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of September 30, 2013, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $244.5 million, an asset coverage of 341.0% and an active status as a BDC and RIC. In addition, we had 31 obligors in the borrowing base of our Credit Facility as of September 30, 2013. As of September 30, 2013, we were in compliance with all of our Credit Facility covenants.

On July 15, 2013, we, through our wholly-owned subsidiary, Business Loan, entered into an interest rate cap agreement with Keybank, effective July 9, 2013 and expiring January 19, 2016, for a notional amount of $35.0 million that effectively limits the interest rate on a portion of our borrowings under our revolving line of credit pursuant to the terms of our Credit Facility. The one month LIBOR cap is set at 5.0%. We incurred a premium fee of $62 in conjunction with this agreement. Beginning with the quarter ending September 30, 2013, we have recorded the fair value of the interest rate cap agreement in other assets in our accompanying *Consolidated Statements of Assets and Liabilities* and the change in the fair value based on the current market valuations at quarter end in net unrealized appreciation (depreciation) of other in our accompanying *Consolidated Statements of Operations*.

**Contractual Obligations and Off-Balance Sheet Arrangements**

We have lines of credit with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements.

In addition to the lines of credit with our portfolio companies, we, from time to time, have also extended certain guarantees on behalf of some our portfolio companies during the normal course of business. As of September 30, 2013, we were not party to any guarantees.

When investing in certain private equity funds, we may have uncalled capital commitments depending on the agreed upon terms of our committed ownership interest. These capital commitments usually have a specific date in the future set as a closing date, at which time the commitment is either funded or terminates. As of September 30, 2013, we had uncalled capital commitments related to our partnership interest in Leeds Novamark Capital I, L.P.

We estimate the fair value of our unused line of credit and uncalled capital commitments and our guarantee as of September 30, 2013 to be minimal; and therefore, they are not recorded on our accompanying *Consolidated Statements of Assets and Liabilities*.

The following table shows our contractual obligations as of September 30, 2013 at cost:

| Contractual Obligations(A) | Payments Due by Period<br>Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|
| Credit Facility(B) | $ — | $ 46,900 | $ — | $ — | $46,900 |
| Term Preferred Stock | — | 38,497 | — | — | 38,497 |
| Interest expense on debt obligations(C) | 5,535 | 7,073 | — | — | 12,608 |
| **Total** | **$ 5,535** | **$ 92,470** | **$ —** | **$ —** | **$98,005** |

(A) Excludes our unused line of credit and uncalled capital commitments to our portfolio companies in an aggregate amount of $9.2 million as of September 30, 2013.

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

(C) Includes estimated interest payments on our Credit Facility and dividend obligations on our Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and balances as of September 30, 2013. Dividend payments on our Term Preferred Stock assume quarterly dividend declarations and monthly dividend distributions through the date of mandatory redemption.

Of our interest bearing debt investments as of September 30, 2013, 45.5% had a success fee component, which enhances the yield on our debt investments. Unlike PIK income, we do not recognize success fees as income until they are received in cash. As a result, as of September 30, 2013, we have an aggregate off-balance sheet success fee receivable of $14.8 million, or approximately $0.71 per common share, on our accruing debt investments that would be owed to us based on our current portfolio if fully paid off. Due to their contingent nature, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

## Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, including disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the years reported. Actual results could differ materially from those estimates under different assumptions or conditions. 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 accompanying *Consolidated Financial Statements* is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. The Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC”) 820, “*Fair Value Measurement and Disclosures*,” defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

- *Level 1* —inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2* —inputs to the valuation methodology include quoted prices for similar assets and liabilities in active or inactive markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and
- *Level 3* —inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the asset or liability and can include the Adviser’s assumptions based upon the best available information.

Our investment portfolio is comprised of debt and equity securities of privately held companies for which quoted prices or other inputs falling within the categories of Level 1 and Level 2 are generally not available. Therefore, as of September 30, 2013 and 2012, all of our investments were valued using Level 3 inputs. See Note 3—*Investments* in our accompanying *Consolidated Financial Statements* included elsewhere in this report for additional information regarding fair value measurements and our application of ASC 820.

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

General Valuation Policy

In determining the value of our investments, the Adviser has established an investment valuation policy (the "Policy"). The Policy has been approved by our Board of Directors, and each quarter our Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether or not to accept the recommended valuation of our investment portfolio. The Adviser values our investments in accordance with the requirements of the 1940 Act. As discussed more fully below, the Adviser values securities for which market quotations are readily available and reliable at their market value. The Adviser values all other securities and assets at fair value as determined in good faith by our Board of Directors. Such determination of fair values may involve subjective judgments and estimates.

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

- Publicly traded securities;
- Securities for which a limited market exists; and
- Securities for which no market exists.

Valuation Method

**Publicly traded securities:** The Adviser determines the value of publicly traded securities based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own a restricted security that is not freely tradable, but for which a public market otherwise exists, the Adviser will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature. As of September 30, 2013 and 2012, we did not have any investments in publicly traded securities.

**Securities for which a limited market exists:** The Adviser values securities that are not traded on an established secondary securities market, but for which a limited market for the security exists, such as certain participations in, or assignments of, syndicated loans, at the quoted bid price, which are non-binding. In valuing these assets, the Adviser assesses trading activity in an asset class, evaluates variances in prices and other market insights to determine if any available quote prices are reliable. If the Adviser concludes that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if a firm bid price is unavailable, the Adviser bases the value of the security upon the indicative bid price ("IBP") offered by the respective originating syndication agent's trading desk, or secondary desk, on or near the valuation date. To the extent that the Adviser uses the IBP as a basis for valuing the security, it may take further steps to consider additional information to validate that price in accordance with the Policy, including but not limited to reviewing a range of indicative bids to the extent it has ready access to such qualified information.

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

As of September 30, 2013 and 2012, the Adviser determined that the IBPs were reliable indicators of fair value for our syndicate investments. However, because of the private nature of this marketplace (meaning actual transactions are not publicly-reported), we believe that these valuation inputs are classified as Level 3 within the fair value hierarchy as defined in ASC 820.

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

**(A)** **Portfolio investments comprised solely of debt securities:** Debt securities that are not publicly traded on an established securities market, or for which a limited market does not exist ("Non-Public Debt Securities"), and that are issued by portfolio companies where we have no equity or equity-like securities, are fair valued utilizing estimates of value submitted to the Adviser by Standard & Poor's Securities Evaluations, Inc. ("SPSE") and its own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. The Adviser may also submit PIK interest to SPSE for their evaluation when it is determined that PIK interest is likely to be received.

In the case of Non-Public Debt Securities, the Adviser has engaged SPSE to submit opinions of value for our debt securities that are issued by portfolio companies in which we own no equity, or equity-like securities. SPSE will only evaluate the debt portion of our investments for which the Adviser specifically requests evaluation, and may decline to make requested evaluations for any reason at its sole discretion. Upon completing the Adviser's collection of data with respect to the investments (which may include the information described below under "—Credit Information," the risk ratings of the loans described below under "—Loan Grading and Risk Rating" and the factors described hereunder), this valuation data is forwarded to SPSE for review and analysis. SPSE makes its independent assessment of the data that the Adviser has assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

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

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

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

**(B)** **Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities:**The fair value of these investments is determined based on the total enterprise value ("TEV") of the portfolio company, or issuer, utilizing a liquidity waterfall approach. For Non-Public Debt Securities and equity or equity-like securities (e.g. preferred equity, common equity, or other equity-like securities) that are purchased together as part of a package, where we have control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale or recapitalization of the portfolio company. We generally exit the debt and equity securities of one issuer together. Applying the liquidity waterfall approach to all of the investments of an issuer, the Adviser first calculates the TEV of the issuer by incorporating some or all of the following factors:

- the issuer's ability to make payments;

- the earnings of the issuer;
- recent sales to third parties of similar securities;
- the comparison to publicly traded securities; and
- DCF or other pertinent factors.

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

**(C)** **Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities:**The Adviser values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical secondary market as our principal market. In accordance with ASC 820 (as amended by the FASB's Accounting Standards Update No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards*," ("ASU 2011-04"), the Adviser has defined our "unit of account" at the investment level (either debt or equity) and therefore it determines the fair value of these non-control investments assuming the sale of an individual security using the stand-alone premise of value. As such, the Adviser estimates the fair value of the debt component using estimates of value provided by SPSE and its own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, the Adviser estimates the fair value of the equity based on factors such as the overall value of the issuer, the relative fair value of other units of account including debt, or other relative value approaches. Consideration also is given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, the Adviser may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in absence of other observable market data, its own assumptions.

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

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

Valuation Considerations

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

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

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

Credit Information

The Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance. Generally, we, through the Adviser, participate in periodic board meetings of our portfolio companies in which we hold voting securities and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, the Adviser calculates and evaluates the credit statistics.

Loan Grading and Risk Rating

As part of the Adviser's valuation procedures above, it risk rates all of our investments in debt securities. The Adviser does not risk rate our equity securities. For syndicated loans that have been rated by a Nationally Recognized Statistical Rating Organization ("NRSRO") (as defined in Rule 2a-7 under the 1940 Act), the Adviser uses the NRSRO's risk rating for such security. For all other debt securities, the Adviser uses a proprietary risk rating system. The Adviser's risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. This system is used to estimate the probability of default on debt securities and the expected loss if there is a default. These types of systems are referred to as risk rating systems and are used by banks and rating agencies. The risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

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

| **Adviser's System** | **First NRSRO** | **Second NRSRO** | **Description(A)** |
|---|---|---|---|
| **>10** | Baa2 | BBB | Probability of Default (PD) during the next 10 years is 4.0% and the Expected Loss (EL) is 1.0% or less |
| **10** | Baa3 | BBB- | PD is 5.0% and the EL is 1.0% to 2.0% |
| **9** | Ba1 | BB+ | PD is 10.0% and the EL is 2.0% to 3.0% |
| **8** | Ba2 | BB | PD is 16.0% and the EL is 3.0% to 4.0% |
| **7** | Ba3 | BB- | PD is 17.8% and the EL is 4.0% to 5.0% |
| **6** | B1 | B+ | PD is 22.0% and the EL is 5.0% to 6.5% |
| **5** | B2 | B | PD is 25.0% and the EL is 6.5% to 8.0% |
| **4** | B3 | B- | PD is 27.0% and the EL is 8.0% to 10.0% |
| **3** | Caa1 | CCC+ | PD is 30.0% and the EL is 10.0% to 13.3% |
| **2** | Caa2 | CCC | PD is 35.0% and the EL is 13.3% to 16.7% |
| **1** | Caa3 | CC | PD is 65.0% and the EL is 16.7% to 20.0% |
| **<1** | N/A | D | PD is 85.0% or there is a payment default and the EL is greater than 20.0% |

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

The following table lists the risk ratings for all non-syndicated loans in our portfolio at September 30, 2013 and 2012, representing approximately 80.5% and 78.5%, respectively, of the principal balance of all debt investments in our portfolio at the end of each year:

| Rating | As of September 30, 2013 | As of September 30, 2012 |
|---|---|---|
| Highest | **10.0** | 10.0 |
| Average | **5.9** | 5.8 |
| Weighted Average | **5.5** | 5.5 |
| Lowest | **2.0** | 2.0 |

For syndicated loans that are currently rated by an NRSRO, the Adviser risk rates such loans in accordance with the risk rating systems of major risk rating organizations, such as those provided by an NRSRO. The following table lists the risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO at September 30, 2013 and 2012, representing approximately 13.7% and 14.7%, respectively, of the principal balance of all debt investments in our portfolio at the end of each year:

| Rating | As of September 30, 2013 | As of September 30, 2012 |
|---|---|---|
| Highest | **B+/NR** | B+/B1 |
| Average | **B/B2** | B/B2 |
| Weighted Average | **B/B2** | B/B2 |
| Lowest | **CCC/Caa1** | NR/Caa1 |

The following table lists the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO. At September 30, 2013 and 2012, these loans represented 5.8% and 6.8%, respectively, of the principal balance of all debt investments in our portfolio at the end of each year:

| Rating | As of September 30, 2013 | As of September 30, 2012 |
|---|---|---|
| Highest | **5.0** | 7.0 |
| Average | **4.5** | 5.3 |
| Weighted Average | **4.6** | 5.2 |
| Lowest | **4.0** | 4.0 |

***Tax Status***

We intend to continue to maintain our qualification as a RIC under Subchapter M of the Code for federal income tax purposes. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains distributed to our stockholders. To maintain our qualification as a RIC, we must meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must also meet certain annual stockholder distribution requirements. To satisfy the RIC annual distribution requirement, we must distribute to stockholders at least 90.0% of our investment company taxable income. Our policy generally is to make distributions to our stockholders in an amount up to 100.0% of our investment company taxable income.

In an effort to limit certain federal excise taxes imposed on RICs, we currently intend to distribute to our stockholders, during each calendar year, an amount at least equal to the sum of: (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gain net income for the one-year period ending on October 31 of the calendar year, and (3) any ordinary income and capital gain net income from preceding years that were not distributed during such years. Under the RIC Modernization Act (the “RIC Act”), we are permitted to carryforward capital losses incurred in taxable years beginning after September 30, 2011, for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under the previous regulation.

We sought and received approval for a change in accounting method from the Internal Revenue Service related to our tax treatment for success fees. As a result, we, in effect, will continue to account for the recognition of income from the success fees upon receipt, or when the amount becomes fixed. However, starting January 1, 2011, the tax characterization of the success fee amount was and will continue to be treated as ordinary income. Prior to January 1, 2011, we had treated the success fee amount as a capital gain for tax characterization purposes. The approved change in accounting method does not require us to retroactively change the capital gains treatment of the success fees received prior to January 1, 2011.

***Revenue Recognition***

Interest Income Recognition

Interest income, adjusted for amortization of premiums, acquisition costs and amendment fees and the accretion of original issue discounts (“OID”), is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis depending upon management’s judgment. Generally, non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management’s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectible. At September 30, 2013, two portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $39.5 million, or 12.6% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately $5.8 million, or 2.4% of the fair value of all debt investments in our portfolio. At September 30, 2012, six portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately $61.1 million, or 17.3% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately $6.8 million, or 2.6% of the fair value of all debt investments in our portfolio.

We currently hold, and we expect to hold in the future, some loans in our portfolio that contain OID or PIK provisions. We recognize OID for loans originally issued at discounts and recognize the income over the life of the obligation based on an effective yield calculation. PIK interest, computed at the contractual rate specified in a loan agreement, is added to the principal balance of a loan and recorded as income over the life of the obligation. Thus, the actual collection of PIK income may be deferred until the time of debt principal repayment. To maintain our ability to be taxed as a RIC, we may need to pay out both of our OID and PIK non-cash income amounts in the form of distributions, even though we have not yet collected the cash.

As of September 30, 2013 and 2012, we had 19 and 24 OID loans, respectively, primarily from the syndicated loans in our portfolio. We recorded OID income of $0.3 million, $0.3 million and $0.2 million for the years ended September 30, 2013, 2012 and 2011, respectively. The unamortized balance of OID investments as of September 30, 2013 and 2012 totaled $1.0 million and $1.1 million, respectively. As of September 30, 2013, we had three investments which had a PIK interest component and as of September 30, 2012, we had one investment which had a PIK interest component. We recorded PIK interest income of $0.3 million, $20 and $12 for the years ended September 30, 2013, 2012 and 2011, respectively. We collected no PIK interest in cash for the years ended September 30, 2013, 2012 and 2011, respectively.

We also transfer past due interest to the principal balance as stipulated in certain loan amendments with portfolio companies. There were no such transfers during the years ended September 30, 2013 and 2012. We transferred past due interest to the principal balance of $0.2 million for the year ended September 30, 2011.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We received an aggregate of $1.7 million in success fees during the year ended September 30, 2013, which resulted from the early payoffs at par of Westlake for $1.1 million in December 2012 and CMI for $0.6 million in September 2013. We received an aggregate of $4.0 million in success fees during the year ended September 30, 2012, which resulted from the early payoffs at par of Winchester for $1.2 million, GMT for $1.1 million, RCS for $0.9 million and Northern Contours for $0.8 million. During the year ended September 30, 2011, we received an aggregate of $1.0 million in success fees from the early payoffs at par of Pinnacle for $0.5 million and Interfilm for $0.1 million and also a prepaid success fee of $0.4 million from Westlake. As of September 30, 2013 and 2012, we had an aggregate off-balance sheet success fee receivable of approximately $14.8 million and $13.2 million, respectively, on our accruing debt investments.

We generally record prepayment fees upon receipt of cash. Prepayment fees are contractually due at the time of an investment's exit, based on the prepayment penalty fee schedule. During the year ended September 30, 2013, we received an aggregate of $0.9 million in prepayment fees, which resulted from the early payoffs of eight of our syndicated investments at par during the 2013 fiscal year. We received an aggregate of $0.2 million in prepayment fees during the year ended September 30, 2012, which resulted from the early payoffs of five of our syndicated investments at par during the 2012 fiscal year, and no prepayment fees were received during the year ended September 30, 2011.

Dividend income on preferred equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. During the years ended September 30, 2013, 2012 and 2011 we did not record or collect any dividend income on our preferred equity investments.

Success fees, prepayment fees and dividend income are all recorded in other income in our accompanying *Consolidated Statements of Operations*. In addition, we received an aggregate of $1.0 million from two legal settlements related to portfolio companies during the year ended September 30, 2011, that were also recorded in other income during the 2011 fiscal year.

**Recent Accounting Pronouncements**

See Note 2—*Summary of Significant Accounting Policies* in the notes to our accompanying *Consolidated Financial Statements* included elsewhere in this report for a description and our application of recent accounting pronouncements. Our adoption of these recent accounting pronouncements did not have a material effect on our financial position and results of operations.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (DOLLAR AMOUNTS IN THOUSANDS, UNLESS OTHERWISE INDICATED)

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The prices of securities held by us may decline in response to certain events, including those directly involving the companies whose securities are owned by us; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and interest rate fluctuations.

The primary risk we believe we are exposed to is interest rate risk. Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We use a combination of debt and equity capital to finance our investing activities. We may use interest rate risk management techniques from time to time to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

We target to have approximately 10.0% of the loans in our portfolio at fixed rates, with approximately 90.0% made at variable rates or variable rates with a floor. As of September 30, 2013, our portfolio consisted of the following:

| | |
|---|---|
| 84.9% | variable rates with a LIBOR or prime rate floor |
| 14.6 | fixed rates |
| 0.5 | variable rates without a floor |
| 100.0% | total |

All of our variable-rate loans have rates generally associated with either the current LIBOR or prime rate.

In July 2013, we, through our wholly-owned subsidiary, Business Loan, entered into an interest rate cap agreement with Keybank, effective July 9, 2013 and expiring January 19, 2016, for a notional amount of $35.0 million that effectively limits the interest rate on a portion of our borrowings under our revolving line of credit pursuant to the terms of our Credit Facility. This agreement will entitle us to receive payments, if any, equal to the amount by which interest payments on the current notational amount at the one month LIBOR exceed the payments on the current notional amount at 5.0%. The agreement therefore helps mitigate our exposure to increases in interest rates on our borrowings on the Credit Facility, which are at variable rates. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations —Recent Developments – Interest Rate Cap Agreement*” for further discussion. As of September 30, 2013, the interest rate cap agreement had a minimal fair value.

To illustrate the potential impact of changes in interest rates on our net increase (decrease) in net assets resulting from operations, we have performed the following hypothetical analysis, which assumes that our balance sheet and interest rates remain constant as of September 30, 2013 and no further actions are taken to alter our existing interest rate sensitivity.

| Basis Point Change (a) | Increase in Interest Income | Increase (Decrease) in Interest Expense | Net Increase (Decrease) in Net Assets Resulting from Operations |
|---|---|---|---|
| Up 300 basis points | $ 2,068 | $ 1,407 | $ 661 |
| Up 200 basis points | 698 | 938 | (240) |
| Up 100 basis points | 11 | 469 | (458) |
| Down 18 basis points | — | (88) | (88) |

(a) As of September 30, 2013, our effective average LIBOR was 0.18%.

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 (decrease) in net assets resulting from operations. Accordingly, actual results could differ significantly from those in the hypothetical analysis in the table above.

We may also experience risk associated with investing in securities of companies with foreign operations. Some of our portfolio companies have operations located outside the U.S. These risks include, but are not limited to, fluctuations in foreign currency exchange rates, imposition of foreign taxes, changes in exportation regulations and political and social instability.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**
**Index to Consolidated Financial Statements**

**Management's Annual Report on Internal Control over Financial Reporting**

To the Stockholders and Board of Directors of Gladstone Capital Corporation:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and include those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of September 30, 2013, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on its assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2013.

The effectiveness of the Company's internal control over financial reporting as of September 30, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

November 19, 2013

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Gladstone Capital Corporation:

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, and the related consolidated statements of operations, changes in net assets, and cash flows and the financial highlights present fairly, in all material respects, the financial position of Gladstone Capital Corporation and its subsidiaries (the "Company") at September 30, 2013 and 2012, the results of their operations and their cash flows for each of the three years in the period ended September 30, 2013 and the financial highlights for each of the five years in the period ended September 30, 2013, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. Our procedures included confirmation of securities at September 30, 2013, by correspondence with the custodian, and where replies were not received, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, VA
November 19, 2013

## GLADSTONE CAPITAL CORPORATION
## CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
## (DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| **ASSETS** | | |
| Investments at fair value: | | |
| Non-Control/Non-Affiliate investments (Cost of **$218,713** and $266,500, respectively) | **$ 181,870** | $ 234,171 |
| Control investments (Cost of **$104,113** and $96,521, respectively) | **64,221** | 36,825 |
| Affiliate investments (Cost of **$9,440** and $2,000, respectively) | **10,787** | 2,964 |
| Total investments at fair value (Cost of **$332,266** and $365,021, respectively) | **256,878** | 273,960 |
| Cash and cash equivalents | **13,900** | 9,857 |
| Restricted cash and cash equivalents | **1,176** | 805 |
| Interest receivable | **2,488** | 2,696 |
| Due from custodian | **16,473** | 2,177 |
| Deferred financing fees | **3,086** | 2,957 |
| Other assets | **1,090** | 950 |
| **TOTAL ASSETS** | **$ 295,091** | $ 293,402 |
| **LIABILITIES** | | |
| Borrowings at fair value (Cost of **$46,900** and $58,800, respectively) | **$ 47,102** | $ 62,451 |
| Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **4,000,000** shares authorized; **1,539,882** shares issued and outstanding at September 30, 2013 and 2012, respectively | **38,497** | 38,497 |
| Accounts payable and accrued expenses | **494** | 475 |
| Interest payable | **170** | 185 |
| Fees due to Adviser(A) | **1,706** | 1,830 |
| Fee due to Administrator(A) | **126** | 174 |
| Other liabilities | **1,004** | 1,226 |
| **TOTAL LIABILITIES** | **89,099** | 104,838 |
| Commitments and contingencies(B) | | |
| **NET ASSETS** | **$ 205,992** | $ 188,564 |
| **ANALYSIS OF NET ASSETS** | | |
| Common stock, $0.001 par value, **46,000,000** shares authorized and **21,000,160** shares issued and outstanding at September 30, 2013 and 2012, respectively | **$ 21** | $ 21 |
| Capital in excess of par value | **322,936** | 324,714 |
| Notes receivable from employees(A) | **(175)** | (3,024) |
| Cumulative net unrealized depreciation of investments | **(75,388)** | (91,061) |
| Cumulative net unrealized appreciation of other | **(260)** | (3,651) |
| Overdistributed net investment income(C) | **(100)** | (474) |
| Accumulated net realized losses | **(41,042)** | (37,961) |
| **TOTAL NET ASSETS** | **$ 205,992** | $ 188,564 |
| **NET ASSET VALUE PER COMMON SHARE AT END OF YEAR** | **$ 9.81** | $ 8.98 |

(A) Refer to Note 4—*Related Party Transactions* for additional information.
(B) Refer to Note 12—*Commitments and Contingencies* for additional information.
(C) Refer to Note 10—*Distributions to Common Stockholders* for additional information.

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

## GLADSTONE CAPITAL CORPORATION
## CONSOLIDATED STATEMENTS OF OPERATIONS
## (DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | Year ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| **INVESTMENT INCOME** | | | |
| Interest income | | | |
| Non-Control/Non-Affiliate investments | **$ 27,704** | $ 31,745 | $ 27,497 |
| Control investments | **5,481** | 4,072 | 5,139 |
| Affiliate investments | **216** | — | — |
| Cash and cash equivalents | **3** | 8 | 1 |
| Notes receivable from employees(A) | **129** | 252 | 431 |
| Total interest income | **33,533** | 36,077 | 33,068 |
| Other income | | | |
| Non-Control/Non-Affiliate investments | **2,621** | 4,245 | 1,518 |
| Control investments | **—** | — | 625 |
| Total other income | **2,621** | 4,245 | 2,143 |
| Total investment income | **36,154** | 40,322 | 35,211 |
| Base management fee(A) | **5,622** | 6,165 | 5,731 |
| Incentive fee(A) | **4,343** | 4,691 | 4,598 |
| Administration fee(A) | **647** | 753 | 729 |
| Interest expense on borrowings | **3,182** | 4,374 | 2,676 |
| Dividend expense on mandatorily redeemable preferred stock | **2,744** | 2,491 | — |
| Amortization of deferred financing fees | **1,211** | 1,243 | 1,420 |
| Professional fees | **514** | 1,218 | 1,118 |
| Other general and administrative expenses | **1,026** | 1,391 | 1,170 |
| Expenses before credits from Adviser | **19,289** | 22,326 | 17,442 |
| Credits to fees from Adviser(A) | **(1,521)** | (1,048) | (643) |
| Total expenses net of credits | **17,768** | 21,278 | 16,799 |
| **NET INVESTMENT INCOME** | **18,386** | 19,044 | 18,412 |
| **REALIZED AND UNREALIZED GAIN (LOSS)** | | | |
| Net realized gain (loss): | | | |
| Non-Control/Non-Affiliate investments | **27** | (7,875) | (1,122) |
| Control investments | **(5,258)** | (4,944) | (158) |
| Total net realized loss | **(5,231)** | (12,819) | (1,280) |
| Net unrealized (depreciation) appreciation: | | | |
| Non-Control/Non-Affiliate investments | **(7,125)** | (1,414) | (21,316) |
| Control investments | **22,414** | (10,790) | (17,396) |
| Affiliate investments | **384** | 1,010 | (47) |
| Other | **3,391** | (3,039) | 528 |
| Total net unrealized appreciation (depreciation) | **19,064** | (14,233) | (38,231) |
| Net realized and unrealized gain (loss) | **13,833** | (27,052) | (39,511) |
| **NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS** | **$ 32,219** | $ (8,008) | $ (21,099) |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | |
| Net investment income | **$ 0.88** | $ 0.91 | $ 0.88 |
| Net increase (decrease) in net assets resulting from operations | **$ 1.53** | $ (0.38) | $ (1.00) |
| **WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING** | | | |
| Basic and Diluted | **21,000,160** | 21,011,123 | 21,039,242 |

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

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

**GLADSTONE CAPITAL CORPORATION**
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| | Year ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| **OPERATIONS** | | | |
| Net investment income | **$ 18,386** | $ 19,044 | $ 18,412 |
| Net realized loss on investments | **(5,231)** | (12,819) | (1,280) |
| Net unrealized appreciation (depreciation) of investments | **15,673** | (11,194) | (38,759) |
| Net unrealized depreciation (appreciation) of other | **3,391** | (3,039) | 528 |
| Net increase (decrease) in net assets from operations | **32,219** | (8,008) | (21,099) |
| **DISTRIBUTIONS** | | | |
| Distributions to common stockholders | **(16,309)** | (16,189) | (17,672) |
| Return of capital to common stockholders | **(1,331)** | (1,461) | — |
| Net decrease in net assets from distributions | **(17,640)** | (17,650) | (17,672) |
| **CAPITAL TRANSACTIONS** | | | |
| Repayment of principal on employee notes(A) | **2,849** | 833 | 3,246 |
| Stock redemption for repayment of principal on employee notes(A) | **—** | (332) | — |
| Net increase in net assets from capital transactions | **2,849** | 501 | 3,246 |
| **NET INCREASE (DECREASE) IN NET ASSETS** | **17,428** | (25,157) | (35,525) |
| **NET ASSETS, BEGINNING OF YEAR** | **188,564** | 213,721 | 249,246 |
| **NET ASSETS, END OF YEAR** | **$205,992** | $188,564 | $213,721 |

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

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

**GLADSTONE CAPITAL CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| | Year ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net increase (decrease) in net assets resulting from operations | **$ 32,219** | $ (8,008) | $ (21,099) |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities: | | | |
| Purchase of investments | **(90,157)** | (68,941) | (136,254) |
| Principal repayments on investments | **110,491** | 67,370 | 45,835 |
| Proceeds from sale of investments | **6,557** | 6,487 | 4,167 |
| Increase in investment balance due to paid-in-kind interest | **(234)** | — | (12) |
| Increase in investment balance due to transferred interest | **—** | — | (204) |
| Net change in premiums, discounts and amortization | **345** | (121) | 1,467 |
| Decrease in loan impairment treated as contra- investment | **—** | — | (715) |
| Net realized loss on investments | **5,753** | 12,998 | 1,119 |
| Net unrealized (appreciation) depreciation of investments | **(15,673)** | 11,194 | 38,759 |
| Net unrealized (depreciation) appreciation of other | **(3,391)** | 3,039 | (528) |
| Increase in restricted cash and cash equivalents | **(371)** | (534) | 2 |
| Amortization of deferred financing fees | **1,211** | 1,243 | 1,420 |
| Decrease (increase) in interest receivable | **208** | 370 | (314) |
| (Increase) decrease in funds due from custodian | **(14,296)** | 370 | (2,292) |
| (Increase) decrease in other assets | **(136)** | 732 | (279) |
| Increase (decrease) in accounts payable and accrued expenses | **19** | (38) | (239) |
| Decrease in interest payable | **(15)** | (104) | (404) |
| (Decrease) increase in fees due to Adviser(A) | **(124)** | 70 | 1,087 |
| Decrease in fee due to Administrator(A) | **(48)** | (20) | (73) |
| (Decrease) increase in other liabilities | **(222)** | 91 | 187 |
| Net cash provided by (used in) operating activities | **32,136** | 26,198 | (68,370) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | **84,800** | 74,900 | 120,100 |
| Repayments on borrowings | **(96,700)** | (115,500) | (37,500) |
| Proceeds from issuance of mandatorily redeemable preferred stock | **—** | 38,497 | — |
| Purchase of derivative | **(62)** | — | — |
| Deferred financing fees | **(1,340)** | (3,550) | (804) |
| Distributions paid to common stockholders | **(17,640)** | (17,650) | (17,672) |
| Receipt of principal on employee notes(A) | **2,849** | 501 | 3,246 |
| Net cash (used in) provided by financing activities | **(28,093)** | (22,802) | 67,370 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **4,043** | 3,396 | (1,000) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **9,857** | 6,461 | 7,461 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$ 13,900** | $ 9,857 | $ 6,461 |
| **CASH PAID DURING YEAR FOR INTEREST** | **$ 3,230** | $ 4,477 | $ 3,080 |
| **CASH PAID DURING YEAR FOR DIVIDENDS ON MANDATORILY REDEEMABLE PREFERRED STOCK** | **2,744** | 2,491 | — |
| **NON-CASH FINANCING ACTIVITIES** | | | |
| Stock redemption for repayment of principal on employee notes(A) | **$ —** | $ (332) | $ — |

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

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2013
(DOLLAR AMOUNTS IN THOUSANDS)

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(P):** | | | | | |
| **Non-syndicated investments:** | | | | | |
| AG Transportation Holdings, LLC | Cargo Transport | Senior Subordinated Term Debt (13.3%, Due 3/2018) (D) | $ 13,000 | $12,818 | $ 12,984 |
| | | Member Profit Participation (18.0% ownership)(F) (G) | | 1,000 | — |
| | | Profit Participation Warrants (7.0% ownership)(F) (G) | | 244 | — |
| | | | | 14,062 | 12,984 |
| Allen Edmonds Shoe Corporation | Personal and non-durable consumer products | Senior Subordinated Term Debt (11.3%, Due 12/2015)(D) | 19,483 | 19,483 | 19,604 |
| Allison Publications, LLC | Printing and publishing | Line of Credit, $0 available (8.3%, Due 9/2016)(D) | 600 | 600 | 594 |
| | | Senior Term Debt (8.3% , Due 9/2018) (D) | 2,875 | 2,875 | 2,846 |
| | | Senior Term Debt (13.0% , Due 9/2018) (C) (D) | 5,400 | 5,400 | 5,346 |
| | | | | 8,875 | 8,786 |
| BAS Broadcasting | Broadcasting and entertainment | Senior Term Debt (11.5%, Due 7/2013) (D) | 7,465 | 7,465 | 373 |
| Chinese Yellow Pages Company | Printing and publishing | Line of Credit, $0 available (7.3%, Due 2/2015)(D) | 243 | 243 | 148 |
| Francis Drilling Fluids, Ltd. | Oil and gas | Senior Subordinated Term Debt (12.0%, Due 11/2017)(D) | 15,000 | 15,000 | 14,475 |
| | | Preferred Equity Units (999 units)(F) (G) | | 999 | 192 |
| | | Common Equity Units (999 units)(F) G) | | 1 | — |
| | | | | 16,000 | 14,667 |
| Funko, LLC | Personal and non-durable consumer products | Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019)(D) | 7,530 | 7,530 | 7,530 |
| | | Preferred Equity Units (1,250 units)(F) (G) | | 1,250 | 1,646 |
| | | | | 8,780 | 9,176 |
| GFRC Holdings, LLC | Buildings and real estate | Line of Credit, $100 available (8.7%, Due 12/2013) (D) (I) | 100 | 100 | 55 |
| | | Senior Term Debt (10.5%, Due 12/2013) (D) (I) | 4,924 | 4,924 | 2,708 |
| | | Senior Subordinated Term Debt (13.0%, Due 12/2013)(D) (I) | 6,598 | 6,598 | 3,629 |
| | | | | 11,622 | 6,392 |
| Heartland Communications Group | Broadcasting and entertainment | Line of Credit, $0 available (5.0%, Due 3/2014)(D) | 100 | 100 | 20 |
| | | Line of Credit, $0 available (10.0%, Due 3/2014) (D) | 100 | 100 | 20 |
| | | Senior Term Debt (5.0%, Due 3/2014)(D) | 4,342 | 4,342 | 868 |
| | | Common Stock Warrants (8.8% ownership)(F) (G) | | 66 | — |
| | | | | 4,608 | 908 |
| International Junior Golf Training Acquisition Company | Leisure, amusement, motion pictures and entertainment | Line of Credit, $0 available (11.0%, Due 5/2014) (D) | 2,250 | 2,250 | 1,238 |
| | | Senior Term Debt (10.5%, Due 12/2013) (D) | 261 | 261 | 144 |
| | | Senior Term Debt (12.5%, Due 5/2014) (C) (D) | 2,500 | 2,500 | 1,375 |
| | | | | 5,011 | 2,757 |
| Leeds Novamark Capital I, L.P. | Private equity fund – healthcare, education and childcare | Limited Partnership Interest (8.4% ownership, $2,700 uncalled capital commitment)(G) (O) | | 253 | 253 |
| Legend Communications of Wyoming, LLC | Broadcasting and entertainment | Senior Term Debt (11.0%, Due 12/2013) (D) | 6,874 | 6,874 | 1,203 |

## GLADSTONE CAPITAL CORPORATION
## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
## SEPTEMBER 30, 2013
## (DOLLAR AMOUNTS IN THOUSANDS)

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(P) (Continued):** | | | | | |
| North American Aircraft Services, LLC | Aerospace and defense | Senior Subordinated Term Debt (11.8%, Due 8/2016) (D) | $ 4,750 | $ 4,750 | $ 4,774 |
| | | Senior Subordinated Term Debt (12.5%, Due 8/2016) (D) | 2,820 | 2,820 | 2,834 |
| | | Common Stock Warrants (35,000 shares) (F) (G) | | 350 | 774 |
| | | | | 7,920 | 8,382 |
| Ohana Media Group | Broadcasting and entertainment | Senior Term Debt (10.0%, Due 10/2016) (D) | 1,472 | 1,472 | 1,432 |
| POP Radio, LLC | Broadcasting and entertainment | Senior Term Debt (11.8%, Due 5/2017) (D) | 9,422 | 9,422 | 9,540 |
| | | Junior Subordinated Term Debt (11.0% PIK, Due 11/2017) (D) | 556 | 494 | 561 |
| | | Participation Unit (2.4% ownership) (F) (G) | | 75 | — |
| | | | | 9,991 | 10,101 |
| Precision Acquisition Group Holdings, Inc. | Machinery | Equipment Note (11.0%, Due 3/2014) (D) (L) | 1,000 | 1,000 | 700 |
| | | Senior Term Debt (11.0%, Due 3/2014) (D) (L) | 4,125 | 4,125 | 2,888 |
| | | Senior Term Debt (11.0%, Due 3/2014) (C) (D) (L) | 4,053 | 4,053 | 2,837 |
| | | | | 9,178 | 6,425 |
| PROFIT Systems Acquisition Co. | Electronics | Senior Term Debt (10.5%, Due 7/2014) (C) (D) (K) | 1,950 | 1,950 | 1,950 |
| Saunders & Associates | Electronics | Line of Credit, $0 available (11.3%, Due 5/2013) (D) | 917 | 917 | 779 |
| | | Senior Term Debt (11.3%, Due 5/2013) (D) | 8,947 | 8,947 | 7,605 |
| | | | | 9,864 | 8,384 |
| Sunburst Media - Louisiana, LLC | Broadcasting and entertainment | Senior Term Debt (10.5%, Due 11/2013) (D) | 6,000 | 6,000 | 600 |
| Thibaut Acquisition Co. | Home and office furnishings, housewares and durable consumer products | Line of Credit, $875 available (9.0%, Due 1/2014) (D) (J) | 125 | 125 | 126 |
| | | Senior Term Debt (12.0%, Due 1/2014) (C) (D) (J) | 2,500 | 2,500 | 2,525 |
| | | | | 2,625 | 2,651 |
| Westland Technologies, Inc. | Diversified/conglomerate manufacturing | Senior Term Debt (7.5%, Due 4/2016) (D) | 850 | 850 | 723 |
| | | Senior Term Debt (12.5%, Due 4/2016) (D) | 4,000 | 4,000 | 3,400 |
| | | Common Stock Warrants (77,287 shares) (F) (G) | | 350 | 18 |
| | | | | 5,200 | 4,141 |
| ***Subtotal – Non-syndicated investments*** | | | | $157,476 | $ 121,317 |
| **Syndicated Investments:** | | | | | |
| Allied Security Holdings, LLC | Personal, food and miscellaneous services | Senior Subordinated Term Debt (9.8%, Due 2/2018) (E) | $ 1,000 | $ 992 | $ 1,008 |
| Ameriqual Group, LLC | Beverage, food and tobacco | Senior Term Debt (9.0%, Due 3/2016) (E) | 7,331 | 7,248 | 7,038 |
| Ardent Medical Services, Inc. | Healthcare, education and childcare | Senior Subordinated Term Debt (11.0%, Due 1/2019) (E) | 4,000 | 3,927 | 4,070 |
| Ascend Learning, LLC | Healthcare, education and childcare | Senior Subordinated Term Debt (11.5%, Due 12/2017) (E) | 1,000 | 980 | 1,000 |
| Autoparts Holdings Limited | Automobile | Senior Term Debt (10.5%, Due 1/2018) (E) | 1,000 | 996 | 969 |
| Blue Coat Systems, Inc. | Electronics | Senior Subordinated Term Debt (9.5%, Due 6/2020) (E) | 3,000 | 2,971 | 3,015 |
| First American Payment Systems, L.P. | Finance | Senior Subordinated Term Debt (10.8%, Due 4/2019) (E) | 4,500 | 4,469 | 4,489 |
| New Trident Holdcorp, Inc. | Healthcare, education and childcare | Senior Subordinated Term Debt (10.3%, Due 7/2020) (E) | 4,000 | 3,985 | 4,025 |
| PLATO Learning, Inc. | Healthcare, education and childcare | Senior Subordinated Term Debt (11.3%, Due 5/2019) (E) | 5,000 | 4,914 | 5,000 |

**GLADSTONE CAPITAL CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**SEPTEMBER 30, 2013**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(P) (Continued):** | | | | | |
| RP Crown Parent, LLC | Electronics | Senior Subordinated Term Debt (11.3%, Due 12/2019)(E) | $ 2,000 | $ 1,963 | $ 2,025 |
| Sensus USA, Inc. | Electronics | Senior Term Debt (8.5%, Due 5/2018)(E) | 500 | 496 | 485 |
| Steinway Musical Instruments, Inc. | Personal and non-durable consumer products | Senior Subordinated Term Debt (9.3%, Due 9/2020)(E) | 250 | 247 | 252 |
| SumTotal Systems, Inc. | Electronics | Senior Subordinated Term Debt (10.3%, Due 5/2019)(E) | 4,000 | 3,928 | 3,940 |
| Targus Group International, Inc. | Textiles and leather | Senior Term Debt (11.0% and 1.0% PIK, Due 5/2016)(E) | 9,418 | 9,299 | 8,476 |
| Vision Solutions, Inc. | Electronics | Senior Term Debt (9.5%, Due 7/2017)(E) | 11,000 | 10,939 | 10,890 |
| W3, Co. | Oil and Gas | Senior Subordinated Term Debt (9.3%, Due 9/2020)(E) | 499 | 494 | 507 |
| Wall Street Systems Holdings, Inc. | Electronics | Senior Term Debt (9.3%, Due 10/2020)(E) | 3,000 | 2,945 | 3,023 |
| WP Evenflo Group Holdings, Inc. | Diversified/conglomerate manufacturing | Senior Preferred Equity (333 shares)(F) (G) | | 333 | 341 |
| | | Junior Preferred Equity (111 shares)(F) (G) | | 111 | — |
| | | Common Stock (1,874 shares)(F) (G) | | — | — |
| | | | | 444 | 341 |
| ***Subtotal - Syndicated investments*** | | | | **$ 61,237** | **$ 60,553** |
| **Total Non-Control/Non-Affiliate Investments (represented 70.8% of total investments at fair value)** | | | | **$218,713** | **$ 181,870** |
| **CONTROL INVESTMENTS(Q):** | | | | | |
| Defiance Integrated Technologies, Inc. | Automobile | Senior Subordinated Term Debt (11.0%, Due 4/2016)(C) (F) | $ 6,865 | $ 6,865 | $ 6,865 |
| | | Common Stock (15,500 shares)(F) (G) | | 1 | 1,867 |
| | | | | 6,866 | 8,732 |
| Lindmark Acquisition, LLC | Broadcasting and entertainment | Subordinated Term Debt (25.0%, Due 10/2017)(F) | — | — | — |
| | | Success Fee on Senior Subordinated Term Debt (F) | | — | 916 |
| | | Common Stock (100 shares)(F) (G) | | 317 | — |
| | | | | 317 | 916 |
| LocalTel, LLC | Printing and publishing | Line of credit, $199 available (10.0%, Due 6/2014)(F) (H) | 3,285 | 3,285 | — |
| | | Line of Credit, $1,830 available (4.7%, Due 6/2014)(F) (H) | 1,170 | 1,170 | — |
| | | Senior Term Debt (12.5%, Due 6/2014)(F) (H) | 325 | 325 | — |
| | | Senior Term Debt (8.5%, Due 6/2014)(F) (H) | 2,688 | 2,688 | — |
| | | Senior Term Debt (10.5%, Due 6/2014)(C) (F) (H) | 2,750 | 2,750 | — |
| | | Common Stock Warrants (4,000 shares)(F) (G) | | — | — |
| | | | | 10,218 | — |
| Midwest Metal Distribution, Inc. | Mining, steel, iron and non-precious metals | Senior Subordinated Term Debt (12.0%, Due 7/2015)(D) | 18,281 | 18,281 | 17,733 |
| | | Preferred Stock (2,000 shares)(F) (G) (N) | | 2,000 | — |
| | | Common Stock (501 shares)(F) (G) | | 138 | — |
| | | | | 20,419 | 17,733 |
| RBC Acquisition Corp. | Healthcare, education and childcare | Line of Credit, $0 available (9.0%, Due 6/2014)(F) | 4,000 | 4,000 | 4,000 |
| | | Mortgage Note (9.5%, Due 12/2014)(F) | 6,969 | 6,969 | 6,969 |
| | | Senior Term Debt (12.0%, Due 12/2014)(C) (F) | 11,392 | 11,392 | 11,392 |
| | | Senior Subordinated Term Debt (12.5%, Due 12/2014)(F) | 6,000 | 6,000 | 6,000 |
| | | Preferred Stock (2,299,000 shares)(F) (G) (N) | | 2,299 | 2,447 |
| | | Common Stock (2,000,000 shares)(F) (G) | | 370 | 183 |
| | | | | 31,030 | 30,991 |

## GLADSTONE CAPITAL CORPORATION
## CONSOLIDATED SCHEDULE OF INVESTMENTS
## SEPTEMBER 30, 2013
## (DOLLAR AMOUNTS IN THOUSANDS) (Continued)

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **CONTROL INVESTMENTS(Q) (Continued):** | | | | | |
| Sunshine Media Holdings | Printing and publishing | Line of credit, $400 available (4.8%, Due 8/2014)(D) (H) | $ 1,600 | $ 1,600 | $ 320 |
| | | Senior Term Debt (4.8%, Due 5/2016)(D) (H) | 16,948 | 16,948 | 3,389 |
| | | Senior Term Debt (5.5%, Due 5/2016)(C) (D) (H) | 10,700 | 10,700 | 2,140 |
| | | Preferred Equity (15,270 shares)(F) (G) (N) | | 5,275 | — |
| | | Common Stock (1,867 shares)(F) (G) | | 740 | — |
| | | Common Stock Warrants (72 shares) | | — | — |
| | | | | 35,263 | 5,849 |
| **Total Control Investments (represented 25.0% of total investments at fair value)** | | | | **$104,113** | **$ 64,221** |
| **AFFILATE INVESTMENTS(R):** | | | | | |
| Ashland Acquisition, LLC | Printing and publishing | Line of Credit, $1,500 available (12.0%, Due 7/2016)(D) | $ — | $ — | $ — |
| | | Senior Term Debt (12.0%, Due 7/2018)(D) | 7,000 | 7,000 | 7,000 |
| | | Common Equity Units (8,800 units) (F) (G) (N) | | 440 | 440 |
| | | | | 7,440 | 7,440 |
| FedCap Partners, LLC | Private equity fund – aerospace and defense | Class A Membership Units (80 units) (G) (M) | | 2,000 | 3,347 |
| **Total Affiliate Investments (represented 4.2% of total investments at fair value)** | | | | **$ 9,440** | **$ 10,787** |
| **TOTAL INVESTMENTS(S)** | | | | **$332,266** | **$ 256,878** |

(A) Certain of the securities listed in the above schedule are issued by affiliate(s) of the indicated portfolio company.
(B) Percentages represent cash interest rates in effect at September 30, 2013, and due dates represent the contractual maturity date. If applicable, paid-in-kind ("PIK") interest rates are noted separately from the cash interest rates. Senior debt securities generally take the form of first priority liens on the assets of the underlying businesses.
(C) Last out tranche ("LOT") of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt.
(D) Fair value was primarily based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
(E) Security valued based on the indicative bid price on or near September 30, 2013, offered by the respective syndication agent's trading desk or secondary desk.
(F) Fair value was primarily based on the total enterprise value of the portfolio company using a liquidity waterfall approach. We also considered discounted cash flow methodologies.
(G) Security is non-income producing.
(H) Debt security is on non-accrual status.
(I) Subsequent to September 30, 2013, the maturity on GFRC Holdings, LLC's debt was extended until June 30, 2016 and the GFRC Holdings, LLC's line of credit was repaid in full and terminated.
(J) Subsequent to September 30, 2013, the maturity on Thibaut Acquisition Co.'s debt was extended until December 11, 2014.
(K) Subsequent to September 30, 2013, the investment was paid off at par.
(L) Effective October 1, 2013, Precision Acquisition Group Holdings, Inc.'s debt interest rates increased to 13.0%.
(M) There are certain limitations on our ability to transfer our units owned prior to dissolution of the entity, which must occur no later than May 3, 2020. No Class A member may withdraw or resign from the entity prior to the dissolution and winding up of the entity.
(N) Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares.
(O) There are certain limitations on our ability to withdraw our partnership interest prior to dissolution of the entity, which must occur no later than ten years after the not yet determined final closing date or two years after all outstanding leverage has matured.
(P) Non-Control/Non-Affiliate investments, as defined by the Investment Company Act of 1940, as amended, (the "1940 Act"), are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.
(Q) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.
(R) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between 5.0% and 25.0% of the issued and outstanding voting securities.
(S) Cumulative gross unrealized depreciation for federal income tax purposes is $83.7 million; cumulative gross unrealized appreciation for federal income tax purposes is $5.5 million. Cumulative net unrealized depreciation is $78.2 million, based on a tax cost of $335.1 million.

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

# GLADSTONE CAPITAL CORPORATION
# CONSOLIDATED SCHEDULE OF INVESTMENTS
# SEPTEMBER 30, 2012
# (DOLLAR AMOUNTS IN THOUSANDS)

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(L):** | | | | | |
| **Non-syndicated investments:** | | | | | |
| Access Television Network, Inc. | Broadcasting and entertainment | Senior Term Debt (14.0%, Due 2/2011)(D) (H) | $ 903 | $ 903 | $ — |
| Allison Publications, LLC | Printing and publishing | Senior Term Debt (10.5%, Due 9/2013)(D) | 7,864 | 7,864 | 7,510 |
| BAS Broadcasting | Broadcasting and entertainment | Senior Term Debt (11.5%, Due 7/2013)(D) | 7,465 | 7,465 | 1,866 |
| Chinese Yellow Pages Company | Printing and publishing | Line of Credit, $0 available (7.3%, Due 11/2012)(D) | 438 | 438 | 285 |
| CMI Acquisition, LLC | Mining, steel, iron and non-precious metals | Senior Subordinated Term Debt (14.0%, Due 12/2016)(D) | 14,265 | 14,265 | 13,766 |
| Francis Drilling Fluids, Ltd. | Oil and gas | Senior Subordinated Term Debt (12.0%, Due 11/2017)(D) | 15,000 | 15,000 | 14,906 |
| | | Preferred Units (999 units)(F) (G) | | 999 | 479 |
| | | Common Units (999 units)(F) G) | | 1 | — |
| | | | | 16,000 | 15,385 |
| GFRC Holdings, LLC | Buildings and real estate | Senior Term Debt (10.5%, Due 12/2013) (D) | 5,124 | 5,124 | 2,587 |
| | | Senior Subordinated Term Debt (13.0%, Due 12/2013)(D) | 6,598 | 6,598 | 3,332 |
| | | | | 11,722 | 5,919 |
| Heartland Communications Group | Broadcasting and entertainment | Line of Credit, $0 available (5.0%, Due 3/2013)(D) | 100 | 100 | 40 |
| | | Line of Credit, $55 available (10.0%, Due 3/2013)(D) | 45 | 45 | 18 |
| | | Senior Term Debt (5.0%, Due 3/2013)(D) | 4,342 | 4,333 | 1,737 |
| | | Common Stock Warrants (8.8% ownership)(F) (G) | | 66 | — |
| | | | | 4,544 | 1,795 |
| International Junior Golf Training Acquisition Company | Leisure, amusement, motion pictures and entertainment | Line of Credit, $225 available (11.0%, Due 5/2014)(D) | 2,025 | 2,025 | 1,154 |
| | | Senior Term Debt (10.5%, Due 5/2014)(D) | 461 | 461 | 263 |
| | | Senior Term Debt (12.5%, Due 5/2014)(C) (D) | 2,500 | 2,500 | 1,425 |
| | | | | 4,986 | 2,842 |
| Legend Communications of Wyoming, LLC | Broadcasting and entertainment | Senior Term Debt (12.0%, Due 6/2013)(D) | 8,661 | 8,661 | 4,547 |
| North American Aircraft Services, LLC | Aerospace and defense | Line of Credit, $500 available (6.5%, Due 10/2012)(D) | 1,500 | 1,500 | 1,489 |
| | | Senior Term Debt (7.5%, Due 8/2016)(D) | 4,265 | 4,265 | 4,233 |
| | | Senior Subordinated Term Debt (11.8%, Due 8/2016)(D) | 4,750 | 4,750 | 4,714 |
| | | Senior Subordinated Term Debt (12.5%, Due 8/2016)(D) | 2,820 | 2,820 | 2,799 |
| | | Common Stock Warrants (35,000 shares)(F) (G) | | 350 | 399 |
| | | | | 13,685 | 13,634 |
| Northstar Broadband, LLC | Broadcasting and entertainment | Senior Term Debt (0.7%, Due 12/2012)(D) | 20 | 18 | 20 |
| Ohana Media Group | Broadcasting and entertainment | Senior Term Debt (10.0%, Due 10/2016)(D) | 1,590 | 1,590 | 1,463 |
| POP Radio, LLC | Broadcasting and entertainment | Senior Term Debt (11.8%, Due 5/2017)(D) | 11,500 | 11,500 | 11,486 |
| | | Junior Subordinated Term Debt (11.0% PIK, Due 11/2017)(D) | 500 | 428 | 498 |
| | | Participation Unit (2.4% ownership)(F) (G) | | 75 | — |
| | | | | 12,003 | 11,984 |
| Precision Acquisition Group Holdings, Inc. | Machinery | Equipment Note (13.0%, Due 3/2013)(D) | 1,000 | 1,000 | 830 |
| | | Senior Term Debt (13.0%, Due 3/2013)(D) | 4,125 | 4,125 | 3,424 |
| | | Senior Term Debt (13.0%, Due 3/2013)(C) (D) | 4,053 | 4,053 | 3,364 |
| | | | | 9,178 | 7,618 |
| PROFIT Systems Acquisition Co. | Electronics | Senior Term Debt (10.5%, Due 7/2014)(C) (D) | 2,550 | 2,550 | 2,486 |

**GLADSTONE CAPITAL CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**AS OF SEPTEMBER 30, 2012**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(L) (Continued):** | | | | | |
| Reliable Biopharmaceutical Holdings, Inc. | Healthcare, education and childcare | Line of Credit, $1,100 available (9.0%, Due 1/2013)(D) | $ 2,900 | $ 2,900 | $ 2,690 |
| | | Mortgage Note (9.5%, Due 12/2014)(D) | 7,074 | 7,074 | 6,562 |
| | | Senior Term Debt (12.0%, Due 12/2014)(C) (D) | 11,452 | 11,452 | 10,622 |
| | | Senior Subordinated Term Debt (12.5%, Due 12/2014) (D) | 6,000 | 6,000 | 5,565 |
| | | Common Stock Warrants (764 shares)(F) (G) | | 209 | — |
| | | | | 27,635 | 25,439 |
| Saunders & Associates | Electronics | Line of Credit, $0 available (11.3%, Due 5/2013)(D) | 917 | 917 | 807 |
| | | Senior Term Debt (11.3%, Due 5/2013)(D) | 8,947 | 8,947 | 7,873 |
| | | | | 9,864 | 8,680 |
| Sunburst Media – Louisiana, LLC | Broadcasting and entertainment | Senior Term Debt (10.5%, Due 11/2013)(D) | 6,000 | 6,000 | 2,250 |
| Thibaut Acquisition Co. | Home and office furnishings housewares and durable consumer products | Line of Credit, $650 available (9.0%, Due 1/2014)(D) | 350 | 350 | 347 |
| | | Senior Term Debt (8.5%, Due 1/2014)(I) | 25 | 25 | 25 |
| | | Senior Term Debt (12.0%, Due 1/2014)(C) (D) | 3,000 | 3,000 | 2,985 |
| | | | | 3,375 | 3,357 |
| Westlake Hardware, Inc. | Retail store | Senior Subordinated Term Debt (12.3%, Due 1/2014)(D) | 12,000 | 12,000 | 11,640 |
| | | Senior Subordinated Term Debt (13.5%, Due 1/2014)(D) | 8,000 | 8,000 | 7,720 |
| | | | | 20,000 | 19,360 |
| Westland Technologies, Inc. | Diversified/conglomerate manufacturing | Senior Term Debt (7.5%, Due 4/2016)(D) | 1,650 | 1,650 | 1,617 |
| | | Senior Term Debt (12.5%, Due 4/2016)(D) | 4,000 | 4,000 | 3,920 |
| | | Common Stock Warrants (77,287 shares)(F) (G) | | 350 | 228 |
| | | | | 6,000 | 5,765 |
| ***Subtotal – Non-syndicated investments*** | | | | **$188,746** | **$ 155,971** |
| **Syndicated Investments:** | | | | | |
| Airvana Network Solutions, Inc. | Telecommunications | Senior Term Debt (10.0%, Due 3/2015)(E) | $ 1,071 | $ 1,036 | $ 1,070 |
| Allied Security Holdings, LLC | Personal, food and miscellaneous services | Senior Subordinated Term Debt (9.0%, Due 2/2018)(E) | 1,000 | 992 | 990 |
| Ameriqual Group, LLC | Beverage, food and tobacco | Senior Term Debt (9.0%, Due 3/2016)(E) | 7,406 | 7,295 | 7,258 |
| Applied Systems, Inc. | Insurance | Senior Subordinated Term Debt (9.5%, Due 6/2017)(E) | 1,000 | 992 | 995 |
| Ascend Learning, LLC | Healthcare, education and childcare | Senior Subordinated Term Debt (11.5%, Due 12/2017)(E) | 1,000 | 975 | 998 |
| Autoparts Holdings Limited | Automobile | Senior Term Debt (10.5%, Due 1/2018)(E) | 1,000 | 996 | 870 |
| Blue Coat Systems, Inc. | Electronics | Senior Subordinated Term Debt (11.5%, Due 8/2018)(E) (I) | 8,500 | 8,497 | 8,500 |
| HGI Holding, Inc. | Personal and non-durable consumer products | Senior Term Debt (6.8%, Due 10/2016)(E) | 1,566 | 1,539 | 1,574 |
| Hubbard Radio, LLC | Broadcasting and entertainment | Senior Subordinated Term Debt (8.8%, Due 4/2018)(E) | 500 | 496 | 508 |
| Keypoint Government Solutions, Inc. | Personal, food and miscellaneous services | Senior Term Debt (10.0%, Due 12/2015)(E) | 6,364 | 6,340 | 6,364 |
| Mood Media Corporation | Electronics | Senior Term Debt (10.3%, Due 11/2018)(E) (I) | 8,000 | 7,930 | 8,000 |
| National Surgical Hospitals, Inc. | Healthcare, education and childcare | Senior Term Debt (8.3%, Due 2/2017)(E) | 1,662 | 1,596 | 1,581 |

## GLADSTONE CAPITAL CORPORATION
## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
## AS OF SEPTEMBER 30, 2012
## (DOLLAR AMOUNTS IN THOUSANDS)

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(L) (Continued):** | | | | | |
| PLATO Learning, Inc. | Healthcare, education and childcare | Senior Subordinated Term Debt (11.3%, Due 5/2019) (E) | $ 5,000 | $ 4,903 | $ 4,850 |
| Sensus USA, Inc. | Electronics | Senior Term Debt (8.5%, Due 5/2018)(E) | 500 | 496 | 500 |
| Springs Window Fashions, LLC | Personal and non-durable consumer products | Senior Term Debt (11.3%, Due 11/2017) (E) | 7,000 | 6,853 | 6,825 |
| SRAM, LLC | Leisure, amusement, motion pictures and entertainment | Senior Term Debt (8.5%, Due 12/2018) (E) | 2,500 | 2,478 | 2,538 |
| Targus Group International, Inc. | Textiles and leather | Senior Term Debt (11.0%, Due 5/2016)(E) | 9,875 | 9,719 | 9,776 |
| Vision Solutions, Inc. | Electronics | Senior Term Debt (9.5%, Due 7/2017)(E) | 11,000 | 10,926 | 10,945 |
| Wall Street Systems Holdings, Inc. | Electronics | Senior Term Debt (9.0%, Due 6/2018)(E) (I) | 3,000 | 2,974 | 3,000 |
| WP Evenflo Group Holdings, Inc. | Diversified/conglomerate manufacturing | Senior Term Debt (8.0%, Due 2/2013)(E) | 277 | 277 | 274 |
| | | Senior Preferred Equity (333 shares)(F) (G) | | 333 | 460 |
| | | Junior Preferred Equity (111 shares)(F) (G) | | 111 | 164 |
| | | Common Stock (1,874 shares)(F) (G) | | — | 160 |
| | | | | 721 | 1,058 |
| ***Subtotal - Syndicated investments*** | | | | **$ 77,754** | **$ 78,200** |
| **Total Non-Control/Non-Affiliate Investments (represented 85.5% of total investments at fair value)** | | | | **$266,500** | **$ 234,171** |
| **CONTROL INVESTMENTS(M):** | | | | | |
| Defiance Integrated Technologies, Inc. | Automobile | Senior Subordinated Term Debt (11.0%, Due 4/2016) (C) (F) | $ 7,185 | $ 7,185 | $ 7,185 |
| | | Common Stock (15,500 shares)(F) (G) | | 1 | 4,113 |
| | | | | 7,186 | 11,298 |
| Kansas Cable Holdings, Inc. | Broadcasting and entertainment | Line of Credit, $56 available (10.0%, Due 10/2012) (D) (H) | 919 | 910 | 8 |
| | | Senior Term Debt (10.0%, Due 10/2012) (D) (H) | 1,500 | 1,444 | 13 |
| | | Senior Term Debt (10.0%, Due 10/2012) (D) (H) | 1,039 | 1,000 | 9 |
| | | Common Stock (100 shares)(F) (G) | | — | — |
| | | | | 3,354 | 30 |
| Lindmark Acquisition, LLC | Broadcasting and entertainment | Senior Subordinated Term Debt (11.0%, Due 10/2017)(D) (H) | 10,000 | 10,000 | 750 |
| | | Senior Subordinated Term Debt (13.0%, Due 10/2017)(D) (H) | 2,000 | 2,000 | 150 |
| | | Senior Subordinated Term Debt (25.0%, Due Upon Demand)(D) (H) | 1,909 | 1,909 | 143 |
| | | Common Stock (100 shares) (F) (G) | | 317 | — |
| | | | | 14,226 | 1,043 |
| LocalTel, LLC | Printing and publishing | Line of credit, $226 available (10.0%, Due 6/2013) (F) (H) | 2,624 | 2,624 | 548 |
| | | Line of Credit, $1,830 available (4.7%, Due 6/2013)(F) (H) | 1,170 | 1,170 | — |
| | | Senior Term Debt (12.5%, Due 6/2013) (F) (H) | 325 | 325 | — |
| | | Senior Term Debt (8.5%, Due 6/2013)(F) (H) | 2,688 | 2,688 | — |
| | | Senior Term Debt (10.5%, Due 6/2013) (C) (F) (H) | 2,750 | 2,750 | — |
| | | Common Stock Warrants (4,000 shares)(F) (G) | | — | — |
| | | | | 9,557 | 548 |
| Midwest Metal Distribution, Inc. | Mining, steel, iron and non-precious metals | Senior Subordinated Term Debt (12.0%, Due 7/2013) (D) | 18,281 | 18,272 | 17,824 |
| | | Common Stock (501 shares)(F) (G) | | 138 | — |
| | | | | 18,410 | 17,824 |

**GLADSTONE CAPITAL CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**AS OF SEPTEMBER 30, 2012**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **CONTROL INVESTMENTS(M) (Continued):** | | | | | |
| Sunshine Media Holdings | Printing and publishing | Line of credit, $200 available (4.8%, Due 8/2014)(D) (H) | $ 1,800 | $ 1,800 | $ 270 |
| | | Senior Term Debt (4.8%, Due 5/2016)(D) (H) | 16,948 | 16,948 | 2,542 |
| | | Senior Term Debt (5.5%, Due 5/2016)(C) (D) (H) | 10,700 | 10,700 | 1,605 |
| | | Preferred Equity (15,270 shares)(F) (G) (K) | | 5,275 | — |
| | | Common Stock (1,867 shares)(F) (G) | | 740 | — |
| | | | | 35,463 | 4,417 |
| Viapack, Inc. | Chemicals, plastics and rubber | Line of Credit, $0 available (6.5%, Due 3/2013)(D) | $ 3,800 | $ 3,800 | $ 760 |
| | | Senior Real Estate Term Debt (5.0%, Due 3/2014)(D) | 600 | 600 | 120 |
| | | Senior Term Debt (6.2%, Due 3/2014)(C) (D) (H) | 3,925 | 3,925 | 785 |
| | | Preferred Equity (100 shares)(F) (G) | | — | — |
| | | Guarantee ($300) | | | |
| | | | | 8,325 | 1,665 |
| **Total Control Investments (represented 13.4% of total investments at fair value)** | | | | **$ 96,521** | **$ 36,825** |
| **AFFILIATE INVESTMENTS(N):** | | | | | |
| FedCap Partners, LLC | Private equity fund – aerospace and defense | Class A Membership Units (80 units) (G) (J) | | $ 2,000 | $ 2,964 |
| **Total Affiliate Investments (represented 1.1% of total investments at fair value)** | | | | **$ 2,000** | **$ 2,964** |
| **TOTAL INVESTMENTS(O)** | | | | **$365,021** | **$ 273,960** |

(A) Certain of the securities listed in the above schedule are issued by affiliate(s) of the indicated portfolio company.
(B) Percentages represent cash interest rates in effect at September 30, 2012, and due dates represent the contractual maturity date. If applicable, PIK interest rates are noted separately from the cash interest rates. Senior debt securities generally take the form of first priority liens on the assets of the underlying businesses.
(C) LOT of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt.
(D) Fair value was primarily based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
(E) Security valued based on the indicative bid price on or near September 30, 2012, offered by the respective syndication agent's trading desk or secondary desk.
(F) Fair value was primarily based on the total enterprise value of the portfolio company using a liquidity waterfall approach. We also considered discounted cash flow methodologies.
(G) Security is non-income producing.
(H) Debt security is on non-accrual status.
(I) Security was paid off, at par, subsequent to September 30, 2012, and was valued based on the payoff.
(J) There are certain limitations on our ability to transfer our units owned prior to dissolution of the entity, which must occur no later than May 3, 2020. No Class A member may withdraw or resign from the entity prior to the dissolution and winding up of the entity. We reclassified this investment to correct the classification to an Affiliate investment from a Non-Control/Non-Affiliate investment as of and for the year ended September 30, 2012 in this current report on Form 10-K.
(K) Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares.
(L) Non-Control/Non-Affiliate investments, as defined by the 1940 Act, are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.
(M) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.
(N) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between 5.0% and 25.0% of the issued and outstanding voting securities.
(O) Cumulative gross unrealized depreciation for federal income tax purposes is $98.7 million; cumulative gross unrealized appreciation for federal income tax purposes is $6.1 million. Cumulative net unrealized depreciation is $92.6 million, based on a tax cost of $366.6 million.

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

## NOTE 1. ORGANIZATION

Gladstone Capital Corporation was incorporated under the Maryland General Corporation Law on May 30, 2001 and completed an initial public offering on August 23, 2001. The terms "the Company," "we," "our" and "us" all refer to Gladstone Capital Corporation and its consolidated subsidiaries. We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, we have elected to be treated for tax purposes as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code"). We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States ("U.S"). Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established small and medium-sized businesses in the U.S. that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

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

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

The financial statements of the foregoing two subsidiaries are consolidated with those of ours. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 15—*Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by our investment adviser, Gladstone Management Corporation (the "Adviser"), a Delaware corporation and a Securities and Exchange Commission (the "SEC") registered investment adviser and an affiliate of ours, pursuant to an investment advisory and management agreement. Administrative services are provided by our affiliate, Gladstone Administration, LLC (the "Administrator"), a Delaware limited liability company, pursuant to an administration agreement.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation*

These *Consolidated Financial Statements* and the accompanying notes are prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") and conform to Regulation S-X under the Securities Exchange Act of 1934, as amended. Management believes it has made all necessary adjustments so that our accompanying *Consolidated Financial Statements* are presented fairly and that all such adjustments are of a normal recurring nature. Our accompanying *Consolidated Financial Statements* include our accounts and the accounts of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

*Reclassifications*

Certain amounts in the prior year's financial statements have been reclassified to conform to the presentation for the year ended September 30, 2013 with no effect on our financial condition or results of operations.

*Consolidation*

Under Article 6 of Regulation S-X under the Securities Act of 1933, as amended, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which we have a controlling interest.

*Use of Estimates*

Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in our accompanying *Consolidated Financial Statements* and accompanying notes. Actual results may differ from those estimates.

*Cash and cash equivalents*

We consider all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents. Cash is carried at cost, which approximates fair value. We place our cash with financial institutions, and at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit. We seek to mitigate this concentration of credit risk by depositing funds with major financial institutions.

*Restricted Cash and Cash Equivalents*

Restricted cash is cash held in escrow that was generally received as part of an investment exit. Restricted cash is carried at cost, which approximates fair value.

*Classification of Investments*

In accordance with the BDC regulations in the 1940 Act, we classify portfolio investments on our accompanying *Consolidated Statements of Assets and Liabilities*, *Consolidated Statements of Operations* and *Consolidated Schedules of Investments* into the following categories:

- **Control Investments**—Control investments are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities;
- **Affiliate Investments**—Affiliate investments are those in which we own, with the power to vote, between 5.0% and 25.0% of the issued and outstanding voting securities that are not classified as Control Investments; and
- **Non-Control/Non-Affiliate Investments**—Non-Control/Non-Affiliate investments are those that are neither control nor affiliate investments and in which we typically own less than 5.0% of the issued and outstanding voting securities.

*Investment Valuation Policy*

We carry our investments at fair value to the extent that market quotations are readily available and reliable and otherwise at fair value as determined in good faith by our board of directors (our “Board of Directors”). In determining the fair value of our investments, the Adviser has established an investment valuation policy (the “Policy”). The Policy has been approved by our Board of Directors, and each quarter our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of our investment portfolio. Such determination of fair values may involve subjective judgments and estimates.

The Adviser uses valuation techniques in accordance with GAAP to value our portfolio. From time to time, the Adviser may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently, but provide a third-party valuation opinion that may differ in results, techniques and scope used to value our investments. When the Adviser obtains these specific third-party appraisals, the Adviser uses estimates of value provided by such appraisals and its own assumptions, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date, to value our investments.

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

**Publicly traded securities:** The Adviser determines the value of a publicly traded security based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own a restricted security that is not freely tradable, but for which a public market otherwise exists, the Adviser will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature. As of September 30, 2013 and 2012, we did not have any investments in publicly traded securities.

**Securities for which a limited market exists:** The Adviser values securities that are not traded on an established secondary securities market, but for which a limited market for the security exists, such as certain participations in, or assignments of, syndicated loans, at the quoted bid price, which are non-binding. In valuing these assets, the Adviser assesses trading activity in an asset class and evaluates variances in prices and other market insights to determine if any available quoted prices are reliable. In general, if the Adviser concludes that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if firm bid prices are unavailable, the Adviser bases the value of the security upon the indicative bid price ("IBP") offered by the respective originating syndication agent's trading desk, or secondary desk, on or near the valuation date. To the extent that the Adviser uses the IBP as a basis for valuing the security, the Adviser may take further steps to consider additional information to validate that price in accordance with the Policy, including but not limited to reviewing a range of indicative bids to the extent it has ready access to such qualified information.

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

As of September 30, 2013 and 2012, the Adviser determined that the IBPs were reliable indicators of fair value for our syndicate investments. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), the Adviser determined that these valuation inputs were classified as Level 3 within the fair value hierarchy as defined in ASC 820.

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

**(A)** **Portfolio investments comprised solely of debt securities:** Debt securities that are not publicly traded on an established securities market, or for which a market does not exist ("Non-Public Debt Securities"), and that are issued by portfolio companies in which we have no equity or equity-like securities, are fair valued utilizing estimates of value submitted to the Adviser by Standard & Poor's Securities Evaluations, Inc. ("SPSE") and its own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. The Adviser may also submit paid-in-kind ("PIK") interest to SPSE for its evaluation when it is determined that PIK interest is likely to be received.

**(B)** **Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities:**The fair value of these investments is determined based on the total enterprise value ("TEV") of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for our Non-Public Debt Securities and equity or equity-like securities (e.g., preferred equity, common equity, or other equity-like securities) that are purchased together as part of a package, where we have control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale or recapitalization of the portfolio company. We generally exit the debt and equity securities of an issuer at the same time. Applying the liquidity waterfall approach to all of our investments in an issuer, the Adviser first calculates the TEV of the issuer by incorporating some or all of the following factors:

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

In gathering the sales to third parties of similar securities, the Adviser generally references industry statistics and may use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Adviser has estimated the TEV of the issuer, it will subtract the value of all the debt securities of the issuer, which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of TEV over the total debt outstanding for the issuer. Once the values for all outstanding senior securities, which include all the debt securities, have been subtracted from the TEV of the issuer, the remaining amount, if any, is used to determine the value of the issuer’s equity or equity-like securities. If, in the Adviser’s judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, the Adviser may recommend that we use a valuation by SPSE, or, if that is unavailable, a DCF valuation technique.

**(C)** **Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities:**The Adviser values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical secondary market as our principal market. In accordance with ASC 820 (as amended by the FASB’s Accounting Standards Update No. 2011-04, “*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”)*,” (“ASU 2011-04”)), the Adviser has defined our “unit of account” at the investment level (either debt or equity) and as such determines our fair value of these non-control investments assuming the sale of an individual security using the standalone premise of value. As such, the Adviser estimates the fair value of the debt component using estimates of value provided by SPSE and its own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, the Adviser estimates the fair value of the equity based on factors such as the overall value of the issuer, the relative fair value of other units of account, including debt, or other relative value approaches. Consideration is also given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, the Adviser may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in the absence of other observable market data, its own assumptions.

**(D)** **Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds:** The Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the net asset value (“NAV”) provided by the non-control fund.

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

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

*Interest Income Recognition*

Interest income, adjusted for amortization of premiums, acquisition costs and amendment fees and the accretion of original issue discounts ("OID"), is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management's judgment. Generally, non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management's judgment, are likely to remain current, or, due to a restructuring, the interest income is deemed to be collectible. At September 30, 2013, two portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $39.5 million, or 12.6% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately $5.8 million, or 2.4% of the fair value of all debt investments in our portfolio. At September 30, 2012, six portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately $61.1 million, or 17.3% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately $6.8 million, or 2.6% of the fair value of all debt investments in our portfolio.

We currently hold, and we expect to hold in the future, some loans in our portfolio that contain OID or PIK provisions. We recognize OID for loans originally issued at discounts and recognize the income over the life of the obligation based on an effective yield calculation. PIK interest, computed at the contractual rate specified in a loan agreement, is added to the principal balance of a loan and recorded as income over the life of the obligation. Thus, the actual collection of PIK income may be deferred until the time of debt principal repayment. To maintain our ability to be taxed as a RIC, we may need to pay out both of our OID and PIK non-cash income amounts in the form of distributions, even though we have not yet collected the cash.

As of September 30, 2013 and 2012, we had 19 and 24 OID loans, respectively, primarily from the syndicated loans in our portfolio. We recorded OID income of $0.3 million, $0.3 million and $0.2 million for the years ended September 30, 2013, 2012 and 2011, respectively. The unamortized balance of OID investments as of September 30, 2013 and 2012 totaled $1.0 million and $1.1 million, respectively. As of September 30, 2013, we had three investments which had a PIK interest component and as of September 30, 2012, we had one investment which had a PIK interest component. We recorded PIK interest income of $0.3 million, $20 and $12 for the years ended September 30, 2013, 2012 and 2011, respectively. We collected no PIK interest in cash for the years ended September 30, 2013, 2012 and 2011, respectively.

We also transfer past due interest to the principal balance as stipulated in certain loan amendments with portfolio companies. There were no such transfers during the years ended September 30, 2013 and 2012. We transferred past due interest to the principal balance of $0.2 million for the year ended September 30, 2011.

*Other Income Recognition*

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We received an aggregate of $1.7 million of success fees during the year ended September 30, 2013, which resulted from the early payoffs at par of Westlake Hardware, Inc. ("Westlake") for $1.1 million in December 2012 and CMI Acquisitions, LLC ("CMI") for $0.6 million in September 2013. We received an aggregate of $4.0 million of success fees during the year ended September 30, 2012, which resulted from the early payoffs at par of Winchester Electronics for $1.2 million, Global Materials Technologies for $1.1 million, RCS Management Holding Co. for $0.9 million and Northern Contours, Inc. for $0.8 million. During the year ended September 30, 2011, we received an aggregate of $1.0 million in success fees from the early payoffs at par of Pinnacle Treatment Centers, Inc. for $0.5 million and Interfilm Holdings, Inc. for $0.1 million and also a prepaid success fee of $0.4 million from Westlake. As of September 30, 2013 and 2012, we had an aggregate off-balance sheet success fee receivable of approximately $14.8 million and $13.2 million, respectively, on our accruing debt investments.

We generally record prepayment fees upon receipt of cash. Prepayment fees are contractually due at the time of an investment's exit, based on the prepayment penalty fee schedule. During the year ended September 30, 2013, we received an aggregate of $0.9 million in prepayment fees, which resulted from the early payoffs of eight of our syndicated investments at par during the 2013 fiscal year. We received an aggregate of $0.2 million in prepayment fees during the year ended September 30, 2012, which resulted from the early payoffs of five of our syndicated investments at par during the 2012 fiscal year, and no prepayment fees were received during the year ended September 30, 2011.

Dividend income on preferred equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. During the years ended September 30, 2013, 2012 and 2011 we did not record or collect any dividend income on our preferred equity investments.

Success fees, prepayment fees and dividend income are all recorded in other income in our accompanying *Consolidated Statements of Operations*. In addition, we received an aggregate of $1.0 million from two legal settlements related to portfolio companies that was recorded in other income during the year ended September 30, 2011.

*Realized Gain (Loss) and Unrealized Appreciation (Depreciation) of Investments*

Gains or losses on the sale of investments are calculated by using the specific identification method. A realized gain or loss is recognized at the trade date, typically when an investment is disposed of, and is computed as the difference between our cost basis in the investment at the disposition date and the net proceeds received from such disposition. Cumulative net realized appreciation or depreciation calculates the difference between the fair value of the investment and the cost basis of such investment. We must determine the fair value of each individual investment on a quarterly basis and record changes in fair value as net unrealized appreciation or depreciation in our accompanying *Consolidated Statements of Operations* as required by GAAP for investment companies.

*Deferred Financing Fees*

Deferred financing costs consist of costs incurred to obtain financing, including legal fees, origination fees and administration fees. Costs associated with our revolving line of credit and the issuance of our mandatorily redeemable preferred stock are deferred and amortized in our accompanying *Consolidated Statements of Operations* using the straight-line method, which approximates the effective interest method, over the terms of the respective financing instrument. Refer to Note 7—*Mandatorily Redeemable Preferred Stock* for additional information regarding our preferred stock and Note 5 —*Borrowings* for additional information regarding our revolving line of credit.

*Related Party Fees*

We have entered into an investment advisory and management agreement (the “Advisory Agreement”) with the Adviser, which is controlled by our chairman, chief executive officer and president. In accordance with the Advisory Agreement, we pay the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee. These fees are accrued at the end of the quarter when the services are performed and generally paid the following quarter.

We have entered into an administration agreement (the “Administration Agreement”) with the Administrator whereby we pay separately for administrative services. These administrative fees are accrued at the end of the quarter when the services are performed and generally paid the following quarter. Refer to Note 4—*Related Party Transactions* for additional information regarding these related party fees and agreements.

*Income Taxes*

We intend to continue to qualify for treatment as a RIC under subchapter M of the Code, which generally allows us to avoid paying corporate income taxes on any income or gains that we distribute to our stockholders. We intend to continue to distribute sufficient dividends to eliminate taxable income. Refer to Note 11— *Federal and State Income Taxes* for additional information regarding our RIC requirements.

We have certain wholly-owned taxable subsidiaries (the “Taxable Subsidiaries”), each of which holds one or more of its portfolio investments that are listed on our accompanying *Consolidated Schedules of Investments*. The purpose of the Taxable Subsidiaries is to permit us to hold certain portfolio companies that are organized as limited liability companies (“LLCs”) (or other forms of pass-through entities) while satisfying the RIC tax requirement that at least 90.0% of the RIC’s gross revenue for income tax purposes must consist of qualifying investment income. Absent the Taxable Subsidiaries, a proportionate amount of any gross income of an LLC (or other pass-through entity) portfolio investment would flow through directly to the RIC. To the extent that such income did not consist of qualifying investment income, it could jeopardize our ability to qualify as a RIC and therefore cause us to incur significant amounts of federal income taxes. When LLCs (or other pass-through entities) are owned by the Taxable Subsidiaries, their income is taxed to the Taxable Subsidiaries and does not flow through to the RIC, thereby helping us preserve our RIC status. The Taxable Subsidiaries are not consolidated for income tax purposes and may generate income tax expense as a result of their ownership of the portfolio companies. This income tax expense is considered immaterial and, therefore, it is not recorded on our accompanying *Consolidated Statements of Operations*.

ASC 740, "Income Taxes" requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authorities. Tax positions not deemed to satisfy the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. We have evaluated the implications of ASC 740, for all open tax years and in all major tax jurisdictions, and determined that there is no material impact on our accompanying *Consolidated Financial Statements*. Our federal tax returns for fiscal years 2010—2013 remain subject to examination by the Internal Revenue Service ("IRS").

*Distributions*

Distributions to stockholders are recorded on the ex-dividend date. We are required to pay out at least 90.0% of our "investment company taxable income," which is generally our net ordinary income plus the excess or our net short-term capital gains over net long-term capital losses for each taxable year as a distribution to our stockholders in order to maintain our ability to be taxed as a RIC under Subchapter M of the Code. It is our policy to pay out as a distribution up to 100.0% of those amounts. The amount to be paid is determined by our Board of Directors each quarter and is based on the annual earnings estimated by our management. Based on that estimate, a distribution is declared each quarter and is paid out monthly over the course of the respective quarter. Refer to Note 10—*Distributions to Common Stockholders* for further information. We have a dividend reinvestment plan for our common stockholders. This is an "opt in" dividend reinvestment plan, meaning that common stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Common stockholders who do not so elect will receive their dividends in cash. Common stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. We do not have a dividend reinvestment plan for our preferred stock stockholders.

*Recent Accounting Pronouncements*

In June 2013, the FASB issued ASU 2013-08, "*Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*," which amends the criteria that define an investment company, clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so we anticipate no impact on our financial position or results of operations from adopting this standard. We are currently assessing the additional disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013.

**NOTE 3. INVESTMENTS**

ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

- *Level 1* — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2* — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active or inactive markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and
- *Level 3*— inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the asset or liability and can include the Adviser's assumptions based upon the best available information.

As of September 30, 2013 and 2012, all of our investments were valued using Level 3 inputs. We transfer investments in and out of Level 1, 2 and 3 as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the years ended September 30, 2013 and 2012, there were no transfers in or out of Level 1, 2 and 3.

The following table presents our investments carried at fair value as of September 30, 2013 and 2012, by caption on our accompanying *Consolidated Statements of Assets and Liabilities* and by security type, all of which are valued using level 3 inputs:

| | Total Recurring Fair Value Measurements Reported in *Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3) As of September 30, 2013 | 2012 |
|---|---|---|
| **Non-Control/Non-Affiliate Investments** | | |
| Senior debt | **$ 82,923** | $ 150,500 |
| Senior subordinated debt | **95,162** | 81,282 |
| Junior subordinated debt | **561** | 498 |
| Preferred equity | **2,179** | 1,103 |
| Common equity/equivalents | **1,045** | 788 |
| Total Non-Control/Non-Affiliate Investments | **$ 181,870** | $ 234,171 |
| **Control Investments** | | |
| Senior debt | **$ 28,211** | $ 6,660 |
| Senior subordinated debt | **31,513** | 26,052 |
| Preferred equity | **2,447** | — |
| Common equity/equivalents | **2,050** | 4,113 |
| Total Control Investments | **$ 64,221** | $ 36,825 |
| **Affiliate Investments** | | |
| Senior debt | **$ 7,000** | $ — |
| Common equity/equivalents | **3,787** | 2,964 |
| Total Affiliate Investments | **$ 10,787** | $ 2,964 |
| **Total Investments at Fair Value** | **$ 256,878** | $ 273,960 |

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of September 30, 2013 and 2012. In addition to the techniques and inputs noted in the table below, according to our Policy, the Adviser may also use other valuation techniques and methodologies when determining our fair value measurements. The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt related calculations and on the cost basis for all equity related calculations for the particular input.

**Quantitative Information about Level 3 Fair Value Measurements**

| | Fair Value as of September 30, 2013 | Fair Value as of September 30, 2012 | Valuation Techniques/ Methodologies | Unobservable Input | Range / Weighted Average as of September 30, 2013 | Range / Weighted Average as of September 30, 2012 |
|---|---|---|---|---|---|---|
| Senior debt(F) | **$ 64,892** | $ 96,037 | SPSE (A) | EBITDA (B) | $(80) – $4,754 / $1,463 | ($1,164) – $4,886 / $987 |
| | | | | Risk ratings (C) | 3.0 – 10.0 / 6.0 | 2.0 – 10.0 / 5.4 |
| | **30,881** | 548 | Market Quotes | IBP (D) | 90.0% – 100.8% / 95.8% | 87.0% – 101.5% / 98.8% |
| | **22,361** | 60,575 | TEV | Revenue multiples (B) | 0.3x – 2.3 x / 1.7x | 0.2x |
| | | | | Revenue (B) | $2,451 – $13,905 / $10,312 | $2,474 |
| Senior subordinated debt(G) | **84,124** | 83,807 | SPSE (A) | EBITDA (B) | $1,220 – $15,891 / $7,797 | $723 – $14,055 / $6,418 |
| | | | | Risk ratings (C) | 2.0 – 7.0 / 5.0 | 2.0 – 7.0 / 4.7 |
| | **29,331** | 16,840 | Market Quotes | IBP (D) | 98.5% – 101.8% / 100.3% | 97.0% – 101.5% / 98.1% |
| | **13,781** | 7,185 | TEV | EBITDA multiples (B) | 4.5x | 5.0x |
| | | | | EBITDA (B) | $2,653 | $3,222 |
| | | | | Revenue multiples (B) | 2.3x | — |
| | | | | Revenue (B) | $13,905 | — |
| Preferred and common equity / equivalents (H) | **7,908** | 6,004 | TEV | EBITDA multiples (B) | 3.8x – 7.9x / 5.0x | 4.2x – 9.2x / 6.0x |
| | | | | EBITDA (B) | $84 – $8,724 / $3,107 | ($1,164) – $10,967 / $1,333 |
| | | | | Revenue multiples (B) | 0.3x – 2.3x / 2.3x | 0.2x – 2.2x / 0.2x |
| | | | | Revenue (B) | $2,451 – $13,905 / $13,903 | $1,057 – $2,474 / $2,469 |
| | **3,600** | 2,964 | Other(E) | | | |
| **Total Investments** | **$ 256,878** | $ 273,960 | | | | |

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

(B) Adjusted earnings before interest expense, taxes, depreciation and amortization ("EBITDA") is an unobservable input, which is generally based on the most recently available trailing twelve month financial statements submitted to the Adviser from the portfolio companies. EBITDA multiples, generally indexed, represent the Adviser's estimate of where market participants might price these investments. For our bundled debt and equity investments, the EBITDA and EBITDA multiple inputs are used in the TEV fair value determination and the issuer's debt, equity, and/or equity-like securities are valued in accordance with the Adviser's liquidity waterfall approach. In limited cases, the revenue from the most recently available trailing twelve month financial statements submitted to the Adviser from the portfolio companies and the related revenue multiples, generally indexed, are used to provide a TEV fair value determination of our bundled debt and equity investments.

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

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

(E) Includes private equity fund investments, which the Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the NAV provided by the non-control fund.

(F) As of September 30, 2013, includes one new proprietary debt investment for $7.0 million, which was valued at cost. As of September 30, 2012, includes an aggregate of $11.0 million in three debt only investments, which subsequently paid off at par and, as such, were valued based on the payoff.

(G) As of September 30, 2012, includes $8.5 million in one debt only investment, which subsequently paid off at par and, as such, was valued based on the payoff.

(H) As of September 30, 2013, includes one new proprietary equity investment for $0.4 million, which was valued at cost.

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

*Changes in Level 3 Fair Value Measurements of Investments*

The following tables provide the changes in fair value, broken out by security type, during the years ended September 30, 2013 and 2012 for all investments for which the Adviser determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (that is, components that are actively quoted and can be validated to external sources). In these cases, we categorize the fair value measurement in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

**Fair Value Measurements Using Significant Unobservable Data Inputs (Level 3)**

| **Year Ended September 30, 2013:** | **Senior Debt** | **Senior Subordinated Debt(A)** | **Preferred Equity** | **Common Equity/ Equivalents** | **Total** |
|---|---|---|---|---|---|
| Fair value as of September 30, 2012 | **$157,160** | **$ 107,832** | **$ 1,103** | **$ 7,865** | **$ 273,960** |
| Total (losses) gains: | | | | | |
| Net realized (losses) gains(B) | **(5,883)** | **130** | **—** | **—** | **(5,753)** |
| Net unrealized (depreciation) appreciation(C) | **(5,344)** | **95** | **(2,026)** | **(3,080)** | **(10,355)** |
| Reversal of prior periods' net depreciation on realization(C) | **10,145** | **15,883** | **—** | **—** | **26,028** |
| New investments, repayments, and settlements:( D) | | | | | |
| Issuances/originations | **14,971** | **67,774** | **5,549** | **2,097** | **90,391** |
| Settlements/repayments | **(46,358)** | **(64,478)** | **—** | **—** | **(110,836)** |
| Sales | **(6,557)** | **—** | **—** | **—** | **(6,557)** |
| **Fair Value as of September 30, 2013** | **$118,134** | **$ 127,236** | **$ 4,626** | **$ 6,882** | **$ 256,878** |

| **Year Ended September 30, 2012:** | **Senior Debt** | **Senior Subordinated Debt(A)** | **Preferred Equity** | **Common Equity/ Equivalents** | **Total** |
|---|---|---|---|---|---|
| Fair value as of September 30, 2011 | $200,145 | $ 92,148 | $ 566 | $ 10,088 | $ 302,947 |
| Total (losses) gains: | | | | | |
| Net realized (losses) gains(B) | (10,155) | 34 | — | (2,877) | (12,998) |
| Net unrealized depreciation(C) | (18,033) | (3,799) | (3,262) | (3,100) | (28,194) |
| Reversal of prior periods' net depreciation on realization(C) | 13,565 | 541 | — | 2,894 | 17,000 |
| New investments, repayments, and settlements:(D) | | | | | |
| Issuances/originations | 32,446 | 31,820 | 3,799 | 876 | 68,941 |
| Settlements/repayments | (46,992) | (20,257) | — | — | (67,249) |
| Sales | (6,471) | — | — | (16) | (6,487) |
| Transfers | (7,345) | 7,345 | — | — | — |
| **Fair Value as of September 30, 2012** | **$157,160** | **$ 107,832** | **$ 1,103** | **$ 7,865** | **$ 273,960** |

(A) Includes a junior subordinated investment totaling $0.6 million and $0.5 million in fair value as of September 30, 2013 and 2012, respectively. There were no junior subordinated investments held as of September 30, 2011.

(B) Included in net realized loss on investments on our accompanying *Consolidated Statements of Operations* for the years ended September 30, 2013 and 2012.

(C) Included in net unrealized appreciation (depreciation) on investments on our accompanying *Consolidated Statements of Operations* for the years ended September 30, 2013 and 2012.

(D) Includes increases in the cost basis of investments resulting from new portfolio investments, the amortization of discounts, PIK; as well as decreases in the cost basis of investments resulting from principal repayments or sales, the amortization of premiums and acquisition costs, and other cost-basis adjustments.

*Non-Syndicated Investments*

As of September 30, 2013 and 2012, we held 29 and 30 non-syndicated investments with an aggregate fair value of $196.3 million and $195.8 million, or 76.4% and 71.5% of the total aggregate portfolio, respectively. During the year ended September 30, 2013, we invested in five new non-syndicated investments for an aggregate of $50.2 million; sold two non-syndicated investments for an aggregate realized loss of $5.3 million; wrote off one non-syndicated investment for a realized loss of $0.9 million; and had two non-syndicated investments pay off early at par (Westlake and CMI), for which we received aggregate principal payments of $34.3 million and aggregate success fees of $1.7 million. Additionally, during the year ended September 30, 2013, we funded an aggregate of $9.7 million to existing non-syndicated portfolio companies through revolver draws and add-on investments, while scheduled and unscheduled principal repayments totaled $63.6 million from existing non-syndicated portfolio companies (exclusive of the aforementioned $34.3 million early payoffs at par). The following significant non-syndicated investment transactions occurred during the year ended September 30, 2013:

- *Viapack, Inc*. – In November 2012, we sold our investment in Viapack, Inc. ("Viapack") for net proceeds of $5.9 million, which resulted in a realized loss of $2.4 million recorded in the three months ended December 31, 2012. Viapack was partially on non-accrual status at the time of the sale.

- *AG Transportation Holdings, LLC.* – In December 2012, we invested $14.0 million in AG Transportation Holdings, LLC ("AG Trucking") through a combination of senior subordinated term debt and equity. AG Trucking, headquartered in Goshen, Indiana, is a regional food-grade liquid and dry bulk carrier providing a variety of bulk transportation services, including liquid transportation, dry bulk dumps, freight brokering, private fleet conversion and project runs to large international agricultural and food manufacturing firms.

- *Allen Edmonds Shoe Corporation* – In December 2012, we invested $19.5 million in Allen Edmonds Shoe Corporation ("Allen Edmonds") through senior subordinated term debt that we purchased from one of Allen Edmonds' existing lenders. Allen Edmonds, headquartered in Port Washington, Wisconsin, manufactures premium men's footwear and accessories, which it sells through its retail stores, catalogs and internet site and also through its wholesale and e-commerce channels.

- *RBC Acquisition Corp*. – In March 2013, we acquired a controlling equity position in RBC Acquisition Corp. ("Reliable") and invested $2.0 million in additional equity capital in the form of preferred equity. In addition, we invested $0.3 million in preferred equity in August 2013 and an aggregate of $1.1 million in line of credit draws during the year ended September 30, 2013. As of September 30, 2013, Reliable was classified as a Control portfolio company. Reliable was known as Reliable Biopharmaceutical Holdings, Inc. before its recapitalization in March 2013 and is therefore included on our accompanying Consolidated Schedule of Investments as of September 30, 2012 under the name Reliable Biopharmaceutical Holdings, Inc.

- *Kansas Cable Holdings, Inc.* – In April 2013, we sold our investment in Kansas Cable Holdings, Inc. ("KCH") for net proceeds of $0.6 million, which resulted in a realized loss of $2.9 million recorded in the three months ended June 30, 2013. KCH was on non-accrual status at the time of the sale.

- *Funko, LLC* – In May 2013, we invested $8.8 million in Funko, LLC ("Funko"), through a combination of senior subordinated term debt and preferred equity. Funko, headquartered in Lynnwood, WA, is a designer, importer and marketer of pop-culture collectibles. This was our first co-investment with our affiliate fund, Gladstone Investment Corporation ("Gladstone Investment"), pursuant to an exemptive order granted by the SEC in July 2012. Gladstone Investment invested an additional $8.8 million in Funko under the same terms as us.

- *Ashland Acquisition, LLC* – In July 2013, we invested $8.9 million in Ashland Acquisition, LLC ("Ashland") through a combination of senior term debt and common equity, where we hold 20.0% of the issued and outstanding voting securities. Ashland, through its wholly-owned subsidiary that is headquartered in Ashland, Ohio, provides publishing services including digital and offset printing, warehousing, distribution, and content and marketing services.

- *Lindmark Acquisition, LLC* – In September 2013, we sold substantially all of the assets in Lindmark Acquisition, LLC ("Lindmark") for net proceeds of $14.4 million, which paid down our debt investments in full at par. Lindmark was on non-accrual status at the time of the sale.

*Syndicated Investments*

We held a total of 18 and 20 syndicate loans with an aggregate fair value of $60.6 million and $78.2 million, or 23.6% and 28.5% of our total investment portfolio, as of September 30, 2013 and 2012, respectively. During the year ended September 30, 2013, we invested in 10 new syndicated investments for a combined total of $30.2 million and had 12 early payoffs of syndicated investments at par for a combined total of $45.3 million. We received an aggregate of $0.9 million prepayment fees related to eight of these early payoffs of syndicated investments at par during the year ended September 30, 2013.

*Investment Concentrations*

As of September 30, 2013, we had loans in 47 portfolio companies located in 26 states in 19 different industries, with an aggregate fair value of $256.9 million. The five largest investments at fair value as of September 30, 2013 totaled $96.0 million, or 37.4% of our total investment portfolio, as compared to the five largest investments at fair value as of September 30, 2012 totaling $91.8 million, or 33.5% of our total investment portfolio. As of September 30, 2013, our average investment by obligor was $7.1 million at cost, compared to $7.3 million at cost as of September 30, 2012.

The following table outlines our investments by security type at September 30, 2013 and 2012:

| | September 30, 2013 | | | | September 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | Fair Value | | Cost | | Fair Value | |
| Senior debt | **$184,146** | **55.4%** | **$118,134** | **46.0%** | $235,158 | 64.4% | $164,345 | 60.0% |
| Senior subordinated debt | **129,013** | **38.8** | **126,675** | **49.3** | 118,469 | 32.5 | 100,149 | 36.5 |
| Junior subordinated debt | **494** | **0.2** | **561** | **0.2** | 428 | 0.1 | 498 | 0.2 |
| Total debt investments | **313,653** | **94.4** | **245,370** | **95.5** | 354,055 | 97.0 | 264,992 | 96.7 |
| Preferred equity | **12,268** | **3.7** | **4,626** | **1.8** | 6,719 | 1.8 | 1,103 | 0.4 |
| Common equity/equivalents | **6,345** | **1.9** | **6,882** | **2.7** | 4,247 | 1.2 | 7,865 | 2.9 |
| Total equity investments | **18,613** | **5.6** | **11,508** | **4.5** | 10,966 | 3.0 | 8,968 | 3.3 |
| **Total Investments** | **$332,266** | **100.0%** | **$256,878** | **100.0%** | $365,021 | 100.0% | $273,960 | 100.0% |

Investments at fair value consisted of the following industry classifications at September 30, 2013 and 2012:

| Industry Classification | September 30, 2013 Fair Value | September 30, 2013 Percentage of Total Investments | September 30, 2012 Fair Value | September 30, 2012 Percentage of Total Investments |
|---|---|---|---|---|
| Healthcare, education and childcare | **$ 45,339** | **17.7%** | $ 32,867 | 12.0% |
| Electronics | **33,711** | **13.1** | 42,111 | 15.4 |
| Personal and non-durable consumer products | **29,032** | **11.3** | 8,399 | 3.1 |
| Printing and publishing | **22,224** | **8.7** | 12,760 | 4.6 |
| Mining, steel, iron and non-precious metals | **17,733** | **6.9** | 31,590 | 11.5 |
| Broadcast and entertainment | **15,534** | **6.0** | 25,505 | 9.3 |
| Oil and gas | **15,174** | **5.9** | 15,386 | 5.6 |
| Cargo Transportation | **12,984** | **5.1** | — | — |
| Aerospace and defense | **11,730** | **4.6** | 16,597 | 6.0 |
| Automobile | **9,701** | **3.8** | 12,168 | 4.4 |
| Textiles and leather | **8,476** | **3.3** | 9,776 | 3.6 |
| Beverage, food and tobacco | **7,038** | **2.7** | 7,258 | 2.6 |
| Machinery | **6,425** | **2.5** | 7,618 | 2.8 |
| Buildings and real estate | **6,392** | **2.5** | 5,920 | 2.2 |
| Finance | **4,489** | **1.7** | — | — |
| Diversified/conglomerate manufacturing | **4,482** | **1.7** | 6,824 | 2.5 |
| Leisure, amusement, motion pictures and entertainment | **2,756** | **1.1** | 5,380 | 2.0 |
| Home and office furnishing, housewares and durable consumer goods | **2,651** | **1.0** | 3,357 | 1.2 |
| Personal, food and miscellaneous services | **1,007** | **0.4** | 7,354 | 2.7 |
| Retail store | — | — | 19,360 | 7.1 |
| Other, < 1.0% | — | — | 3,730 | 1.4 |
| **Total Investments** | **$256,878** | **100.0%** | $273,960 | 100.0% |

Investments at fair value were included in the following geographic regions of the U.S. at September 30, 2013 and 2012:

| Geographic Region | September 30, 2013 Fair Value | September 30, 2013 Percentage of Total Investments | September 30, 2012 Fair Value | September 30, 2012 Percentage of Total Investments |
|---|---|---|---|---|
| Midwest | **$118,570** | **46.2%** | $127,179 | 46.4% |
| South | **68,669** | **26.7** | 62,677 | 22.9 |
| West | **61,737** | **24.0** | 66,268 | 24.2 |
| Northeast | **7,902** | **3.1** | 9,836 | 3.6 |
| Outside continental U.S. | — | — | 8,000 | 2.9 |
| **Total Investments** | **$256,878** | **100.0%** | $273,960 | 100.0% |

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

*Investment Principal Repayment*

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at September 30, 2013:

| Fiscal year ending September 30, | Amount |
|---|---|
| 2014 | $ 72,305 |
| 2015 | 44,860 |
| 2016 | 95,288 |
| 2017 | 18,657 |
| 2018 | 45,713 |
| Thereafter | 37,779 |
| **Total Contractual Repayments** | **$314,602** |
| Equity investments | 18,613 |
| Adjustments to cost basis on debt investments | (949) |
| **Total Cost Basis of Investments Held at September 30, 2013:** | **$332,266** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs incurred on behalf of such portfolio companies and are included in other assets on our accompanying *Consolidated Statements of Assets and Liabilities*. We maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management's expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of September 30, 2013 and 2012, we had gross receivables from portfolio companies of and $0.7 million and $0.8 million, respectively. The allowance for uncollectible receivables was and $0.1 million and $0.4 million at September 30, 2013 and 2012, respectively. In addition, we recorded an allowance for uncollectible interest receivable of $0 and $21 as of September 30, 2013 and 2012, respectively.

## NOTE 4. RELATED PARTY TRANSACTIONS

*Investment Advisory and Management Agreement*

We entered into an investment advisory and management agreement with the Adviser (the "Advisory Agreement"). The Adviser is controlled by our chairman, chief executive officer and president. In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee. On July 9, 2013, our Board of Directors approved the annual renewal of the Advisory Agreement through August 31, 2014. The following table summarizes the management fees, incentive fees and associated credits reflected in our accompanying *Consolidated Statements of Operations*:

| | Year Ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Average total assets subject to base management fee(A) | **$281,100** | $308,250 | $286,550 |
| Multiplied by annual base management fee of 2.0% | **2.0%** | 2.0% | 2.0% |
| **Base management fee (B)** | **5,622** | 6,165 | 5,731 |
| Credit for fees received by Adviser from the portfolio companies | **(324)** | (342) | (239) |
| Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum | **(183)** | (428) | (383) |
| **Net Base Management Fee** | **$ 5,115** | $ 5,395 | $ 5,109 |
| **Incentive fee (B)** | **$ 4,343** | $ 4,691 | $ 4,598 |
| Credit from voluntary, irrevocable waiver issued by Adviser's board of directors | **(1,014)** | (278) | (21) |
| **Net Incentive Fee** | **$ 3,329** | $ 4,413 | $ 4,577 |
| Credit for fees received by Adviser from the portfolio companies | **$ (324)** | $ (342) | $ (239) |
| Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum | **(183)** | (428) | (383) |
| Credit from voluntary, irrevocable waiver issued by Adviser's board of directors | **(1,014)** | (278) | (21) |
| **Credits to Fees from Adviser (B)** | **$ (1,521)** | $ (1,048) | $ (643) |

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

(B) Reflected as a line item in our accompanying *Consolidated Statements of Operations*.

**Base Management Fee**

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

- *Loan Servicing Fees*

  The Adviser also services the loans held by Business Loan, in return for which it generally receives a 1.5% annual fee based on the monthly aggregate outstanding balance of loans pledged under our revolving line of credit. Since we own these loans, all loan servicing fees paid to the Adviser are treated as reductions directly against the 2.0% base management fee under the Advisory Agreement.

- *Senior Syndicated Loan Fee Waiver Credit*

  Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, for the years ended September 30, 2013 and 2012.

- *Portfolio Company Fees Credit*

  Under the Advisory Agreement, the Adviser provides managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under other agreements and may receive fees for services other than managerial assistance. We credit 100.0% these fees against the base management fee that we would otherwise be required to pay to the Adviser.

**Incentive Fee**

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

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);
- 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the income-based incentive fee to the extent net investment income did not 100.0% cover distributions to common stockholders for the years ended September 30, 2013, 2012 and 2011.

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20.0% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the entire portfolio's aggregate net unrealized capital depreciation, if any, as of the date of the calculation. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. The entire portfolio's aggregate net unrealized capital depreciation, if any, equals the sum of the difference, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less the entire portfolio's aggregate net unrealized capital depreciation, if any. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through September 30, 2013, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. There has been no GAAP accrual recorded for a capital gains-based incentive fee since our inception through September 30, 2013.

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

*Administration Agreement*

We have entered into an administration agreement (the “Administration Agreement”) with Gladstone Administration, LLC (the “Administrator”), an affiliate of ours and of the Adviser, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator’s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and the salaries and benefits expenses of our chief financial officer, treasurer, chief compliance officer, internal counsel and secretary and their respective staffs. Our allocable portion of administrative expenses is generally derived by multiplying the Administrator’s total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies managed by the Adviser under similar agreements. On July 9, 2013, our Board of Directors approved the annual renewal of the Administration Agreement for another year through August 31, 2014.

*Related Party Fees Due*

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

| | As of September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Base management fee due to Adviser | **$ 529** | $ 695 |
| Incentive fee due to Adviser | **1,177** | 1,135 |
| **Total fees due to Adviser** | **1,706** | 1,830 |
| Fee due to Administrator | **126** | 174 |
| **Total Related Party Fees Due** | **$ 1,832** | $ 2,004 |

Other operating expenses due to the Adviser as of September 30, 2013 and 2012, totaled $18 and $19, respectively. In addition, as of September 30, 2013, other co-investment expenses due to Gladstone Investment totaled $0.2 million. These expenses were paid in full subsequent to year end and have been included in other liabilities on the accompanying *Consolidated Statements of Assets and Liabilities* as of September 30, 2013. There were no amounts due to Gladstone Investment as of September 30, 2012.

*Notes Receivable from Former Employees*

We have, from time to time, held promissory notes from certain of our former employees, who are now employees of the Adviser. The notes were for the exercise of options granted under our Amended and Restated 2001 Equity Incentive Plan, which has since been terminated. The notes require the quarterly payment of interest at the market rate in effect at the date of issuance, have varying terms not exceeding ten years and have been recorded as a reduction of net assets. The notes are evidenced by full recourse notes that are due upon maturity or 60 days following termination of employment with the Adviser, and the shares of common stock purchased with the proceeds of the notes were posted as collateral. We received $2.8 million and $0.8 million in aggregated principal repayments during the years ended September 30, 2013 and 2012, respectively. As part of the payment made during the year ended September 30, 2012, one employee redeemed 39,082 shares of common stock and liquidated additional collateral to pay off an aggregate of $0.3 million of principal on his outstanding notes. There were no redemptions of common stock held by employees during the year ended September 30, 2013. We recognized interest income from all employee notes of an aggregated $0.1 million, $0.3 million and $0.4 million for the years ended September 30, 2013, 2012 and 2011, respectively.

The following table is a summary of all outstanding notes issued to employees of the Adviser for the exercise of stock options as of September 30, 2013 and 2012:

| Issue Date | Original Amount of Employee Notes | Outstanding Balance of Employee Notes At September 30, 2013 | Outstanding Balance of Employee Notes At September 30, 2012 | Maturity Date | Original Interest Rate on Note |
|---|---|---|---|---|---|
| Aug-01 | $ 5,900(A) | $ — | $ 2,749 | Aug-10 | 4.90%(B) |
| Jul-06 | 275(A) | 175 | 275 | Jul-15 | 8.26 |
| **Total** | **$ 6,175** | **$ 175** | **$ 3,024** | | |

(A) On September 7, 2010, we entered into redemption agreements (the "Redemption Agreements") with David Gladstone, our chairman, chief executive officer and president, and Laura Gladstone, a Managing Director of the Adviser and the daughter of Mr. Gladstone, in connection with the maturity of secured promissory notes executed by Mr. Gladstone on August 23, 2001, in the principal amount of $5.9 million and by Ms. Gladstone on July 13, 2006, in the principal amount of $0.3 million (collectively, the "Notes"). Mr. and Ms. Gladstone originally executed the Notes to facilitate their payment of the exercise price of certain stock options (the "Options") to acquire shares of our common stock. Concurrently with the execution of the Notes, we, together with Mr. and Ms. Gladstone entered into stock pledge agreements (collectively, the "Pledge Agreements"), pursuant to which Mr. and Ms. Gladstone granted to us a first priority security interest in the Pledged Collateral (as defined in the respective Pledge Agreements), which included 393,334 and 18,334 shares, respectively, of our common stock that Mr. and Ms. Gladstone acquired pursuant to the exercise of the Options (collectively, the "Pledged Shares"). The Redemption Agreements provide that, pursuant to the terms and conditions thereof, we will automatically accept and retire the Pledged Shares in partial or full satisfaction, as applicable, of Mr. and Ms. Gladstone's obligations to us under the Notes at such time, if ever, that the trading price of our common stock reaches $15 per share. In entering into the Redemption Agreements, we reserved all of our existing rights under the Notes and the Pledge Agreements, including, but not limited to, the ability to foreclose on the Pledged Collateral at any time. During the years ended September 30, 2013, 2012 and 2011, Mr. Gladstone paid down $2.7 million, $0 and $3.2 million of the principal balance of his Note leaving no principal balance outstanding as of September 30, 2013. In connection with these payments, we released our first priority security interest on 183,334 and 210,000 common shares of Mr. Gladstone's Pledged Shares during the years ended September 30, 2013 and 2011, respectively, leaving no common shares of the Company in Pledged Collateral from Mr. Gladstone as of September 30, 2013. Simultaneously with the full repayment of principal and accrued interest outstanding in July 2013, Mr. Gladstone's related Redemption Agreement was terminated pursuant to its terms. During the year ended September 30, 2013, Ms. Gladstone paid down $0.1 million of the principal of her Note, leaving a principal balance of $0.2 million outstanding as of September 30, 2013. Ms. Gladstone had two additional secured promissory notes under the Redemption Agreements in the principal amounts of $0.3 million and $0.2 million, which were both paid in full as of September 30, 2012. In connection with Ms. Gladstone's pay downs of principal, we have not released any of our first priority security interests on her Pledged Shares.

(B) Prior to the payoff of Mr. Gladstone's Note in July 2013, an event of default was triggered under this Note by virtue of Mr. Gladstone's failure to repay the amount outstanding within five business days of August 23, 2010. As such, we had charged a default rate of an additional 2.0% per annum under this Note for all periods following default.

In accordance with ASC 505, "Equity," our receivables from employees for the issuance of capital stock to employees prior to the receipt of cash payment should be reflected in the balance sheet as a reduction to stockholders' equity. Therefore, our recourse notes totaling, in aggregate, $0.2 million and $3.0 million as of September 30, 2013 and 2012, respectively, were recorded as notes to employees and are included in the net assets section of our accompanying *Consolidated Statements of Assets and Liabilities*. As of September 30, 2013, we determined that these notes were still recourse.

**NOTE 5. BORROWINGS**

*Revolving Credit Facility*

On April 26, 2013, we, through our wholly-owned subsidiary, Business Loan, entered into Amendment No. 6 to the fourth amended and restated credit agreement (our "Credit Facility") to extend the maturity date for one year to January 19, 2016 (the "Maturity Date"). Our $137.0 million revolving Credit Facility was arranged by Key Equipment Finance Inc. ("Key Equipment") as administrative agent. Keybank National Association ("Keybank"), Branch Banking and Trust Company and ING Capital LLC also joined our Credit Facility as committed lenders. Subject to certain terms and conditions, our Credit Facility may be expanded from $137.0 to a maximum of $237.0 million through the addition of other committed lenders to the facility. The interest rates on advances under our Credit Facility generally bear interest at a 30-day London Interbank Offered Rate ("LIBOR") plus 3.75% per annum, with a commitment fee of 0.5% per annum on undrawn amounts when our facility is drawn more than 50.0% and 1.0% per annum on undrawn amounts when our facility is drawn less than 50.0%. If our Credit Facility is not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before November 30, 2016. We incurred fees of $0.7 million in April 2013 in connection with this amendment, which are being amortized through the Maturity Date of our Credit Facility. All other terms of our Credit Facility remained generally unchanged at the time of this amendment.

Prior to the April 2013 amendment, on January 29, 2013, we, through Business Loan, amended our Credit Facility to remove the LIBOR minimum of 1.5% on advances. In addition, on January 19, 2012, we, through Business Loan, amended our Credit Facility to extend the then current maturity date of our revolving line of credit from March 15, 2012 to January 19, 2015, which has subsequently been amended to January 19, 2016, as described above. We incurred fees of $0.6 million in January 2013 and $1.5 million in January 2012 in connection with these amendments, which are being amortized through the Maturity Date of our Credit Facility. All other terms of our Credit Facility remained generally unchanged at the time of these amendments.

The following tables summarize noteworthy information related to our Credit Facility (at cost) as of September 30, 2013 and 2012 and also during the years ended September 30, 2013, 2012 and 2011.

| | As of September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Commitment amount | **$137,000** | $137,000 |
| Borrowings outstanding | **46,900** | 58,800 |
| Availability | **60,880** | 54,700 |

| | Year Ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Weighted average borrowings outstanding | **$53,207** | $72,192 | $49,169 |
| Effective interest rate**(A)** | **5.3%** | 6.0% | 6.0% |
| Commitment (unused) fees incurred | **$ 853** | $ 520 | $ 648 |

(A) Excludes the impact of deferred financing fees.

Interest is payable monthly during the term of our Credit Facility. Available borrowings are subject to various constraints imposed under our Credit Facility, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required.

Our Credit Facility requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with Key Equipment as custodian. Key Equipment, who also serves as the trustee of the account, remits the collected funds to us monthly.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders' consents. Our Credit Facility also limits payments of distributions to our stockholders to aggregate net investment income for each of the twelve month periods ending September 30, 2013, 2014, 2015 and 2016. Business Loan is subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base in order to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, interest rate type, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a required minimum number of 20 obligors in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of $190.0 million plus 50.0% of all equity and subordinated debt raised after January 19, 2012, which equates to $190.0 million as of September 30, 2013, (ii) asset coverage with respect to senior securities representing indebtedness and senior securities that are stock, to which we refer collectively as "Senior Securities," of at least 200.0%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of September 30, 2013, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $244.5 million, an asset coverage of 341.0% and an active status as a BDC and RIC. In addition, we had 31 obligors in the borrowing base of our Credit Facility as of September 30, 2013. As of September 30, 2013, we were in compliance with all of the facility covenants.

*Fair Value*

We elected to apply the fair value option of ASC 825, "Financial Instruments," specifically for our Credit Facility, which was consistent with our application of ASC 820 to our investments. Generally, we estimate the fair value of our Credit Facility using estimates of value provided by an independent third party and our own assumptions in the absence of observable market data, including estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. As of September 30, 2013 and 2012, our Credit Facility was valued using Level 3 inputs.

The following tables present our Credit Facility carried at fair value as of September 30, 2013 and 2012, on our accompanying *Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and the changes in fair value of our Credit Facility during the years ended September 30, 2013 and 2012:

| | Total Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3) As of September 30, 2013 | 2012 |
|---|---|---|
| **Credit Facility** | **$ 47,102** | $ 62,451 |

**Fair Value Measurements Using Significant Unobservable Data Inputs (Level 3)**

| | Year Ended September 30, 2013 | 2012 |
|---|---|---|
| Fair value as of September 30, 2012 and 2011, respectively | **$ 62,451** | $ 100,012 |
| Borrowings | **84,800** | 74,900 |
| Repayments | **(96,700)** | (115,500) |
| Net unrealized (depreciation) appreciation(A) | **(3,449)** | 3,039 |
| **Fair Value as of September 30, 2013 and 2012, respectively** | **$ 47,102** | $ 62,451 |

(A) Included in net unrealized appreciation of other on our accompanying *Consolidated Statements of Assets and Liabilities* for the years ended September 30, 2013 and 2012.

The fair value of the collateral under our Credit Facility was approximately $229.3 million and $230.3 million at September 30, 2013 and 2012, respectively.

## NOTE 6. INTEREST RATE CAP AGREEMENTS

On July 15, 2013, we, through our wholly-owned subsidiary, Business Loan, entered into an interest rate cap agreement with Keybank, effective July 9, 2013 and expiring January 19, 2016, for a notional amount of $35.0 million that effectively limits the interest rate on a portion of our borrowings under our revolving line of credit pursuant to the terms of our Credit Facility. The one month LIBOR cap is set at 5.0%. We incurred a premium fee of $62 in conjunction with this agreement. As of September 30, 2013, the fair value of the interest rate cap agreement of $4 is recorded in other assets on our accompanying *Consolidated Statements of Assets and Liabilities*. We record changes in the fair value of the interest rate cap agreement quarterly based on the current market valuation at quarter end as net unrealized appreciation (depreciation) of other on our accompanying *Consolidated Statements of Operations*.

Generally, we will estimate the fair value of our interest rate cap agreement using estimates of value provided by the counterparty and our own assumptions in the absence of observable market data, including estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. As of September 30, 2013, our interest rate cap agreement was valued using Level 3 inputs.

The use of a cap agreement involves risks that are different from those associated with ordinary portfolio securities transactions. Cap agreements may be considered to be illiquid. Although we will not enter into any such agreements unless we believe that the other party to the transaction is creditworthy, we 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.

## NOTE 7. MANDATORILY REDEEMABLE PREFERRED STOCK

In November 2011, we completed a public offering of 1.5 million shares of 7.125% Series 2016 Term Preferred Stock, par value $0.001 per share (“Term Preferred Stock”), at a public offering price of $25.00 per share. Gross proceeds totaled $38.5 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $36.4 million, a portion of which was used to repay outstanding borrowings under our Credit Facility. We incurred $2.1 million in total offering costs related to these transactions, which have been recorded as deferred financing fees on our accompanying *Consolidated Statements of Assets and Liabilities* and will be amortized over the redemption period ending December 31, 2016.

The shares of our Term Preferred Stock have a redemption date of December 31, 2016, and are currently traded under the ticker symbol of "GLADP" on the NASDAQ Global Select Market. Our Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 7.125% per year, payable monthly (which equates to approximately $2.7 million per year). We are required to redeem all of the outstanding Term Preferred Stock on December 31, 2016 for cash at a redemption price equal to $25.00 per share plus an amount equal to accumulated but unpaid dividends, if any, as of the date of redemption. In addition, the two other potential redemption triggers are as follows: 1) if we fail to maintain an asset coverage ratio of at least 200.0%, we are required to redeem a portion of the outstanding Term Preferred Stock or otherwise cure the ratio redemption trigger and 2) at our sole option, at any time on or after December 31, 2012, we may redeem part or all of our Term Preferred Stock. No redemptions of our outstanding Term Preferred Stock have been made as of September 30, 2013.

Our Board of Directors declared and paid the following monthly distributions to preferred stockholders for the fiscal years ended September 30, 2013 and 2012:

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Term Preferred Share |
|---|---|---|---|---|
| **2013** | October 10, 2012 | October 22, 2012 | October 31, 2012 | $ **0.14843750** |
| | October 10, 2012 | November 19, 2012 | November 30, 2012 | **0.14843750** |
| | October 10, 2012 | December 19, 2012 | December 31, 2012 | **0.14843750** |
| | January 8, 2013 | January 18, 2013 | January 31, 2013 | **0.14843750** |
| | January 8, 2013 | February 15, 2013 | February 28, 2013 | **0.14843750** |
| | January 8, 2013 | March 15, 2013 | March 28, 2013 | **0.14843750** |
| | April 9, 2013 | April 22, 2013 | April 30, 2013 | **0.14843750** |
| | April 9, 2013 | May 20, 2013 | May 31, 2013 | **0.14843750** |
| | April 9, 2013 | June 19, 2013 | June 28, 2013 | **0.14843750** |
| | July 9, 2013 | July 19, 2013 | July 31, 2013 | **0.14843750** |
| | July 9, 2013 | August 21, 2013 | August 30, 2013 | **0.14843750** |
| | July 9, 2013 | September 18, 2013 | September 30, 2013 | **0.14843750** |
| | | | **Fiscal Year 2013 Total:** | **$ 1.78125000** |
| 2012 | December 6, 2011(A) | December 16, 2011 | December 30, 2011 | $ 0.13359375 |
| | December 6, 2011 | December 16, 2011 | December 30, 2011 | 0.14843750 |
| | January 10, 2012 | January 23, 2012 | January 21, 2012 | 0.14843750 |
| | January 10, 2012 | February 21, 2012 | February 29, 2012 | 0.14843750 |
| | January 10, 2012 | March 22, 2012 | March 30, 2012 | 0.14843750 |
| | April 10, 2012 | April 20, 2012 | April 30, 2012 | 0.14843750 |
| | April 10, 2012 | May 18, 2012 | May 31, 2012 | 0.14843750 |
| | April 10, 2012 | June 20, 2012 | June 29, 2012 | 0.14843750 |
| | July 10, 2012 | July 20, 2012 | July 31, 2012 | 0.14843750 |
| | July 10, 2012 | August 22, 2012 | August 31, 2012 | 0.14843750 |
| | July 10, 2012 | September 19, 2012 | September 28, 2012 | 0.14843750 |
| | | | **Fiscal Year 2012 Total:** | $ 1.76640625 |

(A) The November 2011 distributions were prorated from the time our Term Preferred Stock was issued and outstanding (November 4 – 30, 2011), as per our final prospectus supplement dated October 28, 2011, and was paid on the same date as the December 2011 monthly distribution.

In accordance with ASC 480, "Distinguishing Liabilities from Equity," mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet. Therefore, the related distribution payments to preferred stockholders are treated as dividend expense on our statement of operations as of the ex-dividend date. The fair value of our Term Preferred Stock based on the last reported closing prices as of September 30, 2013 and 2012 was approximately $40.0 million and $39.1 million, respectively.

Aggregate preferred distributions declared and paid for the years ended September 30, 2013 and 2012 were approximately $2.7 million and $2.5 million, respectively. There were no preferred distributions declared or paid for the year ended September 30, 2011. For federal income tax purposes, distributions paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

## NOTE 8. COMMON STOCK TRANSACTIONS

On November 29, 2012, we filed a universal shelf registration statement (our "Registration Statement") on Form N-2 (File No. 333-185191) that was amended on January 17, 2013, and which the SEC declared effective on January 18, 2013. Our Registration Statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock or preferred stock, including through a combined offering of such securities. We have not issued any securities to date under our Registration Statement.

In addition, in October 2012, we terminated an equity distribution agreement that we and the Adviser entered into with BB&T Capital Markets, a division of Scott & Stringfellow, LLC (the "Agent") on May 17, 2010 (the "Agreement"), under which we could, from time to time, issue and sell through the Agent, as sales agent, up to 2.0 million shares of our common stock, par value $0.001 per share. No shares were ever issued pursuant to this Agreement. Prepaid costs of $0.2 million related to the origination of this Agreement were expensed in the three months ended September 30, 2012.

During the quarter ended December 31, 2011, pursuant to the terms of our articles of incorporation, as amended, our Board of Directors approved reclassifying 4.0 million shares of common stock to shares of preferred stock in connection with our November 2011 Term Preferred Stock offering.

## NOTE 9. NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE

The following table sets forth the computation of basic and diluted net increase (decrease) in net assets resulting from operations per weighted average common share for the years ended September 30, 2013, 2012 and 2011:

| | Year Ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Numerator for basic and diluted net increase (decrease) in net assets resulting from operations per common share | **$ 32,219** | $ (8,008) | $ (21,099) |
| Denominator for basic and diluted weighted average common shares | **21,000,160** | 21,011,123 | 21,039,242 |
| Basic and Diluted Net Increase (Decrease) in Net Assets Resulting from Operations per Weighted Average Common Share | **$ 1.53** | $ (0.38) | $ (1.00) |

## NOTE 10. DISTRIBUTIONS TO COMMON STOCKHOLDERS

To qualify to be taxed as a RIC, we are required to distribute to our stockholders 90.0% of our investment company taxable income. It is our policy to pay out as a distribution to our stockholders more than 90.0% of our investment company taxable income. The amount to be paid out as distributions to our stockholders is determined by our Board of Directors quarterly and is based on the fiscal year earnings estimated by management. Based on that estimate, three monthly distributions are declared each quarter.

The federal income tax characteristics of all distributions will be reported to stockholders on the IRS Form 1099 at the end of each calendar year. For the calendar year ended December 31, 2012, approximately 92.0% of our common distributions constituted ordinary income and the remaining approximately 8.0% constituted a return of capital for federal income tax purposes. The return of capital resulted primarily from GAAP realized losses being recognized as ordinary losses for federal income tax purposes. For the calendar years ended December 31, 2011 and 2010, 100.0% of our distributions were deemed to be paid from ordinary income.

Our Board of Directors declared and paid the following monthly distributions to common stockholders for the fiscal years ended September 30, 2013 and 2012:

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2013** | October 10, 2012 | October 22, 2012 | October 31, 2012 | **$ 0.07** |
| | October 10, 2012 | November 19, 2012 | November 30, 2012 | **0.07** |
| | October 10, 2012 | December 19, 2012 | December 31, 2012 | **0.07** |
| | January 8, 2013 | January 18, 2013 | January 31, 2013 | **0.07** |
| | January 8, 2013 | February 15, 2013 | February 28, 2013 | **0.07** |
| | January 8, 2013 | March 15, 2013 | March 28, 2013 | **0.07** |
| | April 9, 2013 | April 22, 2013 | April 30, 2013 | **0.07** |
| | April 9, 2013 | May 20, 2013 | May 31, 2013 | **0.07** |
| | April 9, 2013 | June 19, 2013 | June 28, 2013 | **0.07** |
| | July 9, 2013 | July 19, 2013 | July 31, 2013 | **0.07** |
| | July 9, 2013 | August 21, 2013 | August 30, 2013 | **0.07** |
| | July 9, 2013 | September 18, 2013 | September 30, 2013 | **0.07** |
| | | | **Fiscal Year 2013 Total:** | **$ 0.84** |
| 2012 | October 11, 2011 | October 21, 2011 | October 31, 2011 | $ 0.07 |
| | October 11, 2011 | November 17, 2011 | November 30, 2011 | 0.07 |
| | October 11, 2011 | December 21, 2011 | December 30, 2011 | 0.07 |
| | January 10, 2012 | January 23, 2012 | January 31, 2012 | 0.07 |
| | January 10, 2012 | February 21, 2012 | February 29, 2012 | 0.07 |
| | January 10, 2012 | March 22, 2012 | March 30, 2012 | 0.07 |
| | April 11, 2012 | April 20, 2012 | April 30, 2012 | 0.07 |
| | April 11, 2012 | May 18, 2012 | May 31, 2012 | 0.07 |
| | April 11, 2012 | June 20, 2012 | June 29, 2012 | 0.07 |
| | July 10, 2012 | July 20, 2012 | July 31, 2012 | 0.07 |
| | July 10, 2012 | August 22, 2012 | August 31, 2012 | 0.07 |
| | July 10, 2012 | September 19, 2012 | September 28, 2012 | 0.07 |
| | | | **Fiscal Year 2012 Total:** | $ 0.84 |

Aggregate distributions to our common stockholders declared and paid for each of the years ended September 30, 2013 and 2012 were approximately $17.6 million and $17.7 million, respectively, which were declared based on estimates of net investment income for the respective fiscal years. For each of the years ended September 30, 2013 and 2012, common stockholder distributions declared and paid exceeded our accumulated earnings and profits (after taking into account Term Preferred Stock dividends), which resulted in a partial return of capital of approximately $1.3 million and $1.5 million, respectively. The returns of capital primarily resulted from GAAP realized losses being recognized as ordinary losses for federal income tax purposes in each of those fiscal years. Our accumulated earnings and profits exceeded common stockholder distributions declared and paid for the year ended September 30, 2011, and we therefore elected to treat $0.7 million of common distributions paid in fiscal year 2011 as having been paid in fiscal year 2012.

The components of our net assets on a tax basis were as follows:

| | Year Ended September 30, 2013 | Year Ended September 30, 2012 |
|---|---|---|
| Common stock | **$ 21** | $ 21 |
| Capital in excess of par value | **322,936** | 324,714 |
| Notes receivable – employees | **(175)** | (3,024) |
| Net unrealized depreciation of investments | **(78,239)** | (92,603) |
| Net unrealized appreciation of other | **(260)** | (3,651) |
| Capital loss carryforward | **(35,569)** | (28,808) |
| Post-October tax loss deferral | **(2,486)** | (7,726) |
| Other temporary differences | **(236)** | (359) |
| **Net Assets** | **$ 205,992** | $ 188,564 |

We intend to retain some or all of our realized capital gains first to the extent we have available capital loss carryforwards and second, through treating the retained amount as a "deemed distribution." As of September 30, 2013, we had $26.4 million and $0.9 million of capital loss carryforwards that expire in 2018 and 2019, respectively. Additionally, as of September 30, 2013, we had $8.3 million of capital loss carryforwards that do not expire. We had no deemed distributions during the years ended September 30, 2013, 2012 and 2011.

For the years ended September 30, 2013 and 2012, we recorded the following adjustments for permanent book-tax differences to reflect tax character. Results of operations, net assets nor cash flows were affected by this revision.

| | Year Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Overdistributed net investment income | **$ (373)** | $ (1,977) |
| Accumulated net realized losses | **2,151** | 3,843 |
| Capital in excess of par value | **(1,778)** | (1,866) |

The tax character of distributions paid by us to common stockholders is summarized as follows:

| | Year Ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Distributions from: | | | |
| Ordinary income | **$16,309** | $16,189 | $17,672 |
| Return of capital | **1,331** | 1,461 | — |
| **Total Common Distributions** | **$17,640** | $17,650 | $17,672 |

## NOTE 11. FEDERAL AND STATE INCOME TAXES

We intend to continue to maintain our qualifications as a RIC for federal income tax purposes. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains that we distribute to stockholders. To maintain our qualification as a RIC, we must meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must also meet certain annual stockholder distribution requirements. To satisfy the RIC annual distribution requirement, we must distribute to stockholders at least 90.0% of our investment company taxable income. Our policy generally is to make distributions to our stockholders in amount up to 100.0% of our investment company taxable income. Because we have distributed more than 90.0% of our investment company taxable income, no income tax provisions have been recorded for the years ended September 30, 2013, 2012 and 2011.

In an effort to limit certain federal excise taxes imposed on RICs, we generally distribute during each calendar year, an amount at least equal to the sum of (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gains in excess of capital losses for preceding years that were not distributed during such years. No excise tax provisions have been recorded for the years ended September 30, 2013, 2012 and 2011.

Under the RIC Modernization Act (the "RIC Act"), we are permitted to carry forward capital losses incurred in taxable years beginning after September 30, 2011, for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under the previous regulation.

## NOTE 12. COMMITMENTS AND CONTINGENCIES

*Legal Proceedings*

We are party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our financial condition or results of operation. Additionally, based on our current knowledge, we do not believe such loss contingencies are both probable and estimable and therefore, as of as of September 30, 2013, we have not established reserves for such loss contingencies.

*Escrow Holdbacks*

From time to time, we will enter into arrangements as it relates to exits of certain investments whereby specific amounts of the proceeds are held in escrow in order to be used to satisfy potential obligations as stipulated in the sales agreements. We record escrow amounts in restricted cash on our accompanying *Consolidated Statements of Assets and Liabilities*. We establish a contingent liability against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liability amount recorded against the escrow amounts was $0 and $0.5 million as of September 30, 2013 and 2012, respectively, and is recorded in other liabilities on our accompanying *Consolidated Statements of Assets and Liabilities*.

*Financial Commitments and Obligations*

We have lines of credit with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements.

In addition to the lines of credit with portfolio companies, we, from time to time, have also extended certain guarantees on behalf of some of our portfolio companies during the normal course of business. In January 2012, we executed a guarantee for one of our Control investments, Viapack, to irrevocably and unconditionally guarantee payment and performance of Viapack's obligations regarding purchase agreements and expenses to one of its vendors. This guarantee, for a maximum amount of $0.3 million, was terminated effective January 4, 2013, as part of the sale of our investment in Viapack. We were never required to make any payments on this guarantee. As of September 30, 2013, we were not party to any guarantees.

When investing in certain private equity funds, we may have uncalled capital commitments depending on the agreed upon terms of our committed ownership interest. These capital commitments usually have a specific date in the future set as a closing date, at which time the commitment is either funded or terminates. As of September 30, 2013, we had uncalled capital commitments related to our partnership interest in Leeds Novamark Capital I, L.P.

We estimated the fair value of our unused line of credit and uncalled capital commitments and our guarantee as of September 30, 2013 and 2012 to be minimal; and therefore, they are not recorded on our accompanying *Consolidated Statements of Assets and Liabilities*. The following table summarizes the dollar balances of our unused line of credit and uncalled capital commitments and our guarantee as of September 30, 2013 and 2012:

| | As of September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Unused line of credit commitments | **$ 6,524** | $ 4,854 |
| Uncalled capital commitment | **2,700** | — |
| Guarantee | **—** | 300 |
| **Total** | **$ 9,224** | $ 5,154 |

**NOTE 13. FINANCIAL HIGHLIGHTS**

| | As of and for the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** | **2009** |
| **Per Common Share Data:** | | | | | |
| Net asset value at beginning of year(A) | **$ 8.98** | $ 10.16 | $ 11.85 | $ 11.81 | $ 12.89 |
| *Income from investment operations*(B) | | | | | |
| Net investment income | **0.88** | 0.91 | 0.88 | 0.84 | 1.00 |
| Net realized loss on investments and other | **(0.25)** | (0.61) | (0.06) | (0.14) | (1.26) |
| Net unrealized appreciation (depreciation) of investments | **0.74** | (0.53) | (1.84) | 0.11 | 0.45 |
| Net unrealized appreciation (depreciation) of other | **0.16** | (0.15) | 0.02 | (0.03) | (0.01) |
| Total from investment operations | **1.53** | (0.38) | (1.00) | 0.78 | 0.18 |
| *Distributions to common stockholders from*(B)(C) | | | | | |
| Taxable ordinary income | **(0.78)** | (0.77) | (0.84) | (0.80) | (0.99) |
| Return of capital | **(0.06)** | (0.07) | — | (0.04) | (0.27) |
| Total distributions | **(0.84)** | (0.84) | (0.84) | (0.84) | (1.26) |
| *Capital share transactions*(B) | | | | | |
| Repayment of principal on employee notes | **0.14** | 0.04 | 0.15 | 0.07 | — |
| Stock redemption for repayment on employee notes | **—** | (0.02) | — | — | — |
| Conversion of recourse to non-recourse notes | **—** | — | — | (0.02) | — |
| Reclassification of principal on employee note | **—** | — | — | 0.02 | — |
| Anti-dilutive effect of common stock reduction | **—** | — | — | 0.03 | — |
| Total from capital share transactions | **0.14** | 0.02 | 0.15 | 0.10 | — |
| Other, net(B)(D) | **—** | 0.02 | — | — | — |
| Net asset value at end of year(A) | **$ 9.81** | $ 8.98 | $ 10.16 | $ 11.85 | $ 11.81 |
| Per common share market value at beginning of year | **$ 8.75** | $ 6.86 | $ 11.27 | $ 8.93 | $ 15.24 |
| Per common share market value at end of year | **8.73** | 8.75 | 6.86 | 11.27 | 8.93 |
| Total return(E) | **9.90%** | 41.39% | (33.77)% | 37.46% | (30.94)% |
| Common stock outstanding at end of year(A) | **21,000,160** | 21,000,160 | 21,039,242 | 21,039,242 | 21,087,574 |
| **Statement of Assets and Liabilities Data:** | | | | | |
| Net assets at end of year | **$ 205,992** | $ 188,564 | $ 213,721 | $ 249,246 | $ 249,076 |
| Average net assets(F) | **189,599** | 201,012 | 235,901 | 249,968 | 253,316 |
| **Senior Securities Data:** | | | | | |
| Borrowings under Credit Facility, at cost | **$ 46,900** | $ 58,800 | $ 99,400 | $ 16,800 | $ 83,000 |
| Mandatorily redeemable preferred stock | **38,497** | 38,497 | — | — | — |
| Asset coverage ratio(G) | **341%** | 296% | 315% | 1,419% | 396% |
| Average coverage per unit(H) | **$ 3,410** | $ 2,963 | $ 3,150 | $ 14,187 | $ 3,963 |
| **Ratios/Supplemental Data:** | | | | | |
| Ratio of expenses to average net assets(I) | **10.17%** | 11.11% | 7.39% | 7.28% | 9.97% |
| Ratio of net expenses to average net assets(J)(K) | **9.37** | 10.59 | 7.12 | 7.11 | 8.52 |
| Ratio of net investment income to average net assets(L) | **9.70** | 9.47 | 7.81 | 7.10 | 8.30 |

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

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

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

(D) Represents the impact of the different share amounts (weighted average shares outstanding during the year and shares outstanding at the end of the year) in the per share data calculations and rounding impacts.

(E) Total return equals the change in the ending market value of our common stock from the beginning of the year, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 10—*Distributions to Common Stockholders*.

(F) Computed using the average of the balance of net assets at the end of each month of the reporting year.

(G) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200.0% on our Senior Securities. Our mandatorily redeemable preferred stock is a Senior Security that is stock.

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

(I) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.

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

(K) Had we not received any voluntary waivers of fees due to the Adviser, the ratio of net expenses to average net assets would have been 9.91%,10.24%,6.95%, 7.03% and 7.11% for the fiscal years ended September 30, 2013, 2012, 2011, 2010 and 2009, respectively.

(L) Had we not received any voluntary waivers of fees due to the Adviser, the ratio of net investment income to average net assets would have been 9.17%, 9.13%, 7.64%, 7.02% and 6.89% for the fiscal years ended September 30, 2013, 2012, 2011, 2010 and 2009, respectively.

**NOTE 14. SELECTED QUARTERLY DATA (UNAUDITED)**

| | Year Ended September 30, 2013 | | | |
|---|---|---|---|---|
| | **Quarter Ended December 31, 2012** | **Quarter Ended March 31, 2013** | **Quarter Ended June 30, 2013** | **Quarter Ended September 30, 2013** |
| Total investment income | **$ 9,828** | **$ 8,424** | **$ 8,551** | **$ 9,351** |
| Net investment income | **4,859** | **4,410** | **4,410** | **4,707** |
| Net increase (decrease) in net assets resulting from operations | **8,366** | **(2,763)** | **(2,059)** | **28,675** |
| Net Increase (Decrease) in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted) | **$ 0.40** | **$ (0.13)** | **$ (0.10)** | **$ 1.36** |

| | Year Ended September 30, 2012 | | | |
|---|---|---|---|---|
| | **Quarter Ended December 31, 2011** | **Quarter Ended March 31, 2012** | **Quarter Ended June 30, 2012** | **Quarter Ended September 30, 2012** |
| Total investment income | $ 9,320 | $ 10,996 | $ 9,961 | $ 10,045 |
| Net investment income | 4,418 | 5,216 | 4,869 | 4,541 |
| Net (decrease) increase in net Assets resulting from operations | (1,289) | (1,603) | (10,580) | 5,464 |
| Net (Decrease) Increase in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted) | $ (0.06) | $ (0.08) | $ (0.50) | $ 0.26 |

## NOTE 15. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

In accordance with the SEC's Regulation S-X and GAAP, we have subsidiaries that are not required to be consolidated. We have certain unconsolidated subsidiaries as of September 30, 2013 and 2012 and for the years ended September 30, 2013, 2012 and 2011, that meet the definition of significant subsidiary under Rule 1-02(w) of the SEC's Regulation S-X. Accordingly, pursuant to Rule 3-09 of Regulation S-X, summarized, comparative financial information is presented below for our unconsolidated significant subsidiaries as of September 30, 2013 and 2012 and for the years ended September 30, 2013, 2012 and 2011.

| | | As of September 30, | | | For the Year Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| **Portfolio Company** | **Balance Sheet** | **2013** | **2012** | **Income Statement** | **2013** | **2012** | **2011** |
| Defiance Integrated Technologies, Inc. | Current assets | **$ 5,116** | $ 5,809 | Net sales | **$ 24,012** | $ 25,417 | $ 23,997 |
| | Noncurrent assets | **11,086** | 11,364 | Gross profit | **4,282** | 4,790 | 6,483 |
| | Current liabilities | **2,417** | 3,819 | Net income | **597** | 983 | 841 |
| | Noncurrent liabilities | **8,725** | 8,944 | | | | |
| Lindmark Acquisition, LLC | Current assets | **3,376** | 732 | Net sales | **7,236** | 7,372 | 8,312 |
| | Noncurrent assets | **1,309** | 28,870 | Gross profit | **4,346** | 4,531 | 4,758 |
| | Current liabilities | **2,004** | 820 | Net income | **8,408** | (2,216) | (2,244) |
| | Noncurrent liabilities | **6,661** | 41,132 | | | | |
| Sunshine Media Group, Inc. | Current assets | **3,134** | 3,501 | Net sales | **14,943** | 16,618 | 18,093 |
| | Noncurrent assets | **14,713** | 15,528 | Gross profit | **6,285** | 7,507 | 10,659 |
| | Current liabilities | **9,645** | 8,594 | Net income | **(2,231)** | (4,785) | (2,919) |
| | Noncurrent liabilities | **28,554** | 28,554 | | | | |
| Viapack, Inc.(A) | Current assets | — | 4,929 | Net sales | **3,848** | 22,461 | 21,770 |
| | Noncurrent assets | — | 3,208 | Gross profit | **456** | 1,737 | 2,895 |
| | Current liabilities | — | 11,662 | Net income | **(154)** | (12,114) | (3,202) |
| | Noncurrent liabilities | — | 5,330 | | | | |

(A) We exited our investment in Viapack in November 2012.

In addition, we have other unconsolidated significant subsidiaries that pursuant to Rule 4-08(g) of Regulation S-X, summarized, comparative financial information is presented below in aggregate as of September 30, 2013 and 2012 and for the years ended September 30, 2013, 2012 and 2011.

| | As of September 30, | | | For the Year Ended September 30, | | |
|---|---|---|---|---|---|---|
| **Balance Sheet** | **2013** | **2012** | **Income Statement** | **2013** | **2012** | **2011** |
| Current assets | **$43,791** | $49,430 | Net sales | **$116,509** | $119,202 | $123,077 |
| Noncurrent assets | **34,586** | 53,760 | Gross profit | **9,839** | 10,736 | 23,765 |
| Current liabilities | **22,273** | 22,726 | Net income | **(17,922)** | (4,677) | 166 |
| Noncurrent liabilities | **77,951** | 81,279 | | | | |

## NOTE 16. SUBSEQUENT EVENTS

*Portfolio Activity*

Subsequent to September 30, 2013, we invested $8.0 million in three new syndicated loans and $0.5 million in revolver draws and investments to existing portfolio companies. We also received $3.7 million in scheduled and unscheduled loan repayments from existing portfolio companies, which included the early payoff at par of Profit Systems Acquisition Co.

In October 2013, we invested $7.0 million in Alloy Die Casting Co. ("ADC") through a combination of senior term debt and equity. ADC, headquartered in Buena Park, CA, is a manufacturer of high quality, finished aluminum and zinc castings for aerospace, defense, aftermarket automotive and industrial applications. This was a co-investment with Gladstone Investment, which invested an additional $16.3 million in ADC under the same terms as us.

*Distributions*

On October 8, 2013, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

| Record Date | Payment Date | Distribution per Common Share | Distribution per Term Preferred Share |
|---|---|---|---|
| October 22, 2013 | October 31, 2013 | $ 0.07 | $ 0.1484375 |
| November 14, 2013 | November 29, 2013 | 0.07 | 0.1484375 |
| December 16, 2013 | December 31, 2013 | 0.07 | 0.1484375 |
| | **Total for the Quarter** | **$ 0.21** | **$ 0.4453125** |

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOUSRE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

a) Disclosure Controls and Procedures

As of September 30, 2013 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness and 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 SEC 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.

b) Management's Annual Report on Internal Control Over Financial Reporting

Refer to the Management's Report on Internal Control over Financial Reporting located in Item 8 of this Form 10-K.

c) Attestation Report of the Registered Public Accounting Firm

Refer to the Report of Independent Registered Public Accounting Firm located in Item 8 of this Form 10-K.

d) Change in Internal Control over Financial Reporting

There were no changes in internal controls for the fiscal year ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

Not applicable.

# PART III

We will file a definitive Proxy Statement for our 2014 Annual Meeting of Stockholders (the "2014 Proxy Statement") with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2014 Proxy Statement that specifically address the items set forth herein are incorporated herein by reference.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference from our 2014 Proxy Statement under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance."

## ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from our 2014 Proxy Statement under the captions "Compensation Discussion and Analysis" and "Director Compensation for Fiscal 2013."

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is hereby incorporated by reference from our 2014 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management.”

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference from our 2014 Proxy Statement under the captions “Certain Transactions” and “Information Regarding the Board of Directors and Corporate Governance—Director Independence.”

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from our 2014 Proxy Statement under the caption “Principal Accounting Firm Fees and Services.”

# PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**a. DOCUMENTS FILED AS PART OF THIS REPORT**

1. The following financial statements are filed herewith:



2. Financial statement schedules

- Schedule 12-14 Investments in and Advances to Affiliates

No other financial statement schedules are filed herewith because (1) such schedules are not required or (2) the information has been presented in the aforementioned financial statements.

- Exhibits

The following exhibits are filed as part of this report or are hereby incorporated by reference to exhibits previously filed with the SEC:

3.1 Articles of Amendment and Restatement to the Articles of Incorporation, incorporated by reference to Exhibit 99.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 Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares, including Appendix A thereto relating to the Term Preferred Shares, 7.125% Series 2016, incorporated by reference to Exhibit 2.a.2 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-162592), filed October 31, 2011.

3.3 By-laws, incorporated by reference to Exhibit 99.b to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001.

| | |
|---|---|
| 3.4 | Amendment to By-laws, incorporated by reference to Exhibit 3.3 to the Quarterly Report on Form 10-Q (File No. 814-00237), filed February 17, 2004. |
| 3.5 | Second Amendment to By-laws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00237), filed July 10, 2007. |
| 3.6 | Third Amendment to By-laws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00237), filed June 10, 2011. |
| 4.2 | Specimen 7.125% Series 2016 Term Preferred stock certificate, incorporated by reference to Exhibit 2.d.5 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-162592), filed October 31, 2011. |
| 4.3 | Dividend Reinvestment Plan, incorporated by reference to Exhibit 99.e to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001. |
| 10.1 | Stock Transfer Agency Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit 99.k.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001. |
| 10.2 | Custody Agreement between the Registrant and The Bank of New York, dated as of May 5, 2006, incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 814-00237), filed August 1, 2006. |
| 10.3 | Amended and Restated Investment Advisory and Management Agreement between the Registrant and Gladstone Management Corporation, dated as of October 1, 2006, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00237), filed on October 5, 2006. |
| 10.4 | Administration Agreement between the Registrant and Gladstone Administration, LLC, dated as of October 1, 2006, incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K (File No. 814-00237), filed on October 5, 2006. |
| 10.5 | Fourth Amended and Restated Credit Agreement dated as of March 15, 2010, by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00237), filed March 16, 2010. |
| 10.6 | Amendment No. 1 to Fourth Amended and Restated Credit Agreement dated as of November 22, 2010, by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent, incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K (File No. 814-00237), filed November 22, 2010. |
| 10.7 | Amendment No. 2 to Fourth Amended and Restated Credit Agreement, dated as of May 10, 2011 by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent (filed herewith). |
| 10.8 | Consent and Acknowledgement to Increase No. 1 under Fourth Amended and Restated Credit Agreement, dated as of August 9, 2011 by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00237), filed August 10, 2011. |
| 10.9 | Amendment No. 3 to Fourth Amended and Restated Credit Agreement, dated as of January 19, 2012 by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file No. 814-00237), filed January 24, 2012. |
| 10.10 | Amendment No. 4 to Fourth Amended and Restated Credit Agreement, dated as of January, 29, 2013, by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 814-00237), filed January, 29, 2013. |
| 10.11 | Amendment No. 5 to Fourth Amended and Restated Credit Agreement, dated as of February 21, 2013, by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 814-00237), filed April 30, 2013. |
| 10.12 | Amendment No. 6 to Fourth Amended and Restated Credit Agreement, dated as of April 26, 2013, by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent, incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 814-00237), filed April 30, 2013. |

| | |
|---|---|
| 10.13 | Amendment No. 7 to Fourth Amended and Restated Credit Agreement, dated as of September 12, 2013, by and among Gladstone Business Loan, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Lenders and Managing Agents named therein, and Key Equipment Finance Inc., as Administrative Agent (filed herewith). |
| 11 | Computation of Per Share Earnings (included in the notes to the audited financial statements contained in this report). |
| 12 | Statements Re: Computation of Ratios. (filed herewith) |
| 14 | Code of Ethics and Business Conduct, updated January 28, 2013 (filed herewith). |
| 21 | Subsidiaries of the Registrant. (filed herewith) |
| 23 | Consent of PricewaterhouseCoopers LLP. (filed herewith) |
| 31.1 | Certification of Chief Executive Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002. (filed herewith) |
| 31.2 | Certification of Chief Financial Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002. (filed herewith) |
| 32.1 | Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002. (furnished herewith) |
| 32.2 | Certification of Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002. (furnished herewith) |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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**

| | | |
|---|---|---|
| Date: November 19, 2013 | By: | /s/ MELISSA MORRISON<br>Melissa Morrison<br>Chief Financial Officer |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | |
|---|---|---|
| Date: November 19, 2013 | By: | /s/ DAVID GLADSTONE<br>David Gladstone<br>Chief Executive Officer, President and Chairman of the Board of Directors (principal executive officer) |
| Date: November 19, 2013 | By: | /s/ TERRY LEE BRUBAKER<br>Terry Lee Brubaker<br>Vice Chairman of the Board of Directors, Chief Operating Officer |
| Date: November 19, 2013 | By: | /s/ DAVID A.R. DULLUM<br>David A.R. Dullum<br>Executive Vice President and Director |
| Date: November 19, 2013 | By: | /s/ MELISSA MORRISON<br>Melissa Morrison<br>Chief Financial Officer (principal financial and accounting officer) |
| Date: November 19, 2013 | By: | /s/ ANTHONY W. PARKER<br>Anthony W. Parker<br>Director |
| Date: November 19, 2013 | By: | /s/ MICHELA A. ENGLISH<br>Michela A. English<br>Director |
| Date: November 19, 2013 | By: | /s/ PAUL ADELGREN<br>Paul Adelgren<br>Director |
| Date: November 19, 2013 | By: | /s/ JOHN OUTLAND<br>John Outland<br>Director |
| Date: November 19, 2013 | By: | /s/ JOHN D. REILLY<br>John D. Reilly<br>Director |
| Date: November 19, 2013 | By: | /s/ TERRY EARHART<br>Terry Earhart<br>Director |

**GLADSTONE CAPITAL CORPORATION**
**INVESTMENTS IN AND ADVANCES TO AFFILIATES**
**(AMOUNTS IN THOUSANDS)**

| Name of Issuer(A) | Title of Issue or Nature of Indebtedness(B) | Amount of Dividends or Interest Credited to Income(C) | Value as of September 30, 2012 | Gross Additions(D) | Gross Reductions(E) | Value as of September 30, 2013 |
|---|---|---|---|---|---|---|
| **CONTROL INVESTMENTS:** | | | | | | |
| Defiance Integrated Technologies, Inc. | Senior Term Debt | $ 779 | $ 7,185 | $ — | $ (320) | $ 6,865 |
| | Common Stock | — | 4,113 | — | (2,246) | 1,867 |
| | | 779 | 11,298 | — | (2,566) | 8,732 |
| Kansas Cable Holdings, Inc.(H) | Line of Credit(F) | — | 8 | 1,058 | (1,066) | — |
| | Senior Term Debt(F) | — | 13 | 1,493 | (1,506) | — |
| | Senior Term Debt(F) | — | 9 | 1,033 | (1,042) | — |
| | Common Stock | — | — | — | — | — |
| | | — | 30 | 3,584 | (3,614) | — |
| Lindmark Acquisition, LLC | Senior Subordinated Term Debt(F) | — | 750 | 9,750 | (10,500) | — |
| | Senior Subordinated Term Debt(F) | — | 150 | 1,950 | (2,100) | — |
| | Senior Subordinated Term Debt(F) | — | 143 | 3,678 | (2,905) | 916 |
| | Common Stock | — | — | — | — | — |
| | | — | 1,043 | 15,378 | (15,505) | 916 |
| LocalTel, LLC | Line of Credit(F) | — | 548 | 691 | (1,239) | — |
| | Senior Term Debt(F) | — | — | — | — | — |
| | Line of Credit(F) | — | — | — | — | — |
| | Senior Term Debt(F) | — | — | — | — | — |
| | Senior Term Debt(F) | — | — | — | — | — |
| | Common Stock Warrants | — | — | — | — | — |
| | | — | 548 | 691 | (1,239) | — |
| Midwest Metal Distributions, Inc | Senior Subordinated Term Debt | 2,240 | 17,824 | 231 | (322) | 17,733 |
| | Common Stock Warrants | — | — | — | — | — |
| | Preferred Equity | — | — | 2,000 | (2,000) | — |
| | | 2,240 | 17,824 | 2,231 | (2,322) | 17,733 |
| RBC Acquisition Corp.(G) | Line of Credit | 280 | — | 4,113 | (113) | 4,000 |
| | Mortgage Note | 514 | — | 7,161 | (192) | 6,969 |
| | Senior Term Debt | 1,046 | — | 11,924 | (532) | 11,392 |
| | Senior Subordinated Term Debt | 576 | — | 11,565 | (5,565) | 6,000 |
| | Preferred Stock | — | — | 4,446 | (1,999) | 2,447 |
| | Common Stock | — | — | 552 | (369) | 183 |
| | | 2,416 | — | 39,761 | (8,770) | 30,991 |
| Sunshine Media Holdings | Line of Credit(F) | — | 270 | 274 | (224) | 320 |
| | Senior Term Debt(F) | — | 2,542 | 1,101 | (254) | 3,389 |
| | Senior Term Debt(F) | — | 1,605 | 696 | (161) | 2,140 |
| | Preferred Equity | — | — | — | — | — |
| | Common Stock | — | — | — | — | — |
| | | — | 4,417 | 2,071 | (639) | 5,849 |
| Viapack, Inc.(H) | Line of Credit(F) | 41 | 760 | 3,040 | (3,800) | — |
| | Senior Term Debt(F) | — | 120 | 480 | (600) | — |
| | Senior Real Estate Term Debt(F) | 5 | 785 | 3,140 | (3,925) | — |
| | Common Stock | — | — | — | — | — |
| | | 46 | 1,665 | 6,660 | (8,325) | — |
| **TOTAL CONTROL INVESTMENTS** | | **$ 5,481** | **$ 36,825** | **$ 70,376** | **$ (42,980)** | **$ 64,221** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **AFFILIATE INVESTMENTS:** | | | | | | |
| Ashland Acquisition, LLC | Line of Credit | $ 4 | $ — | $ — | $ — | $ — |
| | Senior Term Debt | 212 | — | 7,000 | — | 7,000 |
| | Common Equity Units | — | — | 440 | — | 440 |
| | | 216 | — | 7,440 | — | 7,440 |
| FedCap Partners, LLC | Class A Membership Units | — | 2,964 | 383 | — | 3,347 |
| **TOTAL AFFILIATE INVESTMENTS** | | **$ 216** | **$ 2,964** | **$ 7,823** | **$ —** | **$ 10,787** |

(A) Certain of the listed securities are issued by affiliates(s) of the indicated portfolio company.

(B) Common stock, warrants, options, membership units and, in some cases, preferred stock are generally non-income producing and restricted. The principal amount of debt and the number of shares of common and preferred stock and number of membership units are shown in the accompanying *Consolidated Schedules of Investments* as of September 30, 2013 and 2012.

(C) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was a control or affiliate investment, as appropriate.

(D) Gross additions include increases in investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and fees. Gross additions also include net increases in unrealized appreciation or decreases in unrealized depreciation.

(E) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales, the amortization of premiums and acquisition costs. Gross reductions also include net increases in unrealized depreciation or decreases in unrealized appreciation.

(F) Debt security is on non-accrual status and, therefore, is considered non-income producing during the year ended September 30, 2013.

(G) We acquired a controlling position in Reliable Acquisition Corp. in March 2013 and as such, this investment is shown as a Control investment on our accompanying *Schedule of Investments* as of September 30, 2013.

(H) We exited this investment during the year ended September 30, 2013.

** Information related to the amount of equity in the net profit and loss for the year for the investments listed has not been included in this schedule. This information is not considered to be meaningful due to the complex capital structures of the portfolio companies, with different classes of equity securities outstanding with different preferences in liquidation. These investments are not consolidated, nor are they accounted for under the equity method of accounting.

**Exhibit 10.7**

**Execution Version**

AMENDMENT NO. 2
TO
FOURTH AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDMENT NO. 2 TO FOURTH AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") dated as of May 10, 2011, is entered into among GLADSTONE BUSINESS LOAN, LLC, as Borrower (the "Borrower"), GLADSTONE MANAGEMENT CORPORATION, as Servicer (the "Servicer"), KEYBANK, NATIONAL ASSOCIATION, BRANCH BANKING AND TRUST COMPANY ("BB&T") and ING CAPITAL LLC ("ING"), as Lenders (collectively, the "Lenders"), KEY EQUIPMENT FINANCE INC. ("KEF"), BB&T and ING, as Managing Agents (in such capacity, collectively the "Managing Agents") and KEF, as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the "Credit Agreement" referred to below.

PRELIMINARY STATEMENTS

A. Reference is made to that certain Fourth Amended and Restated Credit Agreement dated as of March 15, 2010 by and among the Borrower, the Servicer, the Lenders, the Managing Agents and the Administrative Agent (as amended, modified, supplemented or otherwise modified prior to the date hereof, the "Credit Agreement").

B. The parties hereto have agreed to amend certain provisions of the Credit Agreement upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises set forth above, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendment. Subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, clause (xxii) of the definition of "Eligible Loan" appearing in Section 1.1 of the Credit Agreement is amended and restated in its entirety to read as follows

(xxii) if such Loan is a Revolver Loan, the revolving credit commitment of the Borrower to the applicable Obligor thereunder shall have a term to maturity of three years or less;

SECTION 2. Representations and Warranties. The Borrower and the Servicer each 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 3. 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 4. 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 5. 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 6. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 7. 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 8. Fees and Expenses. The Borrower 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.

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

GLADSTONE MANAGEMENT CORPORATION

By: /s/ David Gladstone
Name: David Gladstone
Title: Chairman and CEO

Signature Page to Amendment No. 2

KEY EQUIPMENT FINANCE INC., as Administrative Agent and a Managing Agent

By: /S/ Deborah A. Brady
Name: Deborah A. Brady
Title: Chief Financial Officer

KEYBANK, NATIONAL ASSOCIATION, as a Lender

By: /S/ Deborah A. Brady
Name: Deborah A. Brady
Title: Vice President

BRANCH BANK AND TRUST COMPANY, as a Lender and a Managing Agent

By: /s/ James E. Davis
Name: James E. Davis
Title: Senior Vice President

ING CAPITAL LLC, as a Lender and a Managing Agent

By: /S/ Patrick Frisch
Name: Patrick Frisch, CFA
Title: Managing Director

Signature Page to Amendment No. 2

**Exhibit 10.13**

**Execution Version**

AMENDMENT NO. 7
TO
FOURTH AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDMENT NO. 7 TO FOURTH AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") dated as of September 12, 2013, is entered into among GLADSTONE BUSINESS LOAN, LLC, as Borrower (the "Borrower"), GLADSTONE MANAGEMENT CORPORATION, as Servicer (the "Servicer"), KEYBANK NATIONAL ASSOCIATION, BRANCH BANKING AND TRUST COMPANY ("BB&T") and ING CAPITAL LLC ("ING"), as Lenders (collectively, the "Lenders"), KEY EQUIPMENT FINANCE INC. ("KEF"), BB&T and ING, as Managing Agents (in such capacity, collectively the "Managing Agents") and KEF, as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the "Credit Agreement" referred to below.

PRELIMINARY STATEMENTS

A. Reference is made to that certain Fourth Amended and Restated Credit Agreement dated as of March 15, 2010 by and among the Borrower, the Servicer, the Lenders, the Managing Agents and the Administrative Agent (as amended, modified, supplemented or otherwise modified prior to the date hereof, the "Credit Agreement").

B. The parties hereto have agreed to amend certain provisions of the Credit Agreement upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises set forth above, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendment. Subject to the satisfaction of the conditions precedent set forth in Section 4 hereof, clause (xix) of the definition of "Eligible Loan" set forth in the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

(xix) the Loan has not been amended or subject to a deferral or waiver the effect of which is to (A) reduce the amount (other than by reason of the repayment thereof) or extend the time for payment of principal or (B) reduce the rate or extend the time of payment of interest (or any component thereof), in each case without the consent of the Required Lenders, which consent shall not be unreasonably withheld or delayed; provided, however, that such consent shall not be required for an amendment, deferral or waiver the effect of which is to extend the time for payment of principal due solely to the scheduled maturity of such Loan, so long as such Loan (1) is not a Defaulted Loan and (2) has not incurred and is not anticipated to incur a breach of a material financial covenant;

SECTION 2. Consent and Waiver. Each Lender, by execution hereof, hereby (i) consents to the eligibility of each Loan which would otherwise have ceased to be an Eligible Loan prior to the date of this Amendment by operation of clause (xix) of the definition of "Eligible Loan" as in effect prior to this Amendment provided such Loan is an Eligible Loan after giving effect to this Amendment and the amendment contained herein and (ii) waives any Early Termination Event or Servicer Termination Event occurring prior to the date of this Amendment solely as a result of any such Loan being treated as an Eligible Loan in any certificates, forms or other documents delivered by the Borrower or the Servicer under the Credit Agreement.

SECTION 3. Representations and Warranties. The Borrower and the Servicer each 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 4. 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 5. 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 6. 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 7. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 8. 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 9. Fees and Expenses. The Borrower 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.

[Signature Pages Follow]

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/ David Watson
Name: David Watson
Title: Chief Financial Officer and Treasurer

GLADSTONE MANAGEMENT CORPORATION

By: /S/ David Gladstone
Name: David Gladstone
Title: Chairman, CEO and President

Signature Page to Amendment No. 7

KEY EQUIPMENT FINANCE INC., as Administrative Agent and a Managing Agent

By: /S/ Philip G. Turner
Name: Philip G. Turner
Title: Executive Vice President

KEYBANK NATIONAL ASSOCIATION, as a Lender

By: /S/ Philip G. Turner
Name: Philip G. Turner
Title: Executive Vice President

BRANCH BANK AND TRUST COMPANY, as a Lender and a Managing Agent

By: /S/ John K. Perez
Name: John K. Perez
Title: Senior Vice President

Signature Page to Amendment No. 7

ING CAPITAL LLC, as a Lender and a Managing Agent

By: /S/ Patrick Frisch

Name: Patrick Frisch
Title: Managing Director

Signature Page to Amendment No. 7

**Exhibit 12**

**STATEMENTS RE: COMPUTATION OF RATIOS**
**(Dollars in Thousands, Except Ratios)**

| | For the Year Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Net investment income | **$18,386** | $19,044 |
| Add: fixed charges and preferred distributions | **7,137** | 8,108 |
| Less: preferred distributions | **(2,744)** | (2,491) |
| Net earnings | **$22,779** | $24,661 |
| Fixed charges and preferred distributions: | | |
| Interest expense | **3,182** | 4,374 |
| Amortization of deferred financing fees | **1,211** | 1,243 |
| Preferred distributions | **2,744** | 2,491 |
| Total fixed charges and preferred distributions | **$ 7,137** | $ 8,108 |
| Ratio of net earnings to combined fixed charges and preferred distributions | **3.2** | 3.0 |

The calculation of the ratio of net earnings to combined fixed charges and preferred distributions is above. “Net earnings” consist of net investment income before fixed charges. “Fixed charges” consist of interest expense and amortization of deferred financing fees.

**Code of Ethics and Business Conduct**
**For**
**Gladstone Capital Corporation**
**Gladstone Commercial Corporation**
**Gladstone Investment Corporation**
**Gladstone Land Corporation**
**Gladstone Management Corporation**
**Gladstone Administration LLC**
**Gladstone Securities, LLC**
**and their subsidiaries**

## I. Core Values:

This Code of Ethics and Business Conduct (hereafter referred to as the “Code”) reflects our commitment to our Core Values, our Valued Relationships and to the Standards of Ethics and Business Conduct that support these values and relationships. We expect every employee, officer and director to read and understand this Code and its application to the performance of his or her business responsibilities.

We are committed to the highest standards of ethical and professional conduct in all of our business operations, as well as in our interactions with customers, business partners and employees. The following are the values we hold in highest esteem…the values that we propose to use as our guide in our quest for excellence and success. To assist and encourage you to apply our Core Values in your day-to-day activities, each Core Value includes amplifying and implementing guidance.

### A. Golden Rule and Respect

a. Following the Golden Rule means we will strive to always do the right thing…the thing we would want others to do to us.

b. Treating others the way we would like to be treated is our foundational value and the golden rule is a good summary of our other core values.

c. Respect means we respect the rights, opinions and beliefs of others so long as they are consistent with our other core values.

Amplifying and implementing guidance:

- Be a good listener, encourage diverse opinions and be willing to accept them.
- Recognize the achievement of others.
- Don’t prejudge another person’s qualities or intentions.
- Respect confidences.
- Recognize each individual’s human dignity and value.

**B. Honesty and Openness**

a. Honesty means we refuse to lie, cheat, steal or deceive in any way.

b. We will never deliberately mislead, or misrepresent the truth.

c. We will always to do the legal and fair thing, fulfilling the intent of our commitments and the law.

d. Openness means we will be free, forthright and sincere in our discussions, as candid as possible, and will openly share appropriate information in each relationship.

Amplifying and implementing guidance:

- Be forthright and never use information as a source of power.
- Strive for clarity: avoid “slippery” words.
- Focus on issues, not personalities.
- Carry no hidden agendas.
- Be willing to admit your own mistakes and be tolerant of other’s mistakes.

**C. Integrity**

a. Integrity means we will refuse to be corrupted or unfaithful to our values.

b. We will do what we say we will do, and we will conduct ourselves in accordance with our values and our code of ethics.

c. We will always try to do the right thing.

d. We will operate within both the letter and the spirit of the law.

Amplifying and implementing guidance:

- Act and speak ethically.
- What you do when no one is looking should agree with your professed ethics.

**D. Teamwork and Innovation**

a. Teamwork means working together to achieve our goals and values as a group and not working at cross purposes.

b. Innovation means encouraging each other to seek new ways of doing our business to improve our quality and efficiency.

Amplifying and implementing guidance:

- Acknowledge all co-workers as valuable team members.
- Show confidence in the character and truthfulness of others.
- Practice solidarity by respecting and supporting team decisions.
- Encourage initiative and participation.
- Be accountable to the team.
- Lead by example.
- Recognize that taking and accepting reasonable risks is necessary business conduct.

**E. Responsibility**

a. Responsibility means we are morally and legally accountable for our actions.

b. We are determined to do the right thing, and to be good stewards of the things that have been entrusted into our care.

Amplifying and implementing guidance:

- Accept responsibility for your own mistakes, and give credit to others for their accomplishments.
- Keep commitments.

F. **Loyalty and Hard work**

a. We will be loyal to our Company and protect its assets and trade secrets. We will be faithful in carrying out our duties.

b. We will always work hard and do our best.

Amplifying and implementing guidance:

- Demand excellence from yourself, and seek and encourage it from others.
- Demonstrate a sense of urgency in all that you do.
- Our success is directly related to our loyalty to each other and to our company.

Always remember that at our companies, **<u>your</u> ethical behavior is the ultimate "bottom line"**. We are committed to do what is right even when it does not seem to be profitable, expedient or conventional. We are committed to following the above core values in everything we do… that means we will be truthful, ethical, law-abiding, and respectful in all of our dealings with others.

## II. Our Valued Relationships

We will deal fairly and honestly in all of our relationships, treating all our business associates as long-term valued partners. We will operate our business based on the practical application of the Golden Rule, our other values, and all other provisions of our Code of Ethics and Business Conduct, for the mutual benefit of all our valued relationships. We will strive to be dependable and respectable in all our dealings with our business associates and our employees, value each shareholder and lender to our company, and we will be faithful stewards of their funds. We are committed to providing a work environment where there is no conflict between work and moral or ethical values, or family responsibilities, and where everyone is treated justly and with respect.

We have certain relationships that we hold dear and they are:

- Customers and clients are the reason we are in business. We seek to help our customers and clients to achieve their goals. We know that if we help them reach their goals, they will help us reach our goals too.
- Employees are the full extent of our company. We are no greater than our employees. Each employee is an integral part of our team. We seek to have the best employees and the best organization to support the growth of each employee.
- Shareholders have entrusted us with their assets. We seek to increase the value of those assets. As trustees we will do our best to protect and grow the assets that have been entrusted to us.

- Suppliers provide us with the things we need to achieve our goals. They have the goods and services we need to grow our business. We will treat each supplier as a valued partner in the growth of our business.
- Our government is part of our operations. We seek to fulfill the regulatory aspects of our business operations in a timely and accurate manner.
- Our relationship with God is one that is valued highest. We will do our best to perform in a way that will be pleasing to God.

## III. Code of Ethics Implementing Guidance and Procedures

As with any written guidance, this Code of Ethics may not clearly address every situation you may encounter. If concerns or questions that you have about a course of action are not addressed specifically by this Code, you should ask yourself the following six questions to begin your evaluation process:

**Ethics "Quick Test"**

1. Is it legal?

2. Would doing it make me feel bad or ashamed in any way?

3. Is it consistent with our Core Values?

4. Would I want my family or friends to read about it in the newspaper?

5. Would failing to act make the situation worse or allow a "wrong" to continue?

6. Does it follow the Golden Rule set out above?

If you still have questions or concerns, do not act until your questions and concerns have been raised and resolved. Our employee handbook, your supervisor, our Chief Compliance Officer ("CCO") and staff (the "Compliance Officers") or the Ethics Committee are all available to help you. Additionally, if you are not comfortable addressing potential violations of this Code with any of these persons directly, you may also raise your concerns by anonymously contacting Global Compliance Services (See Part V, Section 15 of this Code for contact and other information regarding the compliance resources available to you).

If you are aware of a suspected or actual violation of Code standards by others, you have a responsibility to report it. You are expected to promptly notify a Compliance Officer or contact another compliance reporting resource to provide a specific description of the violation that you believe has occurred, including any information you have about the persons involved and the time of the violation. Whether you choose to speak with your supervisor or one of the Compliance Officers, you should do so without fear of any form of retaliation. We will take prompt disciplinary action against any employee who retaliates against you.

Supervisors must promptly report any complaints or observations of Code violations to the CCO. If you believe your supervisor has not taken appropriate action, you should contact one of our Compliance Officers directly. The Compliance Officers will investigate all reported possible Code violations promptly and with the highest degree of confidentiality that is possible under the specific circumstances. Neither you nor your supervisor may conduct any preliminary investigation, unless authorized to do so by the CCO. Your cooperation in the investigation will be expected. As needed, the CCO will consult with the Ethics Committee and the Audit Committee of the Board of Directors. It is our policy to employ a fair process by which to determine violations of this Code.

With respect to any complaints or observations of Code violations that may involve accounting, internal accounting controls and auditing concerns, the CCO shall promptly inform the chair of the Ethics Committee, who will then turn over such information to the Audit Committee or such other persons as the Audit Committee of the Board of Directors determines to be appropriate under the circumstances shall be responsible for supervising and overseeing the inquiry and any investigation that is undertaken.

If any investigation indicates that a potential violation of this Code has occurred, we will take such action as we believe to be appropriate under the circumstances. Violations of this Code will not be tolerated. Any employee who violates this Code may be subject to disciplinary action, which, depending on the nature of the violation and the history of the employee, may range from a warning or reprimand to and including termination of employment and, in appropriate cases, civil legal action or referral for regulatory enforcement action. Appropriate action may also be taken to deter any future Code violations.

## IV. Code of Ethics

References in this Code to employees are intended to cover all employees including officers and, as applicable, directors. References to "our companies" mean all the affiliated companies in the Gladstone group of companies, including Gladstone Capital Corporation ("Gladstone Capital"), Gladstone Commercial Corporation ("Gladstone Commercial"), Gladstone Investment Corporation ("Gladstone Investment"), Gladstone Land Corporation ("Gladstone Land"), Gladstone Management Corporation (the "Adviser"), Gladstone Administration LLC (the "Administrator"), Gladstone Securities, LLC ("Gladstone Securities") and their subsidiaries. References to Gladstone Capital, Gladstone Commercial, Gladstone Investment, Gladstone Land, the Adviser, and the Administrator shall include all subsidiaries of those companies. References to the Board of Directors mean the Boards of Directors of all of the affiliated companies in the Gladstone group of companies, as applicable. References to the Ethics Committee mean the Ethics, Nominating and Corporate Governance Committees of Gladstone Capital, Gladstone Commercial, Gladstone Land or Gladstone Investment, as applicable.

Officers, managers and other supervisors are expected to develop in employees a sense of commitment not only to the letter, but to the spirit of this Code. Supervisors are also expected to ensure that all agents and contractors conform to this Code's standards when working for or on behalf of our companies. The environment regarding compliance with this Code within each supervisor's assigned area of responsibility will be a significant factor in evaluating the quality of that individual's performance. In addition, any employee who makes an exemplary effort to implement and uphold our Core Values, Valued Relationships and Standards of Business Conduct and Ethics will be recognized for that effort in his or her performance review. Nothing in this Code alters the at-will employment policy of our companies.

The Code addresses conduct that is particularly important to proper dealings with the people and entities with which we interact, but may not address every aspect of our commitment to honest and ethical conduct. From time to time we may adopt additional policies and procedures with which our employees, officers and directors are expected to comply, if applicable to them. However, it is the responsibility of each employee to apply common sense, together with his or her own highest personal ethical standards, in making business decisions where there is no stated guideline in this Code.

Action by members of your immediate family or other persons who live in your household also may potentially result in ethical issues to the extent that they involve our companies' business. For example, acceptance of inappropriate gifts by a family member from one of our suppliers or portfolio companies could create a conflict of interest and result in a Code violation attributable to you. Consequently, in complying with this Code, you should consider not only your own conduct, but also that of your immediate family members and other persons who live in your household.

**PLEASE NOTE THAT YOU WILL BE ASKED TO CERTIFY COMPLIANCE WITH THIS CODE ON AN ANNUAL BASIS. THUS, YOU SHOULD NOT HESITATE TO ASK QUESTIONS, VOICE CONCERNS OR CLARIFY GRAY AREAS ABOUT WHETHER ANY CONDUCT MAY VIOLATE THIS CODE. THE APPENDICES CONTAIN RESOURCES AVAILABLE TO YOU TO DETERMINE COMPLIANCE WITH THIS CODE. IN ADDITION, YOU ARE RESPONSIBLE FOR REPORTING SUSPECTED OR ACTUAL VIOLATIONS OF THIS CODE BY OTHERS. YOU SHOULD BE ALERT TO POSSIBLE VIOLATIONS OF THIS CODE BY OTHERS, AND MUST REPORT SUSPECTED VIOLATIONS, WITHOUT FEAR OF ANY FORM OF RETALIATION, AS FURTHER DESCRIBED IN PART V, SECTION 15 OF THIS CODE.**

## V. Standards of Ethics and Business Conduct

Underlying our Core Values, described in Part I above, is our commitment to maintain the highest standards of ethics and business conduct.

### 1. Honest and Ethical Conduct

It is the policy of our companies to promote high standards of integrity by conducting our affairs in an honest and ethical manner. The integrity and reputation of our companies depends on the honesty, fairness and integrity brought to the job by each person associated with us. Unyielding personal integrity is the foundation of corporate integrity.

### 2. Legal Compliance

Obeying the law, both in letter and in spirit, is the foundation of this Code. Our success depends upon each employee's operating within legal guidelines and cooperating with local, national and international authorities. We expect employees to understand the legal and regulatory requirements applicable to their business units and areas of responsibility. We hold periodic training sessions to ensure that all employees comply with this Code, the compliance policies and procedures of our companies, and other relevant laws, rules and regulations associated with their employment. While we do not expect you to know every detail of these laws, rules and regulations, we expect you to be familiar with this Code and our compliance policies and procedures, so that you are able to determine when to seek advice from others. If you do have a question in the area of legal compliance, it is important that you not hesitate to seek answers from your supervisor or one of the Compliance Officers (see Section 15 of this Part IV below for more information about the Compliance Officers).

Disregard of the law will not be tolerated. Violation of domestic or foreign laws, rules and regulations may subject an individual, as well as our companies, to civil or criminal penalties. You should be aware that conduct and records, including emails, are subject to internal and external audits and to discovery by third parties in the event of a government investigation or civil litigation. It is in everyone's best interest to know and comply with our legal obligations.

**3. Insider Trading**

Employees who have access to confidential (or "inside") information are not permitted to use or share that information for stock trading purposes or for any other purpose except to conduct our business. All non-public information about our companies or about companies with which we do business is considered confidential information. To use material non-public information in connection with buying or selling securities, including "tipping" others who might make an investment decision on the basis of this information, is not only unethical, it is illegal. You must exercise the utmost care when handling material inside information.

The Company's Insider Trading Policy (the "Trading Policy"), which is attached to this Code as Appendix A and is incorporated by reference into this Code, has been instituted to help you avoid prohibited insider trading, and to ensure that our companies comply with the separate requirements of Rules 17j-1 of the Investment Company Act of 1940 and 204A of the Investment Advisers' Act of 1940. All employees are expected to understand and comply with all Trading Policy provisions applicable to them.

The Trading Policy addresses detailed legal provisions of the Act and imposes requirements, and in some cases, restrictions, on certain securities trades that you may wish to make. The Trading Policy contains provisions that require you to obtain pre-clearance for all investments in any initial public offering, and for securities trades for which you may have insider information, especially the Gladstone Funds. To request pre-clearance of a securities transaction, you should complete Schedule A (for limited offering transactions) or schedule B (for transactions involving Gladstone Funds) of the attached Appendix A and forward it to our CCO. The Trading Policy also requires all employees to provide certain reports of their holdings or transactions in certain securities. The particular reports you will be required to provide are described more fully in the Trading Policy.

If you have questions regarding the requirements or compliance procedures under the Trading Policy, or if you don't know whether your situation requires pre-clearance or reporting, you should contact one of our Compliance Officers.

**4. International Business Laws**

You are expected to comply with the applicable laws in all countries to which you travel, in which we operate and where we otherwise do business, including laws prohibiting bribery, corruption or the conduct of business with specified individuals, companies or countries. The fact that, in some countries, certain laws are not enforced or that violation of those laws is not subject to public criticism will not be accepted as an excuse for noncompliance. In addition, we expect you to comply with U.S. laws, rules and regulations governing the conduct of business by its citizens and corporations outside the U.S. If you have a question as to whether an activity is restricted or prohibited, seek assistance before taking any action, including giving any verbal assurances that might be regulated by international laws.

**5. Environmental Compliance**

It is our policy to conduct our business in an environmentally responsible way that minimizes environmental impacts. We are committed to minimizing and, if practicable, eliminating the use of any substance or material that may cause environmental damage, reducing waste generation and disposing of all waste through safe and responsible methods, minimizing environmental risks by employing safe technologies and operating procedures, and being prepared to respond appropriately to accidents and emergencies.

**6. Conflicts of Interest**

We respect the rights of our employees to manage their personal affairs and investments and do not wish to impinge on their personal lives. At the same time, you should avoid conflicts of interest that occur when your personal interests may interfere in any way with the performance of your duties or the best interests of our companies. A conflicting personal interest could result from an expectation of personal gain now or in the future or from a need to satisfy a prior or concurrent personal obligation. We expect you to be free from influences that conflict with the best interests of our companies, or might deprive our companies of your undivided loyalty in business dealings. Even the appearance of a conflict of interest where none actually exists can be damaging and should be avoided. Whether or not a conflict of interest exists or will exist can be unclear.

If you have any questions about a potential conflict or if you become aware of an actual or potential conflict, and you are not an officer or director of one of our companies, you should discuss the matter with your supervisor or with one of our Compliance Officers. Supervisors may not authorize conflict of interest matters or make determinations as to whether a problematic conflict of interest exists without first seeking the approval of the CCO and providing the CCO with a written description of the activity. If the supervisor is involved in the potential or actual conflict, you should discuss the matter directly with the CCO. Officers and directors may seek authorizations and determinations from the Ethics Committee of the Board of Directors. Factors that may be considered in evaluating a potential conflict of interest are, among others:

- whether it may interfere with the employee's job performance, responsibilities or morale;
- whether the employee has access to confidential information;
- whether it may interfere with the job performance, responsibilities or morale of others within the organization;
- any potential adverse or beneficial impact on our business;
- any potential adverse or beneficial impact on our relationships with our customers or suppliers or other service providers;
- whether it would enhance or support a competitor's position;
- the extent to which it would result in financial or other benefit (direct or indirect) to the employee;
- the extent to which it would result in financial or other benefit (direct or indirect) to one of our customers, suppliers or other service providers; and
- the extent to which it would appear improper to an outside observer.

Although no list can include every possible situation in which a conflict of interest could arise, the following are examples of situations that may, depending on the facts and circumstances, involve problematic conflicts of interests:

- **Employment by (including consulting for) or service on the board of a competitor, customer or supplier or other service provider.** Activity that enhances or supports the position of a competitor to the detriment of one or more of our companies is prohibited, including employment by or service on the board of a competitor. Employment by or service on the board of a customer or supplier or other service provider is generally discouraged and you must seek authorization in advance if you plan to take such a position.
- **Owning, directly or indirectly, a significant financial interest in any entity that does business, seeks to do business or competes with us.** In addition to the factors described above, persons evaluating ownership in other entities for conflicts of interest will consider the size and nature of the investment; the nature of the relationship between the other entity and any one of our companies; the employee's access to confidential information and the employee's ability to influence one of our companies decisions. If you would like to acquire a financial interest of any kind, you must seek written approval in advance from the CCO.
- **Soliciting or accepting gifts, favors, loans or preferential treatment from any person or entity that does business or seeks to do business with us.** See Section 10 for further discussion of the issues involved in this type of conflict.
- **Soliciting contributions to any charity or for any political candidate from any person or entity that does business or seeks to do business with us.**
- **Taking personal advantage of corporate opportunities.** See Section 7 for further discussion of the issues involved in this type of conflict.
- **Working at a second job without permission.**
- **Conducting business transactions between any one of our companies and your family member or a business in which you or a family member has a significant financial interest.** Material related-party transactions must be approved by the Audit Committee and the Ethics Committee and, if that activity involves any executive officer or director, that activity will be required to be publicly disclosed as required by applicable laws and regulations.

Loans to, or guarantees of obligations of, employees or their family members by our companies could constitute an improper personal benefit to the recipients of these loans or guarantees, depending on the facts and circumstances. Some loans are expressly prohibited by law and applicable law requires that our Board of Directors approve all loans and guarantees to employees. As a result, all loans and guarantees by our companies must be approved in advance by the Board of Directors.

**7. Corporate Opportunities.**

You may not take personal advantage of the opportunities of our companies that are presented to you or discovered by you as a result of your position with us or through your use of corporate property or information, unless authorized by the Board of Directors. Even opportunities that are acquired privately by you may be questionable if they are related to our existing or proposed lines of business. Significant participation in an investment or outside business opportunity that is directly related to our lines of business must be pre-approved by the board of directors of our company that is affected. You may not use your position with us or corporate property or information for improper personal gain, nor should you compete with us in any way.

**8. Maintenance of Corporate Books, Records, Documents and Accounts; Financial Integrity; Public Reporting**

The integrity of our records and public disclosure depends upon the validity, accuracy and completeness of the information supporting the entries to our books of account. Therefore, our corporate and business records should be completed accurately and honestly. The making of false or misleading entries, whether they relate to financial results or test results, is strictly prohibited. Our records serve as a basis for managing our business and are important in meeting our obligations to customers, suppliers, creditors, employees and others with whom we do business. As a result, it is important that our books, records and accounts accurately and fairly reflect, in reasonable detail, our assets, liabilities, revenues, costs and expenses, as well as all transactions and changes in assets and liabilities. We require that:

- no entry be made in our books and records that intentionally hides or disguises the nature of any transaction or of any of our liabilities or misclassifies any transactions as to accounts or accounting periods;
- transactions be supported by appropriate documentation;
- the terms of sales and other commercial transactions be reflected accurately in the documentation for those transactions and all such documentation be reflected accurately in our books and records;
- employees comply with our system of internal controls; and
- no cash or other assets be maintained for any purpose in any unrecorded or “off-the-books” fund.

Our accounting records are also relied upon to produce reports for our management, stockholders and creditors, as well as for governmental agencies. In particular, we rely upon our accounting and other business and corporate records in preparing the periodic and current reports that we file with the Securities and Exchange Commission (SEC). Securities laws require that these reports provide full, fair, accurate, timely and understandable disclosure and fairly present our financial condition and results of operations. Employees who collect, provide or analyze information for or otherwise contribute in any way in preparing or verifying these reports should strive to ensure that our financial disclosure is accurate and transparent and that our reports contain all of the information about the Gladstone group of companies that would be important to enable stockholders and potential investors to assess the soundness and risks of our business and finances and the quality and integrity of our accounting and disclosures. In addition:

- no employee may take or authorize any action that would intentionally cause our financial records or financial disclosure to fail to comply with generally accepted accounting principles, the rules and regulations of the SEC or other applicable laws, rules and regulations;
- all employees must cooperate fully with our Accounting Department and, when one is established, Internal Auditing Departments, as well as our independent public accountants and counsel, respond to their questions with candor and provide them with complete and accurate information to help ensure that our books and records, as well as our reports filed with the SEC, are accurate and complete; and
- no employee should knowingly make (or cause or encourage any other person to make) any false or misleading statement in any of our reports filed with the SEC or knowingly omit (or cause or encourage any other person to omit) any information necessary to make the disclosure in any of our reports accurate in all material respects.

Any employee who becomes aware of any departure from these standards has a responsibility to report his or her knowledge promptly to a supervisor, a Compliance Officer, the Audit Committee or one of the other compliance resources described in Section 15.

**9. Fair Dealing**

We strive to outperform our competition fairly and honestly. Advantages over our competitors are to be obtained through superior performance of our products and services, not through unethical or illegal business practices. Acquiring proprietary information from others through improper means, possessing trade secret information that was improperly obtained, or inducing improper disclosure of confidential information from past or present employees of other companies is prohibited, even if motivated by an intention to advance our interests. If information is obtained by mistake that may constitute a trade secret or other confidential information of another business, or if you have any questions about the legality of proposed information gathering, you must consult your supervisor or one of our Compliance Officers, as further described in Section 15.

You are expected to deal fairly with our customers, suppliers, employees and anyone else with whom you have contact in the course of performing your job. Be aware that the Federal Trade Commission Act provides that “unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are declared unlawful.” It is a violation of this Act to engage in deceptive, unfair or unethical practices and to make misrepresentations in connection with sales activities.

Employees involved in procurement have a special responsibility to adhere to principles of fair competition in the purchase of products and services by selecting suppliers based exclusively on normal commercial considerations, such as quality, cost, availability, service and reputation, and not on the receipt of special favors.

## 10. Gifts and Entertainment

Business gifts and entertainment are meant to create goodwill and sound working relationships and not to gain improper advantage with customers or facilitate approvals from government officials. The exchange, as a normal business courtesy, of meals or entertainment (such as tickets to a game or the theatre or a round of golf) is a common and acceptable practice as long as it is not extravagant. Unless express written permission is received from a supervisor, the CCO or the Ethics Committee, gifts and entertainment cannot be offered, provided or accepted by any employee unless consistent with customary business practices and not (a) of more than token or nominal monetary value, (b) in cash, (c) susceptible of being construed as a bribe or kickback, (d) made or received on a regular or frequent basis or (e) in violation of any laws. This principle applies to our transactions everywhere in the world, even where the practice is widely considered "a way of doing business." Employees should not accept gifts or entertainment that may reasonably be deemed to affect their judgment or actions in the performance of their duties. Our customers, suppliers and the public at large should know that our employees' judgment is not for sale.

## 11. Protection and Proper Use of Company Assets

All employees are expected to protect our assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on our profitability. Our property, such as office supplies, computer equipment, buildings and products, are expected to be used only for legitimate business purposes, although incidental personal use may be permitted. You may not, however, use our corporate name, any brand name or trademark owned or associated with our companies or any letterhead stationery for any personal purpose.

You may not, while acting on behalf of our companies or while using our computing or communications equipment or facilities, either:

- access the internal computer system (also known as "hacking") or other resource of another entity without express written authorization from the entity responsible for operating that resource; or
- commit any unlawful or illegal act, including harassment, libel, fraud, sending of unsolicited bulk email (also known as "spam") in violation of applicable law, trafficking in contraband of any kind or espionage.
- If you receive authorization to access another entity's internal computer system or other resource, you must make a permanent record of that authorization so that it may be retrieved for future reference, and you may not exceed the scope of that authorization.

Unsolicited bulk email is regulated by law in a number of jurisdictions. If you intend to send unsolicited bulk email to persons outside of our companies, either while acting on our behalf or using our computing or communications equipment or facilities, you should contact your supervisor or the CCO for approval.

All data residing on or transmitted through our computing and communications facilities, including email and word processing documents, is the property of our companies and subject to inspection, retention and review by us, with or without an employee's or third party's knowledge, consent or approval, in accordance with applicable law. Any misuse or suspected misuse of our assets must be immediately reported to your supervisor or a Compliance Officer.

**12. Confidentiality**

One of our most important assets is our confidential information. As an employee of our companies, you may learn of information about our business that is confidential and proprietary. You also may learn of information before that information is released to the general public. Employees who have received or have access to confidential information should take care to keep this information confidential. Confidential information includes non-public information that might be of use to competitors or harmful to our companies or its customers if disclosed, such as business, marketing and service plans, financial information, product architecture, source codes, designs, databases, customer lists, pricing strategies, personnel data, personally identifiable information pertaining to our employees, customers or other individuals, and similar types of information provided to us by our customers, suppliers and partners. This information may be protected by patent, trademark, copyright and trade secret laws.

In addition, because we interact with other companies and organizations, there may be times when you learn confidential information about other companies before that information has been made available to the public. You must treat this information in the same manner as you are required to treat our confidential and proprietary information. There may even be times when you must treat as confidential the fact that we have an interest in, or are involved with, another company.

You are expected to keep confidential and proprietary information confidential unless and until that information is released to the public through approved channels (usually through a press release, an SEC filing or a formal communication from a member of senior management, as further described in Section 13). Every employee has a duty to refrain from disclosing to any person confidential or proprietary information about us or any other company learned in the course of employment here, until that information is disclosed to the public through approved channels. This policy requires you to refrain from discussing confidential or proprietary information with outsiders and even with other of our companies' employees, unless those fellow employees have a legitimate need to know the information in order to perform their job duties. Unauthorized use or distribution of this information could also be illegal and result in civil liability or criminal penalties.

You should also take care not to inadvertently disclose confidential information. Materials that contain confidential information, such as memos, notebooks, computer disks and laptop computers, should be stored securely. Unauthorized posting or discussion of any information concerning our business, information or prospects on the Internet is prohibited. You may not discuss our business, information or prospects in any "chat room," regardless of whether you use your own name or a pseudonym. Be cautious when discussing sensitive information in public places like elevators, airports, restaurants and “quasi-public” areas within the Gladstone group of companies. All our companies emails, voicemails and other communications are presumed confidential and should not be forwarded or otherwise disseminated outside of our companies, except where required for legitimate business purposes.

In addition to the above responsibilities, if you are handling information protected by any privacy policy published by us, such as our website privacy policy, then you must handle that information in accordance with the applicable policy.

**13. Media and Public Discussions**

It is our policy to disclose material information concerning our companies to the public only through specific limited channels to avoid inappropriate publicity and to ensure that all those with an interest in the company will have equal access to information. All inquiries or calls from the press and financial analysts should be referred to the Chief Executive Officer (“CEO”) or our Investor Relations Manager. We have designated our CEO as our official spokesperson for financial matters. We have designated the President of one of our companies or our Chief Investment Officer (“CIO”) as our official spokesperson for marketing, and other related information. Unless a specific exception has been made by the CEO, these designees are the only people who may communicate with the press on behalf of our companies. In addition, our compliance policies and procedures require that communications of this nature, including advertisements, presentations or speeches and website content, be reviewed by the CCO. You also may not provide any information to the media about us off the record, for background, confidentially or secretly.

**14. Waivers**

Any waiver of this Code for executive officers (including our principal executive officer, principal financial officer, principal accounting officer or controller (or persons performing similar functions) or directors may be authorized only by the Board of Directors of our companies, and will be disclosed to stockholders as required by applicable laws, rules and regulations.

**15. Compliance Standards and Procedures**

***Compliance Resources; Compliance Officers***

To facilitate compliance with this Code, we have implemented a program of Code awareness, training and review. We have designated our CCO to oversee this program. The CCO will have staff to assist in oversight of the program. The Compliance Officers are persons to whom you can address any questions or concerns. Please contact your manager or the head of Human Resources to determine who has been appointed as a Compliance Officer. In addition to fielding questions or concerns with respect to potential violations of this Code, the CCO is responsible for:

- investigating possible violations of this Code;

- training new employees in Code policies;
- conducting annual training sessions to refresh employees' familiarity with this Code;
- reviewing all personal securities transactions and holdings reports required by Appendix A to this Code;
- distributing this Code by hard copy or by email to each employee upon initial hire and annually thereafter, and upon any amendment of this Code, and requiring written acknowledgement of the receipt of this Code and any such amendments as a reminder that each employee is responsible for reading, understanding and complying with this Code;
- updating this Code as needed and alerting employees to any updates, with appropriate approval of the Ethics Committee, to reflect changes in the law, our companies operations and in recognized best practices, and to reflect our companies experience; and
- otherwise promoting an atmosphere of responsible and ethical conduct.
- Your most immediate resource for any matter related to this Code is your supervisor. He or she may have the information you need or may be able to refer the question to another appropriate source.

There may, however, be times when you prefer not to go to your supervisor. In these instances, you should feel free to discuss your concern with a Compliance Officer. If you are uncomfortable speaking with a Compliance Officer because he or she works in your department or is one of your supervisors, please contact a member of the Ethics Committee. You may also report violations directly to members of the Ethics Committee by either sending a letter to Global Compliance Services, 13950 Ballantyne Corporate Place, Suite 300, Charlotte, NC 28277 or by calling our companies' toll-free hotline run by Global Compliance Services at 1-888-475-4914 and speaking with a representative who will transmit the information to the Ethics Committee. The Ethics Committee will pass on to the Audit Committee of the Board of Directors all information related to complaints or observations that involve accounting, internal accounting controls and auditing concerns.

You may call the toll-free number anonymously if you prefer as it is not equipped with caller identification, although Global Compliance Services will be unable to obtain follow-up details from you that may be necessary to investigate the matter. Whether you identify yourself or remain anonymous, your telephonic contact with Global Compliance Services through the toll-free number will be kept strictly confidential to the extent reasonably possible within the objectives of this Code.

### 16. Amendments and Modifications

This Code of Ethics and Business Conduct may not be amended or modified except in a written form which is specifically approved by majority vote of the independent directors of the applicable entities.

This Code of Ethics and Business Conduct was adopted by the Board of Directors of Gladstone Capital, Gladstone Investment, Gladstone Land, and Gladstone Commercial, including the independent directors, on January 28, 2013.

### 17. Pay to Play Policy

In light of recent scandals involving public pension plans and the practice of making campaign contributions to elected officials in order to influence the awarding of lucrative contracts for the management of public pension plan assets and similar government investment accounts, so-called "pay to play," the Securities and Exchange Commission adopted Rule 206(4)-5 amending the Investment Advisers Act of 1940 (hereinafter "Rule 206(4)-5" or the "Rule") prohibiting investment advisors from receiving compensation for advisory services rendered to a public pension plan or other government investment account if certain political contributions are made by the adviser, or certain of its executives and employees. The Rule covers, among other things, all direct contributions made to incumbent state or local officials, or candidates for state or local office, direct contributions to state or local political party committees, and indirect contributions such as in-kind contributions, and soliciting or coordinating contributions.

Rule 206(4)-5 applies to the Adviser because it is a registered investment adviser under the Investment Advisers Act of 1940 and to Gladstone Securities, LLC ("GSC") because it is a registered broker dealer soliciting Government Entities on behalf of the Adviser.[1] Although the Adviser may not currently be providing advisory services to a public pension plan or other government investment account, the Rule has a two year look back provision which could impact the ability of the Adviser to provide such services in the coming years. This policy is being adopted to avoid inadvertent violations of the Rule which would result in loss of business for the Adviser. Any questions regarding this policy or activities discussed herein should be directed to the CCO or his designee. Please refer to Appendix B for further information.

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1 The Rule makes it unlawful for any investment adviser subject to the Rule or any of the adviser's covered associates to make direct or indirect payment to any person to solicit government clients for investment advisory services on the investment adviser's behalf unless the "solicitor" is subject to prohibitions against participating in pay to play practices and subject to oversight by the Securities and Exchange Commission or a registered national securities association such as FINRA. The SEC adopted this Rule to prevent a third party placement agent from being used as an indirect means of making political contributions on the investment's advisers behalf. Under the Rule, FINRA's rules must be at least as restrictive as Rule 206(4)-5 for a broker dealer to be able to solicit government clients on the investment adviser's behalf. While GSC is not a registered investment adviser under the Investment Advisers Act of 1940, any contributions made by a Covered Associate of GSC could be deemed to have been made by the Adviser, thus prohibiting the Adviser from providing investment advisory services to the applicable Government Entity. Likewise, contributions made by a newly hired employee prior to his or her employment at the Adviser or GSC could be deemed to have been made by the Adviser, triggering the prohibitions on the Adviser providing advisory services to a Government Entity.

**<u>Appendix A</u>**

**Insider Trading Policy**
**For**
**Gladstone Capital Corporation**
**Gladstone Commercial Corporation**
**Gladstone Investment Corporation**
**Gladstone Land Corporation**
**Gladstone Management Corporation**
**Gladstone Administration LLC**
**Gladstone Securities, LLC**
**and their subsidiaries**

This Insider Trading Policy (the "Policy") has been adopted to comply with Rules 17j-l under the Investment Company Act of 1940 (the "Investment Company Act") and 204A under the Investment Advisers' Act of 1940 (the "Advisers' Act") (the "Rules"). The Policy establishes standards and procedures designed to address conflicts of interest and detect and prevent abuse of fiduciary duty by persons with knowledge of the investments and investment intentions of Gladstone Management Corporation (the "Adviser"), Gladstone Administration LLC (the "Administrator"), Gladstone Securities, LLC, Gladstone Capital Corporation, Gladstone Commercial Corporation, Gladstone Investment Corporation, Gladstone Land Corporation, their subsidiaries, and other funds managed and administered by the Adviser and the Administrator (collectively, the "Funds").

**THIS POLICY WAS ORIGINALLY INCORPORATED BY REFERENCE INTO AND MADE A PART OF THE CODE OF ETHICS AND BUSINESS CONDUCT ADOPTED BY THE BOARDS OF DIRECTORS OF THE ADVISER AND THE FUNDS ON OCTOBER 11, 2005 (THE "CODE OF ETHICS"). ANY VIOLATION OF THIS POLICY IS SUBJECT TO SANCTIONS DESCRIBED IN THE CODE OF ETHICS.**

**(a) General Policy**

**(i)** It is the policy of the Adviser, the Administrator and the Funds to oppose the unauthorized disclosure of any non-public information acquired in the workplace and the misuse of Material Non-public Information in securities trading. It is also the policy of the Adviser, the Administrator and the Funds to restrict trading of the Fund's securities in a manner that minimizes the possibility of any unintentional violation of the securities laws. We have adopted several specific restrictions, outlined in this Policy, to effect the Company's general policy.

**(ii)** This Policy acknowledges the general principles that officers, directors and employees of the Adviser, the Administrator, the Funds or any other company in a Control relationship to the Adviser, the Administrator or the Funds, referred to in this Policy as "Covered

Persons," (A) owe a fiduciary obligation to the Funds, the Administrator and the Adviser; (B) have the duty at all times to protect the interests of stockholders; (C) must conduct all personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or abuse of an individual's position of trust and responsibility; and (D) should not take inappropriate advantage of their positions in relation to the Funds, the Administrator or the Adviser. In recognition of the relationship between Covered Persons and members of their immediate family sharing a household with the Covered Person and entities whose investment decisions are influenced or controlled by such individuals, this Policy also applies to such persons, who are referred to in this Policy as "Insiders."

**(iii)** The Rules make it unlawful for Covered Persons to engage in conduct which is deceitful, fraudulent or manipulative, or which involves false or misleading statements, in connection with the purchase or sale of securities by an investment company. Accordingly, under the Rules and this Policy no Covered Person shall use any information concerning the investments or investment intentions of the Funds, or his or her ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of the Funds. In addition, the Rules and this Policy also contain additional restrictions for Covered Persons who are involved in or have access to information regarding securities recommendations made to the Funds, referred to in this Policy as Access Persons.

**(iv)** Generally speaking, the restrictions in this Policy are time-based, to take account of events we know will occur on a regular basis, such as quarterly earnings releases, and circumstance-based, to address situations where information such as anticipated significant investment transactions, securities offerings, or any other such information that would likely affect the price of the Funds' securities, is not yet known to the general public.

**(b) Definitions.**

For purposes of this Policy,

**(i)** "**Access Person**" means any officer, employee director or managing director of the Adviser, the Administrator or the Funds, or any other company in a Control relationship to the Adviser, the Administrator or the Funds who is involved in or has access to information regarding securities recommendations made to the Funds.

**(ii)** "**Administrative Officer**" means the CCO of the Relevant Fund, or, if the CCO of the Relevant Fund is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel of the Relevant Fund are not available, then the Chief Financial Officer of the Relevant Fund. Notwithstanding the foregoing, in the case of the pre-clearance of a Covered Transaction within the meaning of Section (b)(viii)(2) below, "**Administrative Officer**" means the CCO of the Adviser, or, if the CCO of the Adviser is not available, then the Internal Counsel of the Adviser, or if the CCO and Internal Counsel of the Adviser are not available, then the Chief Financial Officer of the Adviser.

**(iii)** "**Beneficial Interest**" means any interest by which a Covered Person or any member of his or her Immediate Family, can directly or indirectly derive a monetary benefit from the purchase, sale (or other acquisition or disposition) or ownership of a Security, except such interests as Clearing Officers (defined below) shall determine to be too remote for the purpose of this Policy. (A transaction in which a Covered Person acquires or disposes of a Security in which he or she has or thereby acquires a direct or indirect Beneficial Interest is sometimes referred to in this Code of Ethics as a "personal securities" transaction or as a transaction for the person's "own account").

**(iv)** "**CCO**" means Chief Compliance Officer, as duly appointed.

**(v)** "**Control**" means the power to exercise a controlling influence over the management or policies of a company (unless such power is solely the result of an official position with such company). Any person who owns beneficially, directly or through one or more controlled companies, more than 25% of the voting securities of a company shall be presumed to control such company. For purposes of this Policy, natural persons and portfolio companies of the Funds shall be presumed not to be controlled persons.

**(vi)** "**Covered Person**" means any officer, director or employee of the Adviser, the Administrator, the Funds or any other company in a Control relationship to the Adviser, the Administrator or the Funds, but does not include portfolio companies of the Funds.

**(vii)** "**Covered Security**" includes any Fund Securities and all debt obligations, stock and other instruments comprising the investments of the Funds, including any warrant or option to acquire or sell a security and financial futures contracts, but excludes securities issued by the U.S. government or its agencies, bankers' acceptances, bank certificates of deposit, commercial paper and shares of a mutual Company. References to a "Covered Security" in this Policy shall include any warrant for, option in, or security convertible into that "Covered Security."

**(viii)** "**Covered Transaction**" means any of the following transactions:

**(1)** A transaction in which such Covered Person knows or should know at the time of entering into the transaction that: (i) any of the Funds has engaged in a transaction in the same Security within the last 180 days, or is engaging in a transaction or is going to engage in a transaction in the same Security in the next 180 days; or (ii) the Adviser has within the last 180 days considered a transaction in the same Security for any of the Funds or is considering such a transaction in the Security or within the next 180 days is going to consider such a transaction in the Security;

**(2)** a transaction that involves the direct or indirect acquisition of Securities in an initial public offering or Limited Offering of any issuer; or

**(3)** a transaction in any Fund Security.

**(ix)** "**Fund Security**" means any security issued by any of the Funds. References to a "Fund Security" in this Policy shall include any warrant for, option in, or security convertible into that "Fund Security."

**(x)** "**Immediate Family**" includes any children, stepchildren, grandchildren, parents, stepparents, grandparents, spouses, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, or sisters-in-law, including adoptive relationships, who live in the same household.

**(xi)** "**Independent Officer**" means an officer of the Relevant Fund other than the Administrative Officer who is not a party to the transaction or a relative of a party to the transaction. Notwithstanding the foregoing, in the case of the pre-clearance of a Covered Transaction within the meaning of Section (b)(viii)(2) below, "**Independent Officer**" means an officer of the Adviser other than the Administrative Officer who is not a party to the transaction or a relative of a party to the transaction.

**(xii)** "**Insiders**" means Covered Persons, their Immediate Family and entities whose investment decisions are influenced or controlled by such individuals.

**(xiii)** "**Limited Offering**" means an offering that is exempt from registration under Sections 4(2) or 4(6) of, or Regulation D under, the Securities Act of 1933. Limited Offerings may include, among other things, limited partnership or limited liability company interests, or other Securities purchased through private placements.

**(xiv)** "**Loan Officer**" means an Access Person who is responsible for making decisions as to Securities to be bought or sold for the Funds' portfolio.

**(xv)** "**Non-Access Person**" means any employee of the Adviser, the Administrator, the Funds, or any other company in a Control relationship to the Adviser or the Funds, which employee is not an "Access Person."

**(xvi)** "**Relevant Fund**" means the Fund to which the relevant Covered Securities relate.

**(xvii)** A "**Security held or to be acquired**" by the Funds means any Security which, within the most recent 180 days is or has been held by the Funds or is being or has been considered for purchase by the Funds.

**(xviii)** A Security is "**being considered for purchase or sale**" from the time an amendment letter is signed by or on behalf of the Funds until the closing with respect to that Security is completed or aborted.

**(xix)** "**Security**" means any note, stock, treasury stock, security future, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security (including a certificate of deposit) or on any group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

**(xx)** "**Trading Day**" means a day on which the Nasdaq Global Market is open for trading. A Trading Day begins at the time trading begins on such day following the date of public disclosure of the financial results for that quarter.

**(c) Material Non-public Information.** Material Non-public Information means any information that a reasonable investor would likely consider important in a decision to buy, hold or sell Covered Securities that has not already been disclosed generally to the public. Either positive or negative information may be material.

**(i) Materiality.** While it may be difficult to determine whether particular information is material, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information include, but are not limited to: (1) a Fund's financial results, (2) known but unannounced large deviations in planned future earnings or losses, (3) execution or termination of significant investment transactions, (4) news of a pending or proposed merger or other acquisition, (5) changes in a Fund's dividend rate or dividend policy, (6) news of the disposition, construction or acquisition of significant assets, (7) impending bankruptcy or financial liquidity problems, (8) significant developments involving corporate relationships, (9) new equity or debt offerings, (10) security buyback programs, (11) positive or negative developments in significant outstanding litigation, (12) significant litigation exposure due to actual or threatened litigation, (13) significant changes to existing debt facilities and (14) major changes in senior management.

**(ii) Non-public.** Information about the Adviser, the Administrator and the Funds that is not yet in general circulation should be considered non-public. It is important to note that information is not necessarily public merely because it has been discussed in the press, which will sometimes report rumors. All information that a Covered Person learns about the Adviser, the Administrator or the Funds or their business plans in connection with his or her employment is non-public information unless you can point to its official release by the Adviser, the Administrator or the Funds in a press release, a filing with the Securities and Exchange Commission (the "**SEC**") or a publicly available webcast or similar broadcast sponsored by the Adviser, the Administrator or the Funds. If you are considering engaging in a Covered Transaction and have any question as to whether information of which you are aware has been made public, contact the CCO of the Relevant Fund.

**(d) Specific Requirements for Trading in Fund Securities**

**(i) Trading Window.** Except as permitted in Section (e)(iii) of this Policy, Insiders may only conduct transactions involving the purchase or sale of a Fund Security during the period commencing at the open of the market on the third Trading Day following the date of the Relevant Fund's filing of its Form 10-Q or 10-K for the most recently completed fiscal period and continuing until the close of the market on the fifteenth ($15^{th}$) calendar day prior to the last day of the fiscal quarter (the '**Trading Window**"), after which time the Trading Window will be closed until it re-opens on the third Trading Day following the date of filing of the Form 10-Q or 10-K for the subsequent period.

In special circumstances, when insiders may have Material Non-public information, the CCO, Internal Counsel or the Chief Financial Officer of the Relevant Fund may, upon the concurrence of any two of such persons, close or open Trading Window or prevent a scheduled Trading Window from opening as originally scheduled. Upon determination that any such information no longer constitutes Material Non-public Information, the CCO, Internal Counsel or Chief Financial Officer of the Relevant Fund may, upon the concurrence of any two of such persons, re-open a Trading Window.

**(ii) Reserved.**

**(iii) No Safe Harbor for Possession of Material Non-Public Information.** Regardless of whether the Trading Window is open, Insiders may not trade in Fund Securities while in possession of any Material Non-public Information (with the exception of trades pursuant to Rule 10b5-1 Trading Plans established in accordance with this Policy). Trading in Fund Securities during the Trading Window should <u>not</u> be considered a "safe harbor" from liability, and all Insiders should use good judgment at all times.

**(iv) Limit Orders.** The prohibition against trading during the closed Trading Windows encompasses the fulfillment of "limit orders" (often referred to as "good until canceled orders") by any broker with whom any such limit order is placed. Any unfilled limit orders in Fund Securities must be immediately canceled whenever (A) a Trading Window closes, including upon the imposition of a special circumstances closed Trading Window, or (B) the Insider comes into possession of Material Non-public Information.

**(v) Short Sales and Derivative Securities.** No Insiders shall engage in a short sale of any Fund Security. A short sale is a sale of securities not owned by the seller or, if owned, not delivered against such sale within 20 days thereafter. In addition, trading in options to buy or sell Fund Securities (including put or call options), warrants, convertible securities, stock appreciation rights, or other similar rights with an exercise or conversion privilege at a price related to an equity security or with a value derived from the value of an equity security relating to a Fund Security (collectively, "**Derivative Securities**"), whether or not issued by the Funds, such as exchange-traded options, are prohibited. Short sales and Derivative Security trading are prohibited by this Policy even when the Trading Window is open.

**(vi) Other Prohibited Activities.** In addition, no Covered Person shall, directly or indirectly in connection with the purchase or sale of a "security held or to be acquired" (as defined in Section (b)(xvii) of this Policy) by the Funds: (a) employ any device, scheme or artifice to defraud the Funds; or (b) make to the Funds or the Adviser any untrue statement of a material fact or omit to state to any of the foregoing a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading; or (c) engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the Funds; or (d) engage in any manipulative practice with respect to the Funds.

**(e) Pre-Clearance of Covered Transactions**

**(i) Pre-Clearance of Transactions in Fund Securities.** Except for transactions that are exempted under Section (e)(iii) below, all Covered Persons must obtain pre-clearance for any transactions in Fund Securities using the following procedures:

**(1) From Whom Obtained.** Before any Insider engages in any transaction in Fund Securities, the relevant Covered Person must pre-clear the proposed transaction with the Administrative Officer (the CCO of the Relevant Fund, or, if the CCO of the Relevant Fund is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel of the Relevant Fund are not available, then the Chief Financial Officer of the Relevant Fund). Until the Administrative Officer provides pre-clearance for the proposed transaction, such Insider shall not execute the proposed transaction. The Administrative Officer may consult management and counsel in reviewing and pre-clearing transactions, although the primary responsibility to assess whether a proposed transaction complies with this Policy and applicable law will lie with the Covered Person.

**(2) Pre-clearance Period.** The Covered Person will have until the end of fourteen (14) calendar days following the day pre-clearance is received, or until such earlier time that the Trading Window closes or the Insider comes into possession of Material Non-Public Information, **to execute** the transaction. If for any reason the transaction is not completed within this period of time, pre-clearance must be re-obtained from the Administrative Officer. Execution of a trade shall include the actual sale or purchase, rather than simply placing of an order to do so.

**(3) Form.** To initiate pre-clearance, you must contact the Administrative Officer in person, by phone, or email. After discussing the proposed trade, pre-clearance can be obtained by (i) completing and signing Schedule B, and obtaining the approval and signature of the Administrative Officer; or (ii) responding affirmatively to an email sent by the Administrative Officer containing all the required information of Schedule B and receiving a reply email from the Administrative Officer indicating such approval. Schedule B may be amended from time to time by the CCO of the Relevant Fund, with the permission of the Chairman of the Ethics Committee of the Relevant Fund. The Administrative Officer is the CCO of the Relevant FUND, or, if the CCO is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel are not available, then the CFO of the Relevant Fund.

**(4) Filing.** A copy of all completed pre-clearance forms, with all required signatures (or, as applicable, email correspondence), shall be retained by the CCO of the Relevant Fund.

**(5) Insider's Responsibility.** Notwithstanding the foregoing, even if a proposed trade is pre-cleared, the Insider is prohibited from trading any Fund Securities while in possession of Material Non-public Information.

**(ii) Pre-Clearance of Non-Fund Securities Covered Transactions.** With the exception of transactions in Fund Securities (covered in Section (e)(i) above) and transactions that are exempted under Section (e)(iii) below, Insiders proposing to engage in Covered Transactions must obtain pre-clearance of such Covered Transaction using the following procedures:

**(1) From Whom Obtained.** Pre-clearance must be obtained from the Administrative Officer and one Independent Officer.

**(2) Pre-clearance Period.** In the case of a proposed Covered Transaction, if the relevant Covered Person receives pre-clearance, the Insider will have until the end of fourteen (14) calendar days following the day pre-clearance is received to execute the transaction. If for any reason the transaction is not completed within this period of time, pre-clearance must be re-obtained before the transaction can be executed.

**(3) Form.** Pre-clearance must be obtained in writing by completing and signing the "Request for Permission to Engage in a Non-Fund Securities Covered Transaction" form attached hereto as ***Schedule A***, which form shall set forth the details of the proposed transaction, and obtaining the signatures of the Administrative Officer and one Independent Officer. Schedule A may be amended from time to time by the CCO of the Relevant Fund, with the permission of the Chairman of the Ethics Committee of the Relevant Fund.

**(4) Filing.** A copy of all completed pre-clearance forms, with all required signatures, shall be retained by the CCO of the Relevant Fund.

**(5) Factors to be Considered in Pre-clearance of Non-Fund Securities Covered Transactions.** The persons responsible for pre-clearance may refuse to grant pre-clearance of a Covered Transaction in their absolute discretion. Generally, such persons will consider the following factors in determining whether or not to clear a Covered Transaction: (1) whether the Insider is in possession of Material Non-Public Information, (2) whether the amount or nature of the transaction or person making it is likely to affect the price or market for the Security; (3) whether the individual making the proposed purchase or sale is likely to benefit from purchases or sales being made or being considered by the Funds; (4) whether the Security proposed to be purchased or sold is one that would qualify for purchase or sale by the Funds; (5) whether the transaction is non-volitional on the part of the individual, such as receipt of a stock dividend, bequest or inheritance; (6) whether potential harm to the Funds from the transaction is remote; (7) whether the transaction would be likely to affect a highly institutional market; and (8) whether the transaction is related economically to Securities being considered for purchase or sale (as defined in Section (b)(xviii) of this Policy) by the Funds.

**(iii) Exemptions From Pre-Clearance Requirements**

The following transactions are exempt from the pre-clearance provisions of this Policy:

**(1) Not Controlled Securities.** Purchases, sales or other acquisitions or dispositions of Securities for an account over which the Insider has no direct influence or Control and does not exercise indirect influence or Control;

**(2) Involuntary Transactions.** Involuntary purchases or sales made by an Insider;

**(3) DRPs.** Purchases which are part of an automatic dividend reinvestment plan;

**(4) Rights Offerings.** Purchases or other acquisitions or dispositions resulting from the exercise of rights acquired from an issuer as part of a pro rata distribution to all holders of a class of Securities of such issuer and the sale of such rights; and

**(5) Rule 10b5-1 Plans**.

**a. Trades Pursuant to Trading Plan Exempted from Compliance with Trading Windows and Pre-clearance Requirements.** A transaction in Fund Securities in accordance with a trading plan adopted in accordance with the SEC's Rule 10b5-1(c) and this Section (e)(iii)(5) (the "**Trading Plan**") shall not be required to be effected during an open Trading Window nor shall it require pre-clearance, even though such transaction takes place during a closed Trading Window or while the Insider was aware of Material Non-public Information.

**b. Adoption and Approval of Trading Plan.** The Trading Plan must be adopted during (i) an open Trading Window and (ii) at a time when such Insider is not in possession of Material Non-public Information. Each Trading Plan must be pre-approved by the Administrative Officer to confirm compliance with this Policy and applicable securities laws, and such approval is subject to the sole discretion of the Administrative Officer. Approval of a Trading Plan shall not be deemed a representation by the Adviser, Administrator or the applicable Fund that such plan complies with Rule 10b5-1, nor an assumption by the Adviser, Administrator or the applicable Fund of any liability or responsibility to the individual or any other party if the plan does not comply with Rule 10b5-1. The initial trades under such Trading Plan shall not be permitted until at least thirty calendar days have passed following the establishment of the Trading Plan.

**c. Amendment of Trading Plan.** An Insider may amend or replace his or her Trading Plan only during periods when trading is permitted in accordance with this Policy, and the relevant Covered Person must submit any proposed amendment or replacement of a Trading Plan to the Administrative Officer for approval prior to adoption. The relevant Covered Person must provide notice to the Administrative Officer prior to an Insider terminating a Trading Plan.

**d. Form.** Pre-clearance of a Trading Plan must be obtained in writing by (i) completing and signing the "Request for Permission to Establish Rule 10b5-1 Trading Plan" form attached hereto as ***Schedule C***, and (ii) obtaining the signature of the Administrative Officer. Schedule C may be amended from time to time by the CCO of the Relevant Fund, with the permission of the Chairman of the Ethics Committee of the Relevant Fund.

**e. Filing.** A copy of all completed pre-clearance forms, with all required signatures, shall be retained by the CCO of the Relevant Fund.

**(f) Reporting Requirements.**

**(i) Access Persons.**

**(1) Holdings Reports.**

**a. Initial Holdings Report.** Within ten (10) days of becoming an Access Person, each Access Person shall make a written report to the CCO of the Relevant Fund of all Securities in which such Access Person holds a direct or indirect Beneficial Interest. Access Persons need not report any such Securities that are exempt under subsection (i)(1)(d) of this Section (f). The initial holdings report shall be made on the form provided for such purpose by the CCO of the Relevant Fund. Each initial holdings report must be current as of a date no more than forty-five (45) days prior to the date that the reporting person became an Access Person.

**b. Annual Holdings Reports.** No later than February 13th of each year, each Access Person shall make a written report to the CCO of the Relevant Fund of all Securities in which such Access Person holds a direct or indirect Beneficial Interest. Access Persons need not report any such Securities that are exempt under subsection (i)(1)(d) of this Section (f). The annual holdings report shall be made on the form provided for such purpose by the CCO of the Relevant Fund. Each annual holdings report must be current as of a date no later than December 31st of the prior year.

**c. Contents of Holdings Reports.** Holdings reports must contain, at a minimum, the following information with respect to each Security: (i) the title and type of each Security for which an Access Person holds a direct or indirect Beneficial Interest; (ii) for publicly traded Securities, the ticker symbol or CUSIP number for each such Security; (iii) the principal amount of each Security; (iv) the name of any broker, dealer or bank with whom you, or any members of your Immediate Family, maintain an account in which any Securities are held for your direct or indirect benefit; and (v) the date of submission of the report.

**d. Exemptions from Holdings Reports.** The following Securities are not required to be included in holdings reports made by Access Persons:

- **i.** Securities held in accounts over which an Access Person has no direct or indirect influence or control;
- **ii.** Direct obligations of the Government of the United States;
- **iii.** Bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements; and
- **iv.** Shares issued by open-end funds.

**(2) Transaction Reports.**

**a. Quarterly Report.** Within thirty (30) days of the end of each calendar quarter, each Access Person must submit a quarterly report to the CCO of the

Relevant Fund, on the form provided for such purpose by the CCO of the Relevant Fund, of all transactions during the calendar quarter in any Securities in which such Access Person has any direct or indirect Beneficial Interest.

**b. Contents of Transaction Reports.** Quarterly Transaction Reports must contain, at a minimum, the following information with respect to each transaction in a Security: (i) the title and type of each Security involved; (ii) for publicly traded Securities, the ticker symbol or CUSIP number for each such Security; (iii) the number of shares, interest rate, and maturity date and principal amount, as applicable, of each Security involved; (iv) the price of the Security at which the transaction was effected; (v) the name of any broker, dealer or bank through which the transaction was effected; and (vi) the date of submission of the report.

**c. Exemptions from Transaction Reports.** The following transactions are not required to be included in Quarterly transactions reports of Access Persons:

**i.** Transactions in Securities over which an Access Person has no direct or indirect influence or control;

**ii.** Transactions in Direct obligations of the Government of the United States;

**iii.** Transactions in Bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements;

**iv.** Transactions in shares issued by open-end funds; and

**v.** Transactions which are part of an automatic dividend reinvestment plan.

**(ii) Non-Access Persons.**

**(1) Annual Transactions Report.** Within 10 days of the end of each calendar year, each Non-Access Person shall make a written report to the CCO of the Relevant Fund of all transactions by which they acquired or disposed of a direct or indirect Beneficial Interest in any Covered Security.

**(2) Form.** Each annual report shall be provided on the form "Annual Securities Transactions Confidential Report of Non-Access Persons" form attached hereto as ***Schedule D***, which form shall set forth the information regarding each transaction requested in the form. Schedule D may be amended from time to time by the CCO of the Relevant Fund, who shall promptly provide any form so amended to all Non-Access Persons.

**(3) Filing.** A copy of all reports submitted pursuant to this Section (f), with all required signatures, shall be retained by the CCO of the Relevant Fund.

**(iii) Disclaimer.** Any report made by an Access Person or Non-Access Person under this Section (e) may contain a statement that the report is not to be construed as an admission that the person making it has or had any direct or indirect Beneficial Interest in any Security or Covered Security to which the report relates.

**(iv) Responsibility to Report.** It is the responsibility of all Covered Persons to take the initiative to provide each report required to be made by them under this Policy. Any effort by the Adviser, the Administrator or the Funds to facilitate the reporting process does not change or alter that responsibility.

**(g) Confidentiality of Transactions**

Until disclosed in a public report to stockholders or to the SEC in the normal course, all information concerning Securities being considered for purchase or sale (as defined in Section (b)(xv) of this Policy) by the Funds shall be kept confidential by all Access Persons and disclosed by them only on a "need to know" basis. It shall be the responsibility of the CCO to report any inadequacy found by him or her to the Board of Directors of the Company or any committee appointed by the Board of Directors to deal with such information.

**(h) Sanctions**

Any violation of this Policy shall be subject to the imposition of such sanctions by the Funds or the Adviser as may be deemed appropriate under the circumstances to achieve the purposes of the Rules and this Policy, which may include suspension or termination of employment, a letter of censure or restitution of an amount equal to the difference between the price paid or received by the Funds and the more advantageous price paid or received by the offending person. Sanctions for violation of this Policy by a director of the Funds will be determined by a majority vote of the independent directors of the applicable Fund.

**(i) Administration and Construction**

**(i) Administration.** The administration of this Policy shall be the responsibility of the CCO of the Adviser and the Funds.

**(ii) Duties.** The duties of the CCO under this Policy include: (1) continuous maintenance of a current list of the names of all Access and Non-Access Persons, with an appropriate description of their title or employment; (2) providing each Covered Person a copy of this Policy and informing them of their duties and obligations hereunder, and assuring that Covered Persons are familiar with applicable requirements of this Appendix; (3) supervising the implementation of this Policy and its enforcement by the Adviser, the Administrator and the Funds; (4) maintaining or supervising the maintenance of all records and reports required by this Policy; (5) preparing listings of all transactions effected by any Access Person within thirty (30) days of the date on which the same security was held, purchased or sold by any of the Funds; (6) issuing either personally or with the assistance of counsel, as may be appropriate, any interpretation of this Policy which may appear consistent with the objectives of the Rules and this Policy; (7) conducting of such inspections or investigations, including scrutiny of the listings referred to in the preceding subparagraph, as shall reasonably be required to detect and report, with recommendations, any apparent violations of this Policy to the Board of Directors of the Funds or any Committee appointed by them to deal with such information; and (8) submitting a quarterly report to the directors of the Funds containing a description of any (i) violation and the sanction imposed; (ii) transactions which suggest the possibility of a violation of interpretations issued by the CCO of the Relevant Fund; and (iii) any other significant information concerning the appropriateness of this Policy.

**(j) Required Records.**

The CCO shall maintain and cause to be maintained in an easily accessible place, the following records:

**(i) Code of Ethics and Policies.** Copies of the Code of Ethics into which this Policy has been incorporated, this Policy, and any other codes of ethics or insider trading policies adopted pursuant to the Rules ("Rule 17 and Rule 204A Codes") which have been in effect during the past five (5) years;

**(ii) Violations.** A record of any violation of any such Rule 17 and Rule 204A Codes and of any action taken as a result of such violation;

**(iii) Reports.** A copy of each report made by the CCO within two (2) years from the end of the fiscal year of the Funds in which such report or interpretation is made or issued, and for an additional three (3) years in a place which need not be easily accessible; and

**(iv) List.** A list of all persons who are, or within the past five (5) years have been, required to make reports pursuant to the Rules and any Rule 17 Code.

**(k) Amendments and Modifications**

This Policy may not be amended or modified except in a written form which is specifically approved by majority vote of the independent directors of the applicable Funds.

This Policy was adopted by the Funds' Boards of Directors, including the independent directors, on **January 28, 2013**.

## SCHEDULE A
## REQUEST FOR PERMISSION TO ENGAGE IN A NON-FUND SECURITIES COVERED TRANSACTION

I hereby request permission to effect a transaction in securities as indicated below for my own account or other account in which I have a beneficial interest or legal title. I acknowledge that if I am granted pre-clearance for my Transaction Request, I will have until the end of fourteen (14) calendar days following the day pre-clearance is received to execute the transaction. I also acknowledge that, if for any reason the transaction is not completed within this period of time, pre-clearance must be re-obtained before the transaction can be executed.

(Use approximate dates and amounts of proposed transactions.)

### PURCHASES AND ACQUISITIONS

| Date | IPO or Limited Offering? | No. of Shares or Principal Amount | Name and Trading Symbol of Security | Unit Price | Total Price | Brokerage Firm |
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### SALES AND OTHER DISPOSITIONS

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**Name:** ______________ **Request Date:** ______________ **Signature:** ______________

Permission Granted ☐
Permission Denied ☐

Signature: ______________ Date: ______________
(Administrative Officer)

Signature: ______________ Date: ______________
(Independent Officer)

## SCHEDULE B

### REQUEST FOR PRE-CLEARANCE AND CERTIFICATION IN CONNECTION WITH A TRANSACTION IN FUND SECURITIES

*Instructions: To initiate pre-clearance, you must contact the Administrative Officer in person, by phone, or email. After discussing the proposed trade, pre-clearance can be obtained by (1) completing and signing this Schedule B, and obtaining the approval and signature of the Administrative Officer; or (2) responding affirmatively to an email sent by the Administrative Officer containing all the required information of this Schedule B and receiving a reply email from the Administrative Officer indicating such approval. The Administrative Officer is the CCO of the Relevant Fund, or, if the CCO is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel are not available, then the CFO of the Relevant Fund. Capitalized terms used in this Schedule B have the meanings given them in the Insider Trading Policy as adopted by the Boards of Directors of the Funds on January 28, 2013 (the "**Policy**").*

REQUEST FOR PRE-CLEARANCE

I hereby request permission to effect a transaction in Fund Securities as indicated below for my own account or other account in which I have a beneficial interest or legal title.

Requestor's name: ______________________________

Transaction type (Buy or Sell): ______________________________ Proposed order date: ______________________________

Approximate number of shares (if debt securities, principal dollar amount) of trade: ______________________________

Name and trading symbol of Fund Security: ______________________________

CERTIFICATION

Pursuant to the Policy, and in connection with the above request for pre-clearance (the "**Transaction Request**"), I, __________, hereby certify that I am not in possession of any Material Non-public Information, as defined in the Policy. I further certify I have read and understand the Insider Trading Policy as adopted by the Boards of Directors of the Funds and am personally responsible for abiding by all the policies and procedures contained within the Policy and aware of the consequences of failing to do so.

Signature: ______________________________ Date: ______________________________

PRE-CLEARANCE DECISION

Pre-clearance Granted ☐ Administrative Officer Signature: ______________________________
Pre-clearance Denied ☐ Pre-clearance Granted/Denied Date: ______________________________

**SCHEDULE C**
**CERTIFICATION/REQUEST FOR PRE-APPROVAL OF RULE 10B5-1 TRADING PLAN**

*Instructions: Contact the Administrative Officer to discuss your eligibility for a Rule 10b5-1 Trading Plan. The Administrative Officer is the CCO of the Relevant Fund, or, if the CCO is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel are not available, then the CFO of the Relevant Fund. Capitalized terms used in this Schedule C have the meanings given them in the Insider Trading Policy as adopted by the Boards of Directors of the Funds on January 28, 2013 (the "**Policy**").*

REQUEST FOR PRE-CLEARANCE

Pursuant to the Policy, I hereby request permission to enter into a Trading Plan pursuant to Rule 10b5-1 under the Exchange Act. In connection with this request, I, __________, hereby certify that:

1. I have delivered herewith the form of Trading Plan to the Administrative Officer.
2. I am not in possession of any Material Non-public Information, as defined in the Policy.
3. I further certify I have read and understand the Insider Trading Policy as adopted by the Boards of Directors of the Funds and am personally responsible for abiding by all the policies and procedures contained within the Policy and aware of the consequences of failing to do so.

Signature: ______________________________ Date: ______________________________

PRE-CLEARANCE DECISION

Pre-approval Granted ☐ Administrative Officer Signature: ______________________________
Pre-approval Denied ☐ Pre-approval Granted/Denied Date: ______________________________

**SCHEDULE D**
**ANNUAL SECURITIES TRANSACTIONS**
**CONFIDENTIAL REPORT OF NON-ACCESS PERSONS**

The following schedule lists all transactions during the year ending December 31,____ in which I had any direct or indirect Beneficial Interest in any Covered Security. Capitalized terms used in this schedule have the meanings given them in the Insider Trading Policy as adopted by the Boards of Directors of the Funds on January 28, 2013. (*If no transactions took place you may write "None"*)

**PURCHASES AND ACQUISITIONS**

| Date | No. of Shares or Principal Amount | Name of Security | Unit Price | Total Price | Brokerage Firm |
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**SALES AND OTHER DISPOSITIONS**

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If you wish to disclaim Beneficial Ownership of any of the Covered Securities listed above, please check the statement below and describe the Securities for which you disclaim Beneficial Ownership.

- *This report is not to be construed as an admission that the person making it has or had any direct or indirect Beneficial Interest in the following Securities to which this report relates:*

For the year ending ______________________ Name: ______________________

Date: ______________________ Signature: ______________________

## Appendix B

**Pay to Play Policy**
**For**
**Gladstone Capital Corporation**
**Gladstone Commercial Corporation**
**Gladstone Investment Corporation**
**Gladstone Land Corporation**
**Gladstone Management Corporation**
**Gladstone Securities, LLC**
**and their subsidiaries**

***A. Prohibited Conduct***

1. Covered Associates (as defined in Section C. and explained further in the accompanying footnote) may not make any Political Contribution (defined Section C.) to any Official of a Government Entity (defined in Section C.), unless such Political Contribution has first been approved in writing by the CCO or his designee.

This prohibition includes "in-kind" contributions, *e.g.*, contributions of GMC or GSC property, services or other assets including employee work time spent on political activities and the solicitation of contributions by an employee. Failure to comply with this requirement may result in GMC's being barred from receiving compensation for supplying advisory services to such Government Entity or to a Covered Investment Pool (defined below) in which such Government Entity invests for a two-year period. This prohibition applies to fundraising activities, including soliciting or making Political Contributions, either monetary or in-kind.

Please note, nothing in this Policy is meant to discourage Covered Associates from participating in the political process by expressing support for political candidates[2] or voting. Covered Associates may support candidates in other ways, such as volunteering their time, so long as such volunteering occurs during non-work hours or on vacation time. Additionally, to avoid potentially problematic in-kind contributions, Covered Associates are prohibited from using GMC or GSC resources, including telephones, copiers, personnel, or other facilities to conduct political activities.

Individuals who are Covered Associates may make a *de minimis* Political Contribution to an Official of a Government Entity for whom the Covered Associate is entitled to vote at the time of the contribution, provided that the Political Contribution does not exceed $350 in the aggregate to any one Official, per election. Individuals who are Covered Associates may also make a *de minimis* Political Contribution to an Official of a Government Entity for whom the Covered Associate is not

2 Please note, not all political candidates or incumbent politicians are included within the definition of Official of a Government Entity. Incumbent federal officeholders and candidates for federal office who do not hold a state or local office while running for federal office are not Officials of a Government Entity.

entitled to vote, provided that the Political Contribution does not exceed $150 in the aggregate to any one Official, per election. Under both exceptions, primary and general elections would be considered separate elections. All *de minimis* contributions must also be disclosed to the CCO. Please note that broker dealers and individuals who are municipal finance professionals are subject to a lower *de minimis* contribution limit of $250 under MSRB Rule G-37.

2. A Covered Associate may not, without the prior written consent of the CCO or his designee, solicit or co-ordinate: (i) Political Contributions to Officials of a Government Entity, or (ii) payments to a state or local political party. For purposes of this Policy, solicitation or coordination of a Political Contribution or payment includes communicating, directly or indirectly, for the purpose of obtaining or arranging a Political Contribution or payment and would include asking, directing, or suggesting that a Political Contribution be made. For example, use of an individual's name on fundraising literature for a candidate would be soliciting Political Contributions for that candidate. Similarly, even forwarding a solicitation to friends or family on behalf of a candidate or political party would be coordinating Political Contributions for that candidate or political party.

3. A Covered Associate may not compensate a third party placement agent or "finder" to solicit advisory business[3] from a Government Entity on behalf of the Covered Associate, unless the third party is a registered broker-dealer or SEC-registered investment adviser subject to Rule 206(4)-5.

4. Covered Associates may not circumvent these prohibitions by requesting, directing or causing contributions or payments to be made through other parties, including, but not limited to, spouses, family members or friends, or in any other way.

### *B. Quarterly Reports*

Within 30 days after the end of each calendar quarter, each Covered Associate must submit a Political Contribution Report to the CCO in such form as he shall prescribe. As part of the hiring process, each newly-hired Covered Associate will be required to report information on any Political Contribution or other activity covered by this Policy.

### *C. Definitions*

A ***Covered Associate***[4] includes: (i) GMC, (ii) GSC, (ii) GMC's or GSC's President; (iii) any Vice-President or similar executive officer of GMC or GSC in charge of a business unit, division or function (such as sales, administration or finance); (iv) any other person who performs a policy-making function; (v) an employee who solicits a government entity for GMC; (vi) any person who directly or indirectly supervises an employee described in (v); or (vii) any political action committee controlled by GMC, GSC or any of their covered associates.

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3 "Soliciting advisory business" means engaging in a communication that is reasonably calculated to obtain or retain a Government Entity as an advisory client.

4 Although GSC employees are not employees of the investment adviser GMC, for purposes of this policy and Rule 206(4)-5's restrictions regarding third party placement agents discussed in footnote 1, GSC and certain of its employees will be deemed to be Covered Associates.

In addition to the positions listed above, as of the date of this Policy, the following shall be considered Covered Associates:

- Individuals holding Series 7 or 79 License
- Individuals designated or acting in the position of Managing Director or higher;
- Individuals designated as the head of a department;
- Individuals having marketing responsibilities/Individuals designated as part of the Marketing Department; and
- Individuals who solicit business from government entities or who supervise those who do.

For internal reference only, on a quarterly basis, the CCO or his designee shall update Exhibit A hereto (delineating each individual he believes to be included within the definition of Covered Associate).

A ***Covered Investment Pool*** includes an investment company registered under the Investment Company Act of 1940 that is an investment option of a plan or program of a Government Entity or any company that would be an investment company under section 3(a) of the Investment Company Act of 1940 but for the exclusion provided from that definition by 3(c)(1), 3(c)(7) or 3(c)(11) of the Investment Company Act of 1940.[5]

A ***Government Entity*** means any state or political subdivision thereof, including public pension funds and retirement systems. This includes such an entity's agency, authority or instrumentality; a pool of assets sponsored or established by the state or political subdivision, agency, authority or instrumentality thereof; a plan or program of a government entity; and officers, agents or employees of the government entity acting in their official capacity.

An ***Official of a Government Entity*** is someone who can influence the hiring of an investment adviser for a government entity. This term includes someone who has the sole authority to select investment advisers for the government entity; someone who serves on a governing board that selects investment advisers; or someone who appoints those who select the investment advisers. It includes an incumbent, a candidate, or a successful candidate for state or local elective office. Note that it can also include a candidate for federal office, if that person is a covered state or local official at the time the Political Contribution is made. In certain circumstances, a national political party committee may be considered an Official of a Government Entity after the party's nominating convention has concluded if at least one of the party's nominees for president or vice president is a covered state or local official.[6]

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5 Please note, at the time of writing this Policy, a Covered Investment Pool would include any private fund that GMC may wish to manage and raise capital from any state or political subdivision thereof, including public pension funds and retirement systems. It would also include a pooled investment vehicle sponsored or advised by an investment adviser as a funding vehicle or investment option in a government sponsored plan, such as a 529 plan (qualified tuition plan), 403(b) plan (tax-deferred employee benefit retirement plan), or a 457 plan ( tax-deferred employee benefit retirement plan) that typically allow participants to select among pre-established investment options or particular investment pools (often invested in registered investment companies or funds of funds, such as target date funds).

6 The national political party committees are the RNC, DNC, NRSC, DSCC, NRCC, and DCCC. Contributions or solicitations for contributions to a national political party committee may violate Rule 206(4)-5 if one or more of the party's nominees for president or vice president is a covered state or local official. For example, in 2008, contributions to the RNC after the nominating convention which chose Sarah Palin, then incumbent Governor of Alaska, as vice presidential nominee were subject to then in effect pay to play restrictions of $250. Similarly, contributions to McCain-Palin were also subject to the $250 limit.

On August 13, 2011, Governor Rick Perry of Texas announced his candidacy for president of the United States. As an Official of a Government Entity, individuals who are Covered Associates may only contribute $350 per election to Governor Perry's campaign and may not solicit contributions on Perry's behalf. Depending on the outcome of the republican nominating convention in 2012, if Governor Perry or another incumbent state or local official becomes the republican party nominee for president or vice president, contributions to the RNC after the convention would be subject to the *de minimis* limits, as would contributions to the campaign committee for the presidential/vice presidential nominees.

A ***Political Contribution*** means a gift, subscription, loan, advance, deposit of money or anything of value made for the purpose of influencing an election. Political Contributions include not only monetary donations but also the provision of goods and services provided to a campaign, or on behalf of a campaign, without charge. This includes payments for debts incurred in such an election, as well as transition or inaugural expenses.

**Quarterly Political Contribution Report**

***GMC***, as a registered investment adviser under the Investment Advisers Act of 1940, is required by law to maintain books and records regarding certain political contributions made by its ***Covered Associates***. Pursuant to our Pay to Pay Policy, please provide information regarding your Political Contributions. If you are unsure whether to report a ***Political Contribution***, please contact the CCO or Internal Counsel for assistance.

All terms in bold/italics used on this report have the same definitions as they appear in the Pay to Pay Policy included as Appendix B to our Code of Ethics. For more guidance regarding this report specifically, or our Pay to Play Policy generally, please contact our CCO or Internal Counsel.

***Period Covered by the Report*** - 20

☐ First Quarter ☐ Second Quarter ☐ Third Quarter ☐ Fourth Quarter
☐ Other Period

***Covered Activity***

Except as otherwise described below, during the period covered by this report, I have not, directly or indirectly (including, but not limited to, through a family member or political action committee):

a. Made or caused to be made a ***Political Contribution*** to any ***Official of a Government Entity***;

b. Solicited or coordinated:

(i) ***Political Contributions*** to any ***Official of a Government Entity***, or

(ii) payments to a state or local political party; or

c. Compensated any third parties for "**soliciting advisory business**" from a ***Government Entity***.

Describe each Political Contribution, including those *de minimis contributions* made to candidates for whom you are eligible to vote. Include name, title and city/county/state or other political subdivision of each recipient and the amounts and dates of each Political Contribution:

Name ______________________ Date ______________________

**Initial Political Contribution Report**

***GMC***, as a registered investment adviser under the Investment Advisers Act of 1940, is required by law to maintain books and records regarding certain political contributions made by its executives and employees. Please provide information regarding ***Political Contributions*** made after March 14, 2011 until now. If you are unsure whether to report a ***Political Contribution***, please contact the CCO or Internal Counsel for assistance.

All terms in bold/italics used on this report have the same definitions as they appear in the Pay to Pay Policy included as Appendix B to our Code of Ethics. For more guidance regarding this report specifically, or our Pay to Play Policy generally, please contact our CCO or Internal Counsel.

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Except as otherwise described below, during the period from March 14, 2011 until the date of this report, I have not, directly or indirectly (including through a family member or political action committee):

a. Made a ***Political Contribution*** to any ***Official of a Government Entity***;

b. Solicited or coordinated:

(i) Political Contributions to an ***Official of a Government Entity***, or

(ii) payments to a political party of a state or locality; or

c. Compensated any third parties for ***"soliciting advisory business"*** from ***Government Entities***.

Describe any exceptions. Include name, title and city/county/state or other political subdivision of each recipient and the amounts and dates of each contribution or payment:

Name ______________________ Date ______________________

**Political Contribution Pre-Clearance Form**

Name and Title of Contributor:

Recipient Information

Name:

Title:

City/County/State/Other Political Subdivision:

Amount of Contribution:

Proposed Date of Contribution: ______________________________

Contribution is for: ☐ Primary Election ☐ General Election

Is this Contributor able to vote for this Recipient? ☐ Yes ☐ No

Has this Contributor made other contributions to this recipient during this election cycle?

☐ Yes ☐ No

If yes, describe:

Has this Contributor ever had a contribution returned because the Contributor was not eligible to vote for the recipient candidate and it was more than the $150 *de minimis* allowed?

☐ Yes ☐ No

If yes, describe:

☐ **Contribution Approved** ☐ **Contribution Denied**

______________________________ ______________________________

Name Date

Exhibit 21

## SUBSIDIARIES OF THE REGISTRANT

Gladstone Capital Advisers, Inc. (incorporated in Delaware)

Gladstone Business Loan, LLC (organized in Delaware)

Gladstone Financial Corporation (incorporated in Delaware)

Gladstone Metal, LLC (organized in Delaware)

Lindmark Acquisition, LLC (organized in Delaware)

RBC Acquisition Corp. (incorporated in Delaware)

**Exhibit 23**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-104447) of Gladstone Capital Corporation of our report dated November 19, 2013 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Mclean, VA
November 19, 2013

**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 annual report on Form 10-K of Gladstone Capital Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) 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 report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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

d) Disclosed in this report any change 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 the 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: November 19, 2013

/s/ DAVID GLADSTONE
David Gladstone
Chief Executive Officer

**CERTIFICATION**
**Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002**

I, Melissa Morrison, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) 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 report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this 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

d) Disclosed in this report any change 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 the 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: November 19, 2013

/s/ MELISSA MORRISON
Melissa Morrison
Chief Financial Officer

**Exhibit 32.1**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer, President and Chairman of the Board 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 Annual Report on Form 10-K for the fiscal year ended September 30, 2013 (the “Form 10-K”), 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 19, 2013

/s/ DAVID GLADSTONE
David Gladstone
Chief Executive Officer

**Exhibit 32.2**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED 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 Annual Report on Form 10-K for the fiscal year ended September 30, 2013 (the “Form 10-K”), 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 19, 2013

/s/ MELISSA MORRISON
Melissa Morrison
Chief Financial Officer