

GLADSTONE CAPITAL CORP
Form POS 8C
July 15, 2004

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[FINANCIAL STATEMENTS](#)

As filed with the Securities and Exchange Commission on July 15, 2004

Registration No. 333-100385

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

o Pre-Effective Amendment No.
ý Post-Effective Amendment No. 2

Gladstone Capital Corporation

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

54-2040781
(I.R.S. Employer Identification No.)

**1616 Anderson Road, Suite 208
McLean, Virginia 22102
(703) 286-7000**

(Address and telephone number, including area code, of principal executive offices)

**David Gladstone
Chairman and Chief Executive Officer
Gladstone Capital Corporation
1616 Anderson Road, Suite 208
McLean, Virginia 22102**

(Name and address of agent for service)

Copies of information to:

**Thomas R. Salley, Esq.
Darren K. DeStefano, Esq.
Cooley Godward LLP
One Freedom Square
Reston Town Center
11951 Freedom Drive
Reston, Virginia 20190
(703) 456-8000**

Approximate Date of Proposed Public Offering: From time to time after the effective date of the Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

**GLADSTONE CAPITAL CORPORATION
CROSS REFERENCE SHEET**

No.	Description	Location
Part A Information Required In a Prospectus		
Item 1.	Outside Front Cover	Outside Front Cover
Item 2.	Inside Front and Outside Back Cover	Inside Front and Outside Back Cover
Item 3.	Fee Table and Synopsis	Fees and Expenses
Item 4.	Financial Highlights	Selected Consolidated Financial Statements; Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 5.	Plan of Distribution	Outside Front Cover; Plan of Distribution
Item 6.	Selling Shareholders	Not Applicable
Item 7.	Use of Proceeds	Use of Proceeds
Item 8.	General Description of the Registrant	Outside Front Cover; Prospectus Summary; Business; Risk Factors; Investment Objectives and Policies; Portfolio Companies
Item 9.	Management	Management; Executive Officers and Directors; Control Persons and Principal Stockholders
Item 10.	Capital Stock, Long-Term Debt and Other Securities	Description of Our Securities; Price Range of Common Stock and Distributions; Dividend Reinvestment Plan
Item 11.	Defaults and Arrears on Senior Securities	Not Applicable
Item 12.	Legal Proceedings	Not Applicable
Item 13.	Table of Contents of the Statement of Additional Information	Not Applicable
Part B Information Required in a Statement of Additional Information*		
Item 14.	Cover Page	Not Applicable
Item 15.	Table of Contents	Not Applicable
Item 16.	General Information and History	Prospectus Summary; Business
Item 17.	Investment Objective and Policies	Prospectus Summary; Investment Objectives and Policies; Risk Factors; Business; U.S. Federal Income Tax Considerations; Regulation
Item 18.	Management	Management
Item 19.	Control Persons and Principal Holders of Securities	Control Persons and Principal Stockholders
Item 20.	Investment Advisory and Other Services	Investment Advisor

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Item 21.	Brokerage Allocation and Other Practices	Fees and Expenses; Prospectus Summary; Plan of Distribution; Brokerage Allocation and Other Practices
Item 22.	Tax Status	Price Range of Common Stock and Distributions; U.S. Federal Income Tax Considerations
Item 23.	Financial Statements	Financial Statements

** Pursuant to the General Instructions to Form N-2, all information required to be set forth in Part B "Statement of Additional Information" has been included in the prospectus and, accordingly, no statement of additional information has been filed as a part of this registration statement.*

Part C Other Information

Information required to be included in Part C is set forth under the appropriate item, so numbered, in Part C of this Registration Statement.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated July 15, 2004

PROSPECTUS

\$75,000,000

Gladstone Capital Corporation

Common Stock Preferred Stock Debt Securities

We may offer, from time to time, up to \$75 million aggregate initial offering price of our common stock, \$0.001 par value per share, preferred stock or debt securities, which we refer to in this prospectus collectively as our securities, in one or more offerings. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. In the case of our common stock, the offering price per share, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time we make the offering. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our securities.

We may offer our securities directly to one or more purchasers, through agents that we designate from time to time, or to or through underwriters or dealers. The prospectus supplement relating to the particular offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. For more information about the manners which we may use to offer our securities, see "Plan of Distribution." We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering. Our common stock is traded on the Nasdaq National Market under the symbol "GLAD." As of July 15, 2004, the last reported sales price for our common stock was \$20.60.

We operate as a closed-end, non-diversified management investment company, and have elected to be treated as a business development company under the 1940 Act. We seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are backed by leveraged buyout funds, venture capital funds or others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity-type instruments that we may receive when we provide debt.

This prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

Additional information about Gladstone Capital Corporation has been filed with the Securities and Exchange Commission and is available to the public without charge upon written or oral request. Such information is also available on the SEC's website at www.sec.gov.

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

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

, 2004

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

TABLE OF CONTENTS

[Prospectus Summary](#)

[Risk Factors](#)

[Forward-Looking Statements](#)

[Use of Proceeds](#)

[Price Range of Common Stock and Distributions](#)

[Consolidated Selected Financial Data](#)

[Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Business](#)

[Portfolio Companies](#)

[Management](#)

[Control Persons and Principal Stockholders](#)

[Regulation](#)

[US Federal Income Tax Considerations](#)

[Description of Our Securities](#)

[Certain Provisions of our Articles of Incorporation and Bylaws and Maryland General Corporation Law](#)

[Plan of Distribution](#)

[Dividend Reinvestment Plan](#)

[Share Repurchases](#)

[Custodian, Transfer and Dividend Paying Agent and Registrar](#)

[Brokerage Allocation and Other Practices](#)

[Legal Matters](#)

[Experts](#)

[Available Information](#)

[Financial Statements](#)

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and does not contain all of the information that you may want to consider. You should read carefully the more detailed information set out in this prospectus and the accompanying prospectus supplement, including "Risk Factors." Except where the context requires otherwise, when we use the terms "we," "us" or "Gladstone Capital Corporation," we are referring solely to Gladstone Capital Corporation and not to either of its wholly-owned subsidiaries, Gladstone Capital Advisers, Inc. or Gladstone Business Loan LLC.

General

We are a specialty finance company that was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. We seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are backed by leveraged buyout funds, venture capital funds or others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans. Our headquarters are in McLean, Virginia, a suburb of Washington, DC. We also have offices in Chicago, Illinois, New York, New York and Pittsburgh, Pennsylvania.

Our Structure and Our Management

We operate as a closed-end, non-diversified management investment company, and have elected to be treated as a business development company under the Investment Company Act of 1940, which we refer to in this prospectus as the 1940 Act. In addition, we have elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986. As a RIC, we generally do not have to pay corporate level tax on any income we distribute to our stockholders as dividends, allowing us to substantially reduce or eliminate our corporate level tax liability. For further information, see "Regulation," "US Federal Income Tax Considerations" and "Dividend Reinvestment Plan."

We are currently internally managed by our officers and directors. We do not presently have a separate investment adviser and, therefore, we do not presently pay an investment advisory fee. However, we expect to engage an external adviser later this fiscal year. See "Recent Developments." We have two wholly-owned subsidiaries, Gladstone Capital Advisers, Inc., through which we conduct our daily administrative functions and provide managerial assistance to our portfolio companies, and Gladstone Business Loan LLC, which we refer to as Gladstone Business Loan, which owns our loan investment portfolio. For the year ended September 30, 2003 and the six months ended March 31, 2004, our operating expenses were approximately 2.9% and 3.0% (annualized), respectively, of our total assets (exclusive of temporary investments acquired near the end of the period for the purpose of satisfying regulatory requirements). We currently estimate that over time our annual operating expenses will be approximately 3.2% of our total assets (exclusive of such temporary investments), however there can be no assurance that our actual annual operating expenses will not exceed this amount.

We have assembled a management team which has extensive experience in our lines of business. Our executive officers include David Gladstone, chairman and chief executive officer, Terry Lee Brubaker, vice chairman and chief operating officer and George Stelljes III, president and chief investment officer. Mr. Gladstone has a total of over 25 years of debt and equity financing experience at Gladstone Capital Corporation, Allied Capital Corporation (NYSE: ALD) and American Capital Strategies Ltd. (NASDAQ: ACAS). Mr. Brubaker has over 25 years of operational expertise in acquiring and managing companies, much of it at James River Corporation. Mr. Stelljes has over 15 years of investing experience at Gladstone Corporation, Allied Capital Corporation and a number of venture capital firms.

Our management, including Messrs. Gladstone, Brubaker and Stelljes, makes available significant managerial assistance to the businesses in which we invest, including operational, financial and strategic advice.

Our Investment Objectives and Our Strategy

We seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are backed by leveraged buyout funds, venture capital funds or others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans. There can be no assurance that we will realize our investment objectives. We seek to invest primarily in three categories of debt of private companies:

Senior Subordinated Notes. We seek to invest a majority of our assets in senior subordinated notes, which may also include "last out tranches" of senior debt. Holders of senior subordinated notes are subordinated in their rights to receive principal and interest payments or, in the case of last out tranches of senior debt, liquidation proceeds from the borrower to the rights of the holders of senior debt. As a result, senior subordinated notes are riskier than senior notes. Although such loans are sometimes secured by significant collateral, many of these lenders principally rely on the borrower's cash flow for repayment. Additionally, lenders often receive warrants to acquire shares of stock in borrowers in connection with these loans.

Senior Notes. We seek to invest a small portion of our assets in senior notes of borrowers. Using the assets and cash flow of the underlying business as collateral, a business typically uses senior notes to cover a substantial portion of the funding needed to operate. Senior lenders are exposed to the least risk of all providers of debt because they command a senior position with respect to scheduled interest and principal payments. However, unlike senior subordinated and junior subordinated lenders, these senior lenders typically do not receive any stock or warrants to purchase stock of the borrowers. As such, they generally do not participate in the equity appreciation of the value of the business. We intend to make senior loans on a limited basis and some of these will only be as bridge financings. In most cases, these loans will be refinanced at a later date.

Junior Subordinated Notes. We also seek to invest a small portion of our assets in junior subordinated notes. Holders of junior subordinated notes are subordinated in their rights to receive principal and interest payments from the borrower to the rights of the holders of senior debt and senior subordinated debt. The risk profile of junior subordinated notes is high, which permits the junior subordinated lender to obtain higher interest rates and warrants to purchase a greater portion of the borrower's stock.

We use the established loan referral network of Messrs. Gladstone and Brubaker, George Stelljes III, our president and chief investment officer, and our managing directors to identify and make senior and subordinated loans to selected businesses that we do not believe have sufficient access to traditional sources of lending.

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

We expect that our loans typically will range from \$5 million to \$15 million, mature in no more than seven years, and accrue interest at a fixed or variable rate that exceeds the prime rate. Because these loans will generally be subordinated term debt of private companies who typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most if not all of the debt securities we acquire will be unrated. Accordingly, we cannot accurately predict what ratings these loans might receive if they were in fact rated, and therefore we cannot determine whether or not they could be considered to be "investment grade" quality.

In order to acquire the capital for investment purposes needed to execute our business strategy, we intend to issue debt securities, other evidences of indebtedness and possibly preferred stock, and we may securitize interests in our portfolio assets. As a result of these activities, we will be exposed to the risks of leverage. For additional information about our proposed borrowing activities, see "Business Leverage" and "Risk Factors" Our business plan is dependent upon external financing which may expose us to risks associated with leverage."

Recent Developments

At our 2004 annual meeting of stockholders, our stockholders approved a proposal to engage Gladstone Management Corporation, a registered investment adviser and affiliate of ours, to act as our external investment adviser. We expect to engage Gladstone Management to serve as our adviser later this fiscal year, although we are not certain when the engagement will be effective. Once Gladstone Management is engaged, Gladstone Management will assume substantially all of the activities that our internal personnel currently perform, including the provision of managerial assistance to our portfolio companies. In connection with this transition, we anticipate that all of our employees will become employees of Gladstone Management. In return for its advisory services, we will pay Gladstone Management an annual advisory fee equal to 1.25% of our total assets and an annual administrative fee of 0.75% of our total assets. Under the terms of the proposed advisory agreement, we would continue to pay direct expenses including, but not limited to, directors fees, legal and accounting fees, and stockholder related expenses. In addition, substantially all of the managerial assistance fees that our portfolio companies have historically paid to us through our wholly owned subsidiary, Gladstone Capital Advisers, will be paid to Gladstone Management following the transition. For additional information regarding this arrangement, see "Business Investment Adviser."

Offering

We may offer, from time to time, up to \$75 million of our securities, on terms to be determined at the time of the offering. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. In the case of an offering of our common stock, the offering price per share, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering.

We may offer our securities directly to one or more purchasers, through agents that we designate from time to time, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

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

Nasdaq National Market Symbol	GLAD
Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which may include investment in small and medium sized businesses in accordance with our investment objectives, repayment of any indebtedness that we may have used to make investments and other general corporate purposes. See "Use of Proceeds."
Distributions	Since October 2003, we have paid monthly dividends to the holders of our common stock and generally intend to continue to do so. Prior to October 2003, we paid quarterly dividends, rather than monthly. The amount of the monthly dividends is determined by our board of directors and is based on our estimate of taxable ordinary income and net short-term capital gains. See "Price Range of Common Stock and Distributions." In addition to cash dividends, certain additional amounts may be deemed to be distributed to stockholders for income tax purposes. See "US Federal Income Tax Consequences." Other types of securities will likely pay distributions in accordance with their terms.
Principal Risk Factors	<p>An investment in our securities involves certain risks relating to our structure and investment objectives that prospective investors should consider, including but not limited to:</p> <p>As a business development company, our portfolio includes securities primarily issued by privately held companies. These investments may involve a high degree of business and financial risk, and are generally less liquid than public securities. Also, our determinations of fair value of these securities may differ materially from the values that would exist if there was a ready market for these investments.</p> <p>A large number of entities compete for the same kind of investment opportunities as we do.</p> <p>Our business requires a substantial amount of cash to operate and to grow, and we are dependent on external financing.</p> <p>To date, we have borrowed an aggregate of approximately \$33 million under our revolving credit facilities to make investments in and loans to small and medium sized businesses. We expect that in the future, we will borrow additional funds to finance some of our future investments. In addition to borrowing funds, we may issue preferred stock and debt securities and may securitize interests in our portfolio assets. As a result of these activities, we will be exposed to the risks of leverage, which may be considered a speculative investment technique.</p>

Our failure to qualify as a RIC eligible for pass-through tax treatment under Subchapter M of the Code on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our securities.

The companies to which we make loans may not have the financial resources to repay them.

Fluctuations in interest rates could have an adverse effect on our profitability.

Certain of our officers and directors may have obligations to other entities that may not always be consistent with our best interests or those of our stockholders.

Because of the small number of companies in our portfolio, our overall performance could be adversely affected by the unfavorable performance of a small number of loans.

See "Risk Factors" for a discussion of these and other risks of investing in our securities.

Certain Anti-Takeover Provisions

Our articles of incorporation and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us and thereby inhibit a change in control of us in circumstances that could give the holders of our common stock the opportunity to realize a premium over the then prevailing market price for our common stock.

See "Risk Factors - Provisions of our articles of incorporation and bylaws could deter takeover attempts and adversely impact the price of our shares" and "Certain Provisions of our Articles of Incorporation and Bylaws and Maryland General Corporation Law."

Dividend Reinvestment Plan

Cash we distribute to holders of our common stock may be reinvested under our dividend reinvestment plan in additional whole and fractional shares of our common stock if you or your representative elects to enroll in the reinvestment plan. For more information, see "Dividend Reinvestment Plan."

Available Information

We are subject to the Securities Exchange Act of 1934, which we refer to as the Exchange Act, and are required to file reports, proxy statements and other information with the SEC. This information is available at the SEC's public reference room in Washington, DC and on the SEC's Internet site at <http://www.sec.gov>.

Fees And Expenses

The following table is to assist a prospective investor in understanding the various costs and expenses that an investor in this offering will bear directly or indirectly, both currently and pro forma

to reflect such costs and expenses following our expected transition to external management under the proposed advisory agreement with Gladstone Management.

	<u>Current</u>	<u>Pro Forma</u>
Stockholder Transaction Expenses		
Sales Load (as a percentage of offering price)	None ⁽¹⁾	None
Dividend Reinvestment Plan Fees	(2)	
Total Stockholder Transaction Expenses	%	%
Annual Expenses (as a percentage of net assets attributable to common stock) ⁽³⁾		
Management Fees	None ⁽⁴⁾	1.53% ⁽⁵⁾
Interest Payments on Borrowed Funds (6)	0.02%	0.02%
Other Expenses	3.51%	1.87% ⁽⁷⁾
Total Annual Expenses (annualized)	3.53%	3.42%

- (1) *In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.*
- (2) *The expenses of our dividend reinvestment plan are included in stock record expenses, a component of other expenses. We have no cash purchase plan.*
- (3) *Consolidated net assets attributable to common shares equal our net assets (i.e., total assets less total liabilities) at March 31, 2004.*
- (4) *We are currently internally managed by our officers and employees and pay no management fees. See the "Stock Option Grants and Exercises," "Employment Agreements" and "Compensation of Directors" sections of this prospectus regarding our Amended and Restated 2001 Equity Incentive Plan.*
- (5) *This amount represents management fees under the proposed advisory agreement with Gladstone Management, which will be 1.25% of total assets (as reduced by cash and cash equivalents pledged to creditors) per year, and assumes the continued growth of our assets through future investments, which may be funded by leverage.*
- (6) *We have entered into two revolving credit facilities, under which our aggregate borrowing capacity is \$115 million. We have drawn down on these credit facilities and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of our senior securities. Assuming that we borrowed \$115 million at an interest rate of 2.6%, interest payments on borrowed funds would have been, current and pro forma, 2.33% as of March 31, 2004.*
- (7) *This amount includes an administrative fee under the proposed advisory agreement with Gladstone Management, which will be 0.75% of total assets (as reduced by cash and cash equivalents pledged to creditors) per year, and assumes the continued growth of our assets through future investments, which may be funded by leverage. This amount also includes direct expenses such as directors fees, legal and accounting fees, and stockholder related expenses that we will continue to pay following the externalization of our management.*

Example

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The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock under our current internal management structure and pro forma for our proposed external management of the Company by Gladstone Management Corporation. These amounts are based upon our payment of operating expenses at the levels set forth in the table above which, as indicated above,

does not include leverage or related expenses. In the event that the shares to which this prospectus relates are sold to or through underwriters, the corresponding prospectus supplement will restate this example to reflect the applicable sales load.

You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return:

	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
Current	\$36	\$108	\$183	\$380
Pro Forma	\$34	\$105	\$178	\$370

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. Moreover, while the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares purchased by the plan administrator at the market price in effect at that time, which may be at, above or below net asset value. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

RISK FACTORS

The purchase of our securities involves a number of significant risks and other factors relating to our structure and investment objectives. As a result, we cannot assure you that we will achieve our investment objectives. You should consider carefully the following information before making an investment in our securities.

We are dependent upon our key management personnel for our future success, particularly David Gladstone, George Stelljes III and Terry Lee Brubaker.

We are dependent on the diligence, skill and network of business contacts of our senior management and other management members for the final selection, structuring, closing and monitoring of our investments. Our future success depends to a significant extent on the continued service and coordination of our senior management team, particularly David Gladstone, our chairman and chief executive officer, George Stelljes III, our president and chief investment officer, and Terry Lee Brubaker, our vice chairman and chief operating officer. The departure of any of our executive officers or key employees could have a material adverse effect on our ability to implement our business strategy and to achieve our investment objectives.

Our financial condition and results of operations will depend on our ability to effectively manage our future growth.

Our ability to achieve our investment objectives will depend on our ability to sustain continued growth, which will depend on our ability to identify, evaluate, finance and invest in suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our marketing capabilities, our management of the investment process, our ability to provide competent, attentive and efficient services and our access to financing sources on acceptable terms. As we grow, we will also be required to hire, train, supervise and manage new employees. Failure to effectively manage our future growth could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us and make the types of investments that we seek to make in small and medium sized privately owned businesses. We compete with a large number of private equity funds, leveraged buyout funds and venture capital funds, investment banks and other equity and non-equity based investment funds, and other sources of financing, including traditional financial services companies such as commercial banks. 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, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. Furthermore, many of our potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We cannot assure you that the competitive pressures we face will not 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 there can be no assurance that we will be able to identify and make investments that satisfy our investment objectives or that we will be able to fully invest our available capital.

Our business model is dependent upon the development of strong referral relationships with leveraged buyout funds and venture capital funds.

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

Our loans to small and medium sized borrowers are extremely risky and you could lose your entire investment.

Loans to small and medium sized borrowers are subject to a number of significant risks including the following:

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 borrowers that typically is not readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the borrowers to repay their loans to us upon maturity. A borrower's ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. A deterioration in a borrower's financial condition and prospects usually will be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guarantees we may have obtained from the borrower's management. 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 borrowers 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 make loans to privately owned businesses, there is generally little or no publicly available operating and financial information about our potential borrowers. As a result, we rely on our officers, other employees and consultants to perform due diligence investigations of these borrowers, 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 borrowers 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 are likely to have greater exposure to economic downturns than larger businesses. We expect that our borrowers will have fewer resources than larger businesses and an economic downturn is more likely to have a material adverse effect on them. If one of our borrowers is adversely impacted by an economic downturn, its ability to repay our loan would be diminished.

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. Borrowers with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

We may not realize gains from our equity investments.

When we make a subordinated loan, we generally expect to receive warrants to purchase stock issued by the borrower. 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 will offset any losses we experience on loan defaults. However, the warrants we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests and any gains we do recognize on the disposition of equity interests may not be sufficient to offset losses we experience on our loan portfolio.

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

We expect that very few, if any, of our portfolio loans or equity securities, at least initially, will be publicly traded or have a readily determinable market value. We value these securities based on a determination of their fair value, based on recommendations provided by Standard & Poor's Loan Evaluation Service ("S&P") and approved by our board of directors. Due to the uncertainty inherent in valuing these securities, our determinations of fair value may differ materially from the values that we could receive if we were to dispose of such securities. Our net asset value could be materially affected if our determinations regarding the fair value of our investments are materially different from the values that we ultimately realize on our disposal of such securities.

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

Most of our investments presently consist of, and will continue to consist of, loans and warrants acquired in private transactions directly from borrowers or from the originators of loans to such borrowers. Substantially all of the investments we presently hold are, and the investments we expect to acquire in the future will be, subject to restrictions on resale, including, in some instances, legal restrictions, or 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 business opportunities. In addition, if we are required to quickly liquidate all or a portion of our portfolio, we may realize significantly less than the value at which we have previously recorded our investments.

Our portfolio will be 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.

We intend to have outstanding loans to approximately 20 to 40 companies at any given time. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such loans or a substantial writedown 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% 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% of the value of our total assets. As a result, a downturn in an industry in which we have made multiple loans could have a materially adverse effect on us.

Our business plan is dependent upon external financing which may expose us to risks associated with leverage.

Our business will require a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

Senior Securities. We intend to issue debt securities, other evidences of indebtedness and possibly preferred stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a business development company, to issue debt securities and preferred stock, to which we refer collectively as senior securities, in amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of senior securities. As a result of issuing senior securities, we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock if we borrow 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 dividends or incur additional indebtedness would be restricted if our asset coverage is not at least twice our indebtedness. If the value of our assets declines, we might be unable to satisfy that test. If this happens, we may be required to liquidate a portion of our loan portfolio and repay a portion of our indebtedness at a time when a sale may be disadvantageous. Furthermore, any amounts that we use to service our indebtedness will not be available for distributions to our stockholders.

Common Stock. Because we are constrained in our ability to issue debt for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock or debt securities convertible into or exchangeable for our common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and they may experience dilution. In addition, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock.

Securitization. In addition to issuing securities to raise capital as described above, we anticipate that in the future we will securitize our loans to generate cash for funding new investments. An inability to successfully securitize our loan portfolio could limit our ability to grow our business, fully execute our business strategy and impact our profitability. Moreover, successful securitization of our loan portfolio might expose us to losses as the loans in which we do not plan to sell interests will be those that are riskier and more apt to generate losses.

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 lending 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. Certain of our borrowings may be at fixed rates and others at variable rates. Ultimately, we expect approximately 50% of the loans in our portfolio to be at fixed rates and approximately 50% to be at variable rates determined on the basis of a benchmark prime rate. As of March 31, 2004, our portfolio had approximately 53% of the total of the loan portfolio cost value at fixed rates, approximately 35% of the total of the loan portfolio cost value at variable rates with a floor and the remaining 12% at variable rates. We will typically seek to hedge against the risk of adverse movement in interest rates on our borrowings relative to our portfolio of assets. As required by our revolving credit facility, we hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts. 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 hedging transactions could have a material adverse effect on our business, financial condition and results of operations.

Our credit facilities imposes certain limitations on us.

We will have a continuing need for capital to finance our loans. In order to maintain RIC status, we will be required to distribute to our stockholders at least 90% of our ordinary income and short-term capital gains on an annual basis. Accordingly, such earnings will not be available to fund additional loans. Therefore, we have entered into a credit agreement arranged by CIBC World Markets Corporation as the structuring agent. The agreement provides us with a revolving credit line facility of \$100 million. We also have entered into a \$15 million short term revolving line of credit with Branch Banking and Trust ("BB&T"). In the future, these credit lines will be replaced with the proceeds we may receive from securitizing some or all of the loans in our portfolio for long term funding. These credit lines will permit us to fund additional loans and investments as long as we are within the conditions set out in the credit agreement.

As a result of these facilities, we are subject to certain limitations including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, and average life.

Our failure to satisfy these limitations could result in the foreclosure by our lenders which would have a material adverse effect on our business, financial condition and results of operations.

Our investments will typically be long term and it may require several years to realize liquidation events.

Since we generally intend to make five to seven year term loans and to hold our loans and related warrants 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 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.

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

To maintain our qualification as a RIC, we must meet income source, asset diversification and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. Because we intend to use leverage, we are subject to certain asset coverage ratio requirements under

the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create "original issue discount," which we must recognize as ordinary income, increasing the amounts we are required to distribute to maintain RIC status. Because such warrants will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we will need to use cash from other sources to satisfy such distribution requirements. The asset diversification requirements must be met at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our shares. For additional information regarding asset coverage ratio and RIC requirements, see "Business Leverage," and "Regulation."

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

Our executive officers and directors may serve as officers and directors of entities that operate in the same or similar lines of business as we do. 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. It is possible that new investment opportunities that meet our investment objectives may come to the attention of one of our executive officers or directors, such as Mr. Gladstone, in his role as an officer or director of another entity, and, if so, such opportunity might not be offered, or otherwise made available, to us.

If our primary investments are deemed not to be qualifying assets, we could lose our status as a business development company or be precluded from investing according to our current business plan.

If we are to maintain our status as a business development company, we must not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. If we acquire senior loans, mezzanine debt or equity securities from an issuer which has outstanding marginable securities at the time we make an investment, these acquired assets cannot be treated as qualifying assets. (See "Regulation Business Development Company Qualifying Assets.") This results from the definition of "eligible portfolio company" under the 1940 Act, which in part looks to whether a company has outstanding marginable securities.

Amendments promulgated in 1998 by the Board of Governors of the Federal Reserve System to Regulation T under the Securities Exchange Act of 1934, as amended, or the Exchange Act, expanded the definition of marginable security to include any non-equity security. These amendments have raised questions as to whether a private company that has outstanding debt would qualify as an eligible portfolio company.

We believe that substantially all of the senior loans, subordinated loans and equity securities that we hold and propose to acquire in the future should constitute qualifying assets because our current borrowers did not, and our expected future borrowers will not, at the time of our investment, have outstanding marginable securities. First, we have historically made, and expect to continue to make, a large portion of our senior loan and subordinated loan investments on terms and in circumstances such that those investments should not under existing legal precedent be "securities" under the Exchange Act and therefore should not be marginable securities under Regulation T. Second, we believe that should a different position be taken such that those investments may be securities, they should still not be marginable securities. In particular, debt instruments that do not trade in a public secondary market

or are not rated investment grade are not margin eligible securities under the rules established by the self-regulatory organizations, including the New York Stock Exchange and National Association of Securities Dealers, that govern the terms on which broker-dealers may extend margin credit. Until the questions raised by the amendments to Regulation T have been addressed by legislative, administrative or judicial action, we intend to treat as qualifying assets only those senior loans and subordinated loans that are not investment grade, do not have a public secondary market, and are issued by a private issuer that does not have outstanding a class of margin eligible securities at the time of our investment. Likewise, we will treat equity securities issued by a portfolio company as qualifying assets only if such securities are issued by a private company that has no marginable securities outstanding at the time we purchase such securities.

To date, we do not believe that either the Securities and Exchange Commission or its staff has taken any position with respect to our analysis of the issues discussed above. We intend to adjust our investment focus as needed to comply with and/or take advantage of any future administrative position, judicial decision or legislative action.

If there were a court ruling or regulatory decision that conflicts with our interpretations, we could lose our status as a business development company or be precluded from investing in the manner described in this prospectus. This in turn could cause us to lose our status as a RIC. Any of these results would have a material adverse effect on our ability to invest in the manner described in this prospectus, on our operating results, financial condition and ability to pay dividends, and on the value of our common stock. For information regarding the consequences of failure to qualify as a RIC, see " We will be subject to corporate level income tax if we are unable to satisfy Internal Revenue Code requirements for RIC qualification."

Such a ruling or decision also may require that we dispose of investments that we made based on our interpretation of Regulation T. Such dispositions could have a material adverse effect on us and our stockholders. We may need to dispose of such investments quickly, which would make it difficult to dispose of such investments on favorable terms. In addition, because these types of investments will generally be illiquid, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss. See " The lack of liquidity of our privately held investments may adversely affect our business."

Changes in laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies will be subject to regulation by laws at the local, state and federal level. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations could have a material adverse impact on our business. For additional information regarding the regulations to which we are subject, see "Regulation."

We may experience fluctuation in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors including, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. 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 dividends or that our dividends may not grow over time.

Our current intention is to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on a quarterly basis. We expect to retain net realized long-term capital gains 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. 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 or year-to-year increases in cash distributions.

Failure to deploy capital may reduce our return on equity.

In the past, we have experienced delays in investing the proceeds of our initial public offering, which closed on August 29, 2001, as compared to the original timetable that we expected at the time of our initial public offering. Because of this slower pace of investing, we did not substantially fully invest the net proceeds of our initial public until the fourth quarter of fiscal 2003. If we fail to invest our capital effectively in the future, our return on equity may be negatively impacted, which could result in a decline in the market price of our common stock.

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

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments that we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in government securities, pending their future investment in new debt securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Provisions of our articles of incorporation and bylaws could deter takeover attempts and adversely impact the price of our shares.

Our articles of incorporation and bylaws and the Maryland General Corporation Law contain provisions that may have the effect of discouraging, delaying or making more difficult a change in control and preventing the removal of incumbent directors. The existence of these provisions may negatively impact the price of our shares and may discourage third-party bids. These provisions may reduce any premiums paid to you for our shares. Furthermore, we are subject to Section 3-602 of the Maryland General Corporation Law which governs business combinations with interested stockholders and could delay or prevent a change in control. In addition, our board of directors is elected in staggered terms which makes it more difficult for a hostile bidder to acquire control of us.

The market price of our shares may fluctuate significantly.

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 the following:

price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;

significant volatility in the market price and trading volume of shares of RICs, business development companies or other companies in our sector, which is not necessarily related to the operating performance of these companies;

changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

loss of BDC status;

loss of RIC status;

changes in our earnings or variations in our operating results;

changes in the value of our portfolio of investments;

any shortfall in our revenue or net income or any increase in losses from levels expected by securities analysts;

departure of key personnel;

operating performance of companies comparable to us;

short-selling pressure with respect to our shares or business development companies generally;

general economic trends and other external factors; 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.

Shares of closed-end investment companies frequently trade at a discount from net asset value.

Shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our net asset value per share will decline. It is not possible to predict whether our common stock will trade at, above, or below net asset value.

Our engagement of Gladstone Management Corporation could have a material adverse effect on our results of operations.

On February 17, 2004, our stockholders approved an investment advisory agreement between Gladstone Management Corporation and Gladstone Capital, whereby we would transition from being an internally managed company to an externally managed one. We expect this transition to occur later in fiscal year 2004, but we cannot determine with certainty when it will occur. Under the terms of the proposed advisory agreement, we would be required to pay Gladstone Management an annual advisory fee of 1.25% of our total assets and an annual administrative fee of 0.75% of our total assets. Under the terms of the proposed advisory agreement, we would continue to pay direct expenses including, but not limited to, directors fees, legal and accounting fees, and stockholder related expenses. Following the transition, the managerial assistance services that we have historically made available to our portfolio companies will be provided by Gladstone Management, and Gladstone Management will receive substantially all of the fees associated with such services. We believe that the transition to external management will thus result in the reduction of managerial assistance fee revenues, and may increase our operating expenses, which could have a material adverse effect on our results of operations. For additional information, see "Business Investment Adviser."

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

As of June 30, 2004 we have 10,113,444 shares of common stock outstanding, of which 9,865,701 are freely tradable without restriction. The remaining 247,743 shares are held by officers and directors, all of which may currently be resold publicly in compliance with the volume limitations and other restrictions of Rule 144 under the Securities Act. We have also registered for public resale 1,351,668 shares under our Amended and Restated 2001 Equity Incentive Plan (631,670 of which have already been issued upon option exercises and are included in the total 9,865,701 freely tradable shares described above). All of these shares are now freely tradable without restriction, although certain of the options have not yet been granted and a portion of the options that have been granted are not yet vested and the shares underlying such options will, accordingly, not be eligible for resale until vested. Sales of substantial amounts of our common stock in the public market, pursuant to such registration, under Rule 144 or otherwise, or the availability of such shares for sale, could adversely affect the prevailing market prices for our common stock. If this occurs, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus, other than historical facts, may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, which we refer to as the Securities Act, and Section 21E of the Exchange Act. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

Such factors include, among others: (1) adverse changes in interest rates; (2) our failure or inability to establish or maintain referral arrangements with leveraged buyout funds and venture capital funds to generate loan opportunities; (3) the loss of one or more of our executive officers, in particular Mr. Gladstone, Mr. Brubaker or Mr. Stelljes; (4) our inability to maintain a credit facility on terms reasonably acceptable to us, if at all; (5) our inability to successfully securitize our loan portfolio on terms reasonably acceptable to us, if at all; (6) the decision of our competitors to aggressively seek to make senior and subordinated loans to small and medium-sized businesses on terms more favorable than we intend to provide; (7) increases in operating expenses resulting from our proposed engagement of Gladstone Management Corporation to serve as our external investment adviser; and (8) those factors described in the "Risk Factors" section of this prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus.

USE OF PROCEEDS

Unless otherwise specified in the prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of securities for general corporate purposes, which may include investments in debt securities of small and medium sized businesses in accordance with our investment objectives, repayment of any indebtedness that we may have used to make investments and other general corporate purposes.

We anticipate that we will utilize substantially all of the net proceeds of any offering of securities in the manner described above within six months of the offering, and in any event within two years. Pending such utilization, we intend to invest the net proceeds of any offering of securities in money market instruments. We can not guarantee that we will be able to achieve our targeted investment pace.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We have distributed, and currently intend to continue to distribute in the form of dividends, a minimum of 98% of our investment company taxable income including 98% of our net realized short-term capital gains, if any, to our stockholders. For fiscal years 2002 and 2003, we made such distributions on a quarterly basis. Beginning with the first quarter of fiscal 2004, we began, and currently intend to continue, making such distributions on a monthly basis. Net realized long-term capital gains may be retained and treated as a distribution for federal tax purposes, to supplement our equity capital and support growth in our portfolio, unless our board of directors determines in certain cases to make a distribution. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of our common stock, all cash distributions can be reinvested automatically through our dividend reinvestment plan in additional whole and fractional shares. A stockholder whose shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in the dividend reinvestment plan on the stockholder's behalf. For additional information, see "Risk Factors We will be subject to corporate level tax if we are unable to satisfy Internal Revenue Code requirements for RIC qualification" and "Dividend Reinvestment Plan."

Our common stock is traded on the Nasdaq National Market under the symbol "GLAD." Our common stock has historically traded at prices above its net asset value. There can be no assurance, however, that such premium to net asset value will be maintained. The following table reflects, by quarter, the high and low closing prices per share of our common stock on the Nasdaq National Market and the dividends we have declared for the last two completed fiscal years and the current fiscal year through July 15, 2004.

	Net Asset Value per share (1)	High	Low	Premium of High to Net Asset Value(2)	Premium of Low to Net Asset Value(2)	Dividend Declared(3)
FY 2002						
First Quarter	\$ 12.98	\$ 19.10	\$ 15.90	\$ 6.12	\$ 2.92	\$ 0.18
Second Quarter	\$ 12.91	\$ 18.05	\$ 16.60	\$ 5.14	\$ 3.69	\$ 0.21
Third Quarter	\$ 12.91	\$ 19.52	\$ 17.10	\$ 6.61	\$ 4.19	\$ 0.21
Fourth Quarter	\$ 12.97	\$ 18.74	\$ 16.00	\$ 5.77	\$ 3.03	\$ 0.21
FY 2003						
First Quarter	\$ 12.98	\$ 17.00	\$ 14.90	\$ 4.02	\$ 1.92	\$ 0.23
Second Quarter	\$ 13.09	\$ 16.78	\$ 15.55	\$ 3.69	\$ 2.46	\$ 0.25
Third Quarter	\$ 13.04	\$ 20.50	\$ 16.25	\$ 7.46	\$ 3.21	\$ 0.29
Fourth Quarter	\$ 12.97	\$ 20.52	\$ 18.76	\$ 7.55	\$ 5.79	\$ 0.33
FY 2004						
First Quarter	\$ 12.79	\$ 22.84	\$ 19.55	\$ 10.05	\$ 6.76	\$ 0.33
Second Quarter						