

PARRA ROSENDO G  
Form 4  
January 03, 2013

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2005  
Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
PARRA ROSENDO G

2. Issuer Name and Ticker or Trading Symbol  
BRINKER INTERNATIONAL INC [EAT]

5. Relationship of Reporting Person(s) to Issuer  
(Check all applicable)

(Last) (First) (Middle)  
3725 HUNTERWOOD POINT  
(Street)

3. Date of Earliest Transaction (Month/Day/Year)  
01/02/2013

Director  10% Owner  
 Officer (give title below)  Other (specify below)

AUSTIN, TX 78746  
(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
Common Stock	01/02/2013		A	2,658	A \$ 0	47,178	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

Edgar Filing: PARRA ROSENDO G - Form 4

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 5)
--	--	--------------------------------------	--	--------------------------------	---	--	---	--	---

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PARRA ROSENDO G 3725 HUNTERWOOD POINT AUSTIN, TX 78746		X		

## Signatures

Bryan D. McCrory, Attorney-in-fact for Rosendo G. Parra  
 Signature: \_\_\_\_\_ Date: 01/03/2013

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).  
 \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).  
 Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.  
 Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. Director Stock Option (right to buy) \$ 1.7212/03/2007 M 35,000 (1)09/19/2013  
 Common Stock 35,000 \$ 0 171,423 D

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
EMANUEL BARRY COPEN ASSOC ONE WEST 37TH ST 10TH FLR NEW YORK, NY 10018		X		

## Signatures

/s/ Deborah Sorell Stehr,  
attorney-in-fact

12/04/2007

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) The option reported originally provided for the purchase of 250,000 shares and vested as to 175,000 on 09/19/2003 and as to the remaining 75,000 on 09/19/2004.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. It may be exercisable during an optionee's lifetime only by the optionee.

Our compensation committee administers the 2001 Plan and has the authority, subject to the provisions of the 2001 Plan, to determine who will receive awards under the 2001 Plan and the terms of such awards. Our compensation committee will have the authority to adjust the number of shares available for options, the number of shares subject to outstanding options and the exercise price for options following the occurrence of events such as stock splits, dividends, distributions and recapitalizations. Our compensation committee may lower the exercise price for any outstanding stock options, or may issue replacement options for options previously granted at a higher exercise price.

If authorized by our compensation committee, the exercise price of an option may be paid in the form of shares of stock that are already owned by a participant. Our compensation committee also may provide that if an employee delivers shares of stock in full or partial payment of the exercise price of his or her stock option, the employee will be granted a "reload stock option" to purchase that number of shares of stock delivered by the employee. A reload stock option is the grant of a new stock option to the employee covering the same number of shares that such employee tendered in payment of the

exercise price with respect to his or her original stock option. Under the terms of the 2001 Plan, this reload option shall have the same expiration date as the original stock option, an exercise price that is equal to the fair market value of our stock on the date of the original stock option exercise, and shall be designated as either an incentive stock option or nonstatutory stock option on the date of grant of the original stock option.

In addition, our compensation committee may permit a "cashless exercise" arrangement whereby an optionee may exercise a portion of his or her option by surrendering a portion of his or her option having a fair value equal to the aggregate exercise price of the portion of the option being exercised. If an option holder elects to make a cashless exercise of a portion of his or her option, he or she will receive upon exercise shares having an aggregate fair market value equal to the product of (1) the excess of the fair market value of a share on the exercise date over the exercise price and (2) the number of shares covered by the option.

Our compensation committee also may provide that certain optionees may pay the exercise price of their options with a promissory note. If an option holder elects to pay the exercise price of his or her option with a promissory note, interest on the note will accrue at a commercially reasonable market rate and the note will be subject to such other repayment terms and conditions as established by our compensation committee. We have from time to time permitted our employees, including our executive officers, to exercise options by promissory note in the past. However, the Sarbanes-Oxley Act of 2002 effectively prohibits us from making loans to our executive officers for exercising options in the future, although loans outstanding prior to July 30, 2002 including the promissory notes we have received from certain of our executive officers were explicitly exempted from this prohibition. Furthermore, prior to permitting non-employee directors to exercise their options with a promissory note, we would be required to receive an order from the SEC permitting such a loan on the basis that the terms of the loan are fair and reasonable and not overreaching. We currently do not intend to apply for such an order from the SEC.

#### *Restricted Stock*

Participants in the 2001 Plan may be provided with an opportunity to purchase restricted stock. These shares may be subject to a time-based vesting schedule, or the attainment of performance goals established by our compensation committee. The purchase price for restricted stock will not be less than the fair market value of our stock on the date of purchase. Upon a participant's termination of service with us, we may have the option to repurchase the unvested shares of stock at the original purchase price paid by a participant for such shares, if any. The specific terms and conditions of restricted stock purchases shall be governed by individual agreements in a form approved by our compensation committee. Restricted stock purchased under the 2001 Plan is transferable if so determined by our compensation committee in its discretion.

#### *Corporate Transactions and Change in Control Provisions*

Upon specified corporate transactions, as defined in the 2001 Plan, all outstanding awards under the 2001 Plan may either be assumed or substituted for by the surviving entity. If the surviving entity does not assume or substitute similar awards, the awards held by the participants whose continuous service has not terminated prior to the corporate transaction will be accelerated in full and then terminated to the extent not exercised prior to the corporate transaction. With respect to any other awards which are not assumed or substituted and are held by participants whose continuous service has terminated on or prior to the corporate transaction, such awards will not be accelerated unless otherwise provided in a written agreement between us, or any of our affiliates, and the participant.

Upon a change in control, as defined in the 2001 Plan, awards held by participants whose continuous service has not terminated prior to the change in control shall be subject to additional

acceleration of vesting, but only to the extent as provided in any written agreement between us, or any of our affiliates, and the participant.

#### *Federal Tax Consequences*

The following is a brief summary of the federal income tax aspects of stock options and restricted stock purchase rights available for grant under the 2001 Plan based upon the federal income tax laws in effect on the date hereof. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

*ISOs.* No taxable ordinary income is realized by the participant upon the grant or exercise of an ISO. If shares of stock are issued to a participant pursuant to the exercise of an ISO, and if no disqualifying disposition of the shares is made by the participant within two years of the date of grant or within one year after the transfer of the shares to the participant, then: (i) upon the sale of the shares, any amount realized in excess of the option price will be taxed to the participant as a long-term capital gain, and any loss sustained will be a capital loss, and (ii) no deduction will be allowed to us for federal income tax purposes. The exercise of an ISO will give rise to an item of tax preference that may result in an alternative minimum tax liability for the participant unless the participant makes a disqualifying disposition of the shares received upon exercise.

If stock acquired upon the exercise of an ISO is disposed of prior to the expiration of the holding periods described above, then generally: (1) the participant will realize ordinary income in the year of disposition in an amount equal to the excess, if any, of the fair market value of the shares at exercise (or, if less, the amount realized on the disposition of the shares) over the option price paid for such shares, and (2) we will be entitled to deduct any such recognized amount. Any further gain or loss realized by the participant will be taxed as short-term or long-term capital gain or loss, as the case may be, and will not result in any deduction by us. Subject to certain exceptions for disability or death, if an ISO is exercised more than three months following the termination of the participant's employment, the option will generally be taxed as a nonstatutory stock option.

*Nonstatutory Stock Options.* With respect to nonstatutory stock options: (1) no income is realized by the participant at the time the option is granted; (2) generally upon exercise of the option, the participant realizes ordinary income in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares on the date of exercise and we will be entitled to a tax deduction in the same amount; and (3) at disposition, any appreciation (or depreciation) after date of exercise is treated either as short-term or long-term capital gain (or loss), depending upon the length of time that the participant has held the shares.

*Restricted Stock Awards.* To the extent a participant's restricted stock award is fully vested and is not subject to our repurchase option, the participant will recognize taxable ordinary income equal to any excess of the stock's fair market value on the purchase date over the purchase price. In contrast, to the extent all of a participant's restricted stock award is subject to a vesting schedule and is subject to our repurchase option, no income tax with respect to such stock will be recognized at the time of purchase unless the participant files a Section 83(b) election. Instead, as and when the shares vest, ordinary income equal to the excess, if any, of the then fair market value of the stock over the participant's purchase price, will be recognized. Generally, we will be entitled to a tax deduction equal to the amount of ordinary income recognized by the participant.

#### **Certain Transactions**

At March 31, 2004, we had loans outstanding in the principal amount of \$5,900,010 to Mr. Gladstone, \$1,400,010 to Mr. Brubaker and \$150,000 to Mr. Brill, each of whom is an executive officer. These loans were extended in connection with the exercise of stock options by each of the executive officers. Each such loan is evidenced by a full recourse promissory note secured by the shares

of common stock purchased upon the exercise of the options. The interest rate on each such loan is 4.9% per annum. Interest is due quarterly and each of the executive officers has made each of his quarterly interest payments to date. The outstanding principal amount of each loan is due and payable in cash on August 23, 2010. The Sarbanes-Oxley Act of 2002 effectively prohibits us from making loans to our executive officers for exercising options in the future, although loans outstanding prior to July 30, 2002 including the promissory notes we have received from Messrs. Gladstone, Brubaker and Brill were explicitly exempted from this prohibition.

During the fiscal years ended September 30, 2002 and 2003, we paid an aggregate of \$31,750 and \$6,894, respectively, in personnel referral fees to Medical Funding Corporation, which operates a franchise of Snelling Personnel Agency. Anthony Parker, a non-employee director, is the founder, president and chairman of Medical Funding Corporation. We believe that the terms of the arrangement between us and Medical Funding Corporation are no less favorable than we would be able to obtain from a disinterested third party. The rates that Medical Funding Corporation charges to us are the same as it charges to its unaffiliated clients.

In our articles of incorporation and bylaws, we have agreed to indemnify certain officers and directors by providing, among other things, that we will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party by reason of his or her position as our director, officer or other agent, to the fullest extent permitted under Maryland law and our bylaws. Notwithstanding the foregoing, the indemnification provisions shall not protect any officer or director from liability to us or our stockholders as a result of any action that would constitute willful misfeasance, bad faith or gross negligence in the performance of such officer's or director's duties, or reckless disregard of his or her obligations and duties.

**CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

The following table sets forth certain ownership information with respect to our common stock as of June 30, 2004 for those persons who directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock, each of our executive officers and directors and all of our executive officers and directors, as a group. The ownership amounts set forth in the table also include shares underlying options that have been granted and are exercisable within 60 days.

Name and Address	Beneficial Ownership(1)	
	Number of Shares	Percent of Total
David Gladstone (2)	1,012,193	9.62%
Ruane, Cunniff & Co., Inc. (3) 767 Fifth Avenue New York, NY 10153-4798	692,929	6.85%
Fairholme Capital Management, L.L.C. (4) 51 JFK Parkway Short Hills, NJ 07078	675,354	6.68%
Terry Lee Brubaker (5)	226,876	2.22%
George Stelljes III (6)	152,000	1.48%
Anthony W. Parker (7)	28,214	*
David A.R. Dullum (8)	27,000	*
Michela A. English (9)	16,000	*
Paul W. Adelgren (10)	10,000	*
Maurice W. Coulon		*
John H. Outland		*
All directors and executive officers as a group (10 persons) (11)	1,522,283	13.98%

\*  
Less than 1%

(1) This table is based upon information supplied by officers, directors and principal stockholders. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 10,113,444 shares outstanding on June 30, 2004, adjusted as required by rules promulgated by the SEC.

(2) Includes 406,666 shares underlying options that are exercisable within 60 days of the date of this prospectus.

(3) This information has been obtained from a Schedule 13G/A filed by Ruane, Cunniff & Co. with the SEC on February 13, 2004. According to the Schedule 13G/A, Ruane, Cunniff & Co. had sole voting power with respect to 644,039 of the 692,929 shares reported as beneficially owned.

Edgar Filing: PARRA ROSENDO G - Form 4

(4)

This information has been obtained from a Schedule 13G filed by Fairholme Capital Management, L.L.C. ("FCM") with the SEC on February 4, 2004. According to the Schedule 13G, FCM had sole voting power with respect to 233,927 of the 675,354 shares reported as beneficially owned.



## Edgar Filing: PARRA ROSENDO G - Form 4

- (5) Includes 106,666 shares underlying options that are exercisable within 60 days of the date of this prospectus.
- (6) Includes 150,000 shares underlying options that are exercisable within 60 days of the date of this prospectus.
- (7) Includes 25,000 shares underlying options that are exercisable within 60 days of the date of this prospectus.
- (8) Includes 25,000 shares underlying options that are exercisable within 60 days of the date of this prospectus.
- (9) Includes 15,000 shares underlying options that are exercisable within 60 days of the date of this prospectus.
- (10) Includes 10,000 shares underlying options that are exercisable within 60 days of the date of this prospectus.
- (11) Includes an aggregate of 778,332 shares underlying options that are exercisable within 60 days of the date of this prospectus.

## REGULATION

We are a closed-end, non-diversified, management investment company that has elected to be regulated as a business development company 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 business development companies 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 business development company unless approved by a majority of our outstanding voting securities.

### Regulated Investment Company

In order to maintain the qualification for treatment as a RIC under Subchapter M of the Code, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our ordinary income plus short-term capital gains. We refer to this as the annual distribution requirement. We must also meet several additional requirements, including:

*Income source requirements.* At least 90% 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

*Asset diversification requirements.* As of the close of each quarter of our taxable year: (1) at least 50% of the value of our assets must consist of cash, cash items, US government securities, the securities of other regulated investment companies and other securities to the extent that (a) we do not hold more than 10% 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% of our total assets, and (2) no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than US 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.

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 ordinary 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 tax basis, and then as a gain realized from the sale or exchange of property. If we fail to meet the RIC requirements in our first taxable year or, with respect to later years, for more than two consecutive years and then seek to requalify as a RIC, we would be required to recognize gain to the extent of any unrealized appreciation on our assets unless we make a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period. Absent such special election, any gain we recognized would be deemed distributed to our stockholders as a taxable distribution. If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90% 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% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, 98% of our income, including both ordinary income and capital gains. The excise tax would apply only to the amount by which 98% of our income exceeds 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%, on any undistributed income, including both ordinary income and capital gains. We intend to retain some or all of our capital gains, but to designate the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each stockholder will be required to include its share of the deemed distribution in income as if it had been actually distributed to the stockholder and the stockholder will be entitled to claim a credit or refund equal to its allocable share of the tax we pay on the retained capital gain. The amount of the deemed distribution net of such tax will be added to the stockholder's cost basis for its common stock. Since we expect to pay tax on any retained capital gains at our regular corporate capital gain tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid will exceed the tax they owe on the capital gain dividend and such excess may be claimed as a credit or refund against the stockholder's other tax obligations. A stockholder that is not subject to US federal income tax or tax on long-term capital gains would be required to file a US federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to the stockholders prior to the expiration of 60 days after the close of the relevant tax year. We will also be subject to alternative minimum tax, but any tax preference items would be apportioned between us and our stockholders in the same proportion that dividends, other than capital gain dividends, paid to each stockholder bear to our taxable income determined without regard to the dividends paid deduction. If we acquire debt obligations that were originally issued at a discount, which would generally include loans we make that are accompanied by warrants, 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" that accrues over the life of the obligation. Such original issue discount will be included in our investment company taxable income even though we receive no cash corresponding to such discount amount. As a result, we may be required to make additional distributions corresponding to such original issue discount amounts in order to satisfy the annual distribution requirement and to continue to qualify as a RIC or to avoid the 4% excise tax. In this event, we may be required to sell temporary investments or other assets to meet the RIC distribution requirements.

For any period during which we qualify for treatment 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. 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, designated 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% dividends received deduction with respect to ordinary income, but not to capital gains dividends to the extent such amount designated 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 to relate a dividend back to the prior taxable year if we (1) declare such dividend prior to the due date for filing our return for that 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 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.

The recently signed "Jobs and Growth Tax Relief Reconciliation Act of 2003" did not alter the tax rates applicable to our dividends that we pay to stockholders. Accordingly, dividends paid from our investment company taxable income are not eligible for the lower tax rates currently applicable to certain dividends paid to individuals.

### **Business Development Company**

We intend to conduct our business so as to retain our status as a business development company. In general, a business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1) or (2) below.

*Qualifying Assets.* Under the 1940 Act, a business development company 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 represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are 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, first, is organized under the laws of, and has its principal place of business in, the United States. Second, the issuer must not be an investment company, other than a small business investment company wholly-owned by the business development company. Finally, the issuer may not have any class of securities with respect to which a broker or dealer may extend margin credit. See "Risk Factors" 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."

(2) Securities of any eligible portfolio company over which we exercise a controlling influence and for which an affiliate of ours serves as a director.

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

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

Securities of public companies are generally not qualifying assets unless they were acquired in a distribution or in exchange for, or upon the exercise of, a right relating to securities that were qualifying assets.

*Asset Coverage.* We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least 200% immediately after each such issuance. In addition, while senior securities are outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary purposes. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or distribution is made with respect to our common stock or before any purchase of common stock is made, the preferred stock, together with all other senior securities, must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if

any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on the preferred stock are in arrears by two years or more.

*Significant Managerial Assistance.* For portfolio securities to be qualifying assets for the 70% test described above, the business development company must either exercise a controlling influence over the issuer of the securities or must make available to the issuer of the securities significant managerial assistance. However, with respect to certain but not all such securities, where the business development company 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 business development company may exercise such control jointly. Making available significant managerial assistance means, among other things, any arrangement whereby the business development company 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. Following our transition to external management, this managerial assistance will be offered and, if accepted, provided by Gladstone Management.

#### **Determination of Net Asset Value**

The net asset value per share of our outstanding shares is determined quarterly, as soon as practicable after and as of the end of each calendar quarter, by dividing the value of total assets minus liabilities by the total number of shares outstanding at the date as of which the determination is made.

We carry our investments at fair value, based on valuations voted on by our board of directors. A majority of the loan portfolio is reviewed by S&P. S&P provides an independent assessment of the loan portfolio data and assess its own data to determine market values for the securities. Our board of directors votes on whether to accept the valuation recommendations presented by S&P. Securities that are publicly traded, if any, are valued at the closing price on the valuation date (to date there are no publicly traded securities in our 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, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

A substantial portion of our assets will consist of securities carried at fair market value, as determined by our board of directors. Determination of fair market values, for those securities and investments not valued by S&P, involves subjective judgment not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our consolidated financial statements will refer to the uncertainty with respect to the possible effect of such valuations on our financial statements.

#### **Code of Ethics**

As required by the 1940 Act, we have adopted a code of ethics that establishes procedures for personal investments and restricts certain transactions by our personnel and that complies with the guidelines set forth in Item 406 of Regulation S-K of the Securities Act. The code is filed as an exhibit to our registration statement of which this prospectus is a part and is available for review, free of charge, at our website at [www.GladstoneCapital.com](http://www.GladstoneCapital.com).

**US FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of the material US federal income tax considerations applicable to us and to an investment in our common stock and does not purport to be a complete description of the tax considerations applicable to such an investment. You should consult your own tax advisor with respect to the tax considerations which pertain to your purchase of our common stock. This summary is based on the Internal Revenue Code, Treasury regulations thereunder, and administrative and judicial interpretations thereof, each as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This summary does not discuss all aspects of federal income taxation relevant to holders of our common stock in light of their particular circumstances, or to certain types of holders subject to special treatment under federal income tax laws, including:

stockholders who are not citizens or residents of the United States or entities organized under the laws of the United States;

financial institutions;

mutual funds;

a person liable for the alternative minimum tax;

tax-exempt organizations;

insurance companies;

dealers in securities;

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings; or

stockholders who hold our stock as part of an integrated investment such as a hedge, constructive sale, straddle or other risk reduction strategy or as part of a conversion transaction.

This discussion assumes you hold our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This summary does not discuss any aspects of foreign, state, or local tax laws.

We intend to qualify for treatment as a regulated investment company, or RIC, under Subchapter M of the Code. To qualify for such treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our ordinary income plus short-term capital gains, which we refer to as the annual distribution requirement. We must also meet several additional requirements, including:

At least 90% of our gross income for each taxable year must be from dividends, interest, payments with respect to securities loans, gains from sales or other disposition of securities, or other income derived with respect to our business of investing in securities, and

As diversification requirements, as of the close of each quarter of our taxable year:

at least 50% of the value of our assets must consist of cash, cash items, US government securities, the securities of other regulated investment companies and other securities to the extent that (1) we do not hold more than 10% of the outstanding voting securities of an issuer of such other securities and (2) such other securities of any one issuer do not represent more than 5% of our total assets, and

no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than US 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.

## Edgar Filing: PARRA ROSENDO G - Form 4

If we were unable to qualify for treatment as a RIC, we would 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 they be required to be made. Distributions would be taxable to our stockholders as ordinary 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 tax basis, and any remaining distributions would be treated as a gain realized from the sale or exchange of property. If we fail to meet the RIC requirements in our first taxable year or, with respect to later years, for more than two consecutive years and then seek to requalify as a RIC, we would be required to recognize gain to the extent of any unrealized appreciation on our assets unless we make a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period. Absent such special election, any gain we recognized would be deemed distributed to our stockholders as a taxable distribution.

If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90% 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% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, 98% of our income, including both ordinary income and capital gains. The excise tax would apply only to the amount by which 98% of our income exceeds 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%, on any undistributed income, including both ordinary income and capital gains. We intend to retain some or all of our capital gains, but to designate the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each stockholder will be required to include its share of the deemed distribution in income as if it had been actually distributed to the stockholder and the stockholder will be entitled to claim a credit or refund equal to its allocable share of the tax we pay on the retained capital gain. The amount of the deemed distribution net of such tax will be added to the stockholder's cost basis for his or her common stock. Since we expect to pay tax on any retained capital gains at our regular corporate capital gain tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid will exceed the tax they owe on the capital gain dividend and such excess may be claimed as a credit or refund against the stockholder's other tax obligations. A stockholder that is not subject to US federal income tax or tax on long-term capital gains would be required to file a US federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to the stockholders prior to the expiration of 60 days after the close of the relevant tax year. We will also be subject to alternative minimum tax, but any tax preference items would be apportioned between us and our stockholders in the same proportion that dividends, other than capital gain dividends, paid to each stockholder bear to our taxable income determined without regard to the dividends paid deduction.

If we acquire debt obligations that were originally issued at a discount, which would generally include loans we make that are accompanied by warrants, 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" that accrues over the life of the obligation. Such original issue discount will be included in our investment company taxable income even though we receive no cash corresponding to such discount amount. As a result, we may be required to make additional distributions corresponding to such original issue discount amounts in order to satisfy the annual distribution requirement and to continue to qualify as a RIC or to avoid the 4% excise tax. In this

event, we may be required to sell temporary investments or other assets to meet the RIC distribution requirements.

For any period during which we qualify for treatment 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. 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, designated by us as such, will be taxable to stockholders as long-term capital gains regardless of the stockholder's holding period in his or her common stock and regardless of whether paid in cash or invested in additional common stock. Corporate stockholders are generally eligible for the 70% dividends received deduction with respect to ordinary income, but not capital gains dividends to the extent such amount designated 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 to relate a dividend back to the prior taxable year if we (1) declare such dividend prior to the due date for filing our return for that 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 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.

The recently signed "Jobs and Growth Tax Relief and Reconciliation Act of 2003" did not alter the tax rates applicable to our dividends that we pay to stockholders. Accordingly, dividends paid from our investment company taxable income are not eligible for the lower tax rates currently applicable to certain dividends paid to individuals.

A stockholder may recognize taxable gain or loss if the stockholder sells or exchanges such stockholder's shares of our common stock. Any gain arising from the sale or exchange of our common stock generally will be treated as long-term capital gain or loss if the stockholder has held his or her shares of common stock for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from a sale or exchange of shares of common stock held for six months or less will be treated as a long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed distributed, with respect to such shares of common stock.

We may be required to withhold U.S. federal income tax on all taxable distributions payable to stockholders who fail to provide us with their correct taxpayer identification number or a certificate that the stockholder is exempt from backup withholding, or if the IRS notifies us that the stockholder is subject to backup withholding. Any amounts withheld may be credited against a stockholder's U.S. federal income tax liability.

Unless an exception applies, we will mail to each stockholder, as promptly as possible after the end of each fiscal year, a notice detailing, on a per distribution basis, the amounts includible in such stockholder's taxable income for such year as ordinary income and as long-term capital gains, including taxes paid by us with respect thereto. In addition, absent an exemption, the federal tax status of each year's distributions will be reported to the IRS.

Distributions may also be subject to additional state, local and foreign taxes depending on each stockholder's particular situation. You should consult your own tax adviser with respect to the particular tax consequences to you of an investment in our common stock.



## Edgar Filing: PARRA ROSENDO G - Form 4

Under our dividend reinvestment plan, all cash distributions to stockholders will be automatically reinvested in additional whole and fractional shares of our common stock unless you elect to receive cash. Even if you participate in the plan and elect to reinvest dividends, for federal income tax purposes you will be deemed to have received cash and such amounts must be included in your income to the extent such deemed distribution otherwise represents a taxable dividend for the year in which such distribution is credited to your account.

The foregoing discussion is a summary of the principal federal income tax consequences of the ownership, sale or other disposition of our stock. This discussion is not exhaustive, and does not address the tax consequences of ownership, sale or other disposition for all types of stockholders. Accordingly, stockholders are urged to consult their own tax advisors with respect to the income tax consequences of the ownership and disposition of our stock, including the potential applicability of the alternative minimum tax and the application and effect of the laws of any state, local, foreign or other taxing jurisdiction in their particular circumstances.

### DESCRIPTION OF OUR SECURITIES

Our authorized capital stock consists of 50,000,000 shares of capital stock, \$0.001 par value per share, all of which is currently designated as common stock. Under our articles of incorporation, our board of directors is authorized to classify and reclassify any unissued shares of capital stock without requiring stockholder approval. The following summary description of our capital stock is not necessarily complete and is subject to, and qualified in its entirety by, our articles of incorporation. Please review our articles of incorporation for a more detailed description of the provisions summarized below.

#### Common Stock

All shares of our common stock have equal rights as to earnings, assets, dividends and voting privileges and, when issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when declared by our board of directors out of funds legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws. In the event of our liquidation, dissolution or winding up, each share of our common stock is entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any is outstanding at the time. Each share of our common stock is entitled to one vote and does not have cumulative voting rights, which means that holders of a majority of such shares, if they so choose, could elect all of the directors, and holders of less than a majority of such shares would, in that case, be unable to elect any director. Our common stock is listed on the Nasdaq National Market under the ticker symbol "GLAD."

#### Preferred Stock

In addition to shares of common stock, our articles of incorporation authorize the issuance of shares of preferred stock. Our board of directors is authorized to provide for the issuance of preferred stock with such preferences, powers, rights and privileges as it deems appropriate; except that, such an issuance must adhere to the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or distribution is made with respect to our common stock or before any purchase of common stock is made, the preferred stock, together with all other senior securities, must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times

and to elect a majority of the directors if dividends on the preferred stock are in arrears by two years or more.

We have no present plans to issue any preferred stock, but we believe that the availability of preferred stock will provide us with increased flexibility in structuring future financings. Furthermore, we will not issue any preferred stock under this prospectus unless we receive confirmation from the staff of the SEC that we may do so. If we offer preferred stock under this prospectus, the accompanying prospectus supplement will contain information regarding the preferences, powers, rights and privileges of such preferred stock. You should read the accompanying prospectus supplement for a description of the preferred stock, including but not limited to whether there will be an arrearage in the payment of dividends or sinking fund installments, if any, restrictions with respect to the declaration of dividends, requirements in connection with the maintenance of any ratio of assets, or creation or maintenance of reserves, or provisions for permitting or restricting the issuance of additional securities.

#### **Debt Securities**

We will not issue any debt securities under this prospectus unless we receive confirmation from the staff of the SEC that we may do so. Any debt securities that we issue may be senior or subordinated in priority of payment. If we offer debt securities under this prospectus, we will provide a prospectus supplement that describes such debt securities, including the ranking, whether senior or subordinated, the specific designation, the aggregate principal amount, the purchase price, the maturity, the redemption terms, the interest rate or manner of calculating the interest rate, the time of payment of interest, if any, the terms for any conversion or exchange, including the terms relating to the adjustment of any conversion or exchange rate, the listing, if any, on a securities exchange, the name and address of the trustee and any other specific terms of the debt securities being offered.

#### **CERTAIN PROVISIONS OF OUR ARTICLES OF INCORPORATION AND BYLAWS AND MARYLAND GENERAL CORPORATION LAW**

Our articles of incorporation and bylaws and the Maryland General Corporation Law contain certain provisions that could make more difficult the acquisition of us by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging such proposals because, among other things, negotiation of such proposals might result in an improvement of their terms. The description set forth below is intended as a summary only and is qualified in its entirety by reference to our articles of incorporation and bylaws.

#### **Classified Board of Directors**

In accordance with our bylaws, our board of directors is divided into three classes of directors serving staggered three-year terms. Under the Maryland General Corporation Law, each class must consist as nearly as possible of one-third of the directors then elected to our board of directors and our board is currently divided into three classes of two directors each. A classified board may render more difficult a change in control of us or removal of our incumbent management. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure continuity and stability of our management and policies.

#### **Number of Directors; Removal; Vacancies**

Our articles of incorporation provide that the number of directors will be determined pursuant to our bylaws and our bylaws provide that a majority of our entire board of directors may at any time

increase or decrease the number of directors. In addition, our bylaws provide that the number of directors shall not be increased by 50% or more in any 12-month period without the approval of at least 66<sup>2</sup>/<sub>3</sub>% of the members of our board of directors then in office. Our bylaws provide that any vacancies will be filled by the vote of a majority of the remaining directors, even if less than a quorum, and the directors so appointed shall hold office until the next annual meeting of stockholders and until their successors are elected and qualified. Accordingly, our board of directors could temporarily prevent any stockholder from enlarging the board of directors and filling the new directorships with such stockholder's own nominees.

Our bylaws also provide that, except as may be required by law or our articles of incorporation, our directors may only be removed for cause and only by the affirmative vote of 75% of the voting power of all of the shares of our capital stock then entitled to vote generally in the election of directors, voting together as a single class.

#### **Stockholder Approval Requirements**

Maryland General Corporation Law provides that stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting. These provisions may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

#### **Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals**

Our bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of our stockholders, which we refer to as the stockholder notice procedure.

The stockholder notice procedure provides that (1) only persons who are nominated by, or at the direction of, the board of directors, or by a stockholder who has given timely written notice containing specified information to our secretary prior to the meeting at which directors are to be elected, will be eligible for election as directors and (2) at an annual meeting only such business may be conducted as has been brought before the meeting by, or at the direction of, our board of directors or by a stockholder who has given timely written notice to our secretary of such stockholder's intention to bring such business before the meeting. Except for stockholder proposals submitted in accordance with the federal proxy rules as to which the requirements specified therein shall control, notice of stockholder nominations or business to be conducted at an annual meeting must be received by us prior to the first anniversary of the previous year's annual meeting. If we call a special meeting of stockholders for the purpose of electing directors, stockholder nominations must be received by us not earlier than the 90th day prior to such meeting and not later than the later of the 60<sup>th</sup> day prior to such meeting or the 10th day following the day on which notice of the date of a special meeting of stockholders was given.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of the other proposed business and, to the extent deemed necessary or desirable by the board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals for action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

### **Amendment of Articles of Incorporation and Bylaws**

Our articles of incorporation may be amended, altered, changed or repealed, subject to the resolutions providing for any class or series of preferred stock, only by the affirmative vote of both a majority of the members of our board of directors then in office and a majority of the voting power of all of the shares of our capital stock entitled to vote generally in the election of directors, voting together as a single class.

Our articles of incorporation also provide that the bylaws may be adopted, amended, altered, changed or repealed by the affirmative vote of the majority of our board of directors then in office. Any action taken by our stockholders with respect to adopting, amending, altering, changing or repealing our bylaws may be taken only by the affirmative vote of the holders of at least 75% of the voting power of all of the shares of our capital stock then entitled to vote generally in the election of directors, voting together as a single class.

These provisions are intended to make it more difficult for stockholders to circumvent certain other provisions contained in our articles of incorporation and bylaws, such as those that provide for the classification of our board of directors. These provisions, however, also will make it more difficult for stockholders to amend the articles of incorporation or bylaws without the approval of the board of directors, even if a majority of the stockholders deems such amendment to be in the best interests of all stockholders.

### **Limitation on Liability of Directors**

We have adopted provisions in our articles of incorporation, which, to the fullest extent permitted by Maryland law and as limited by the 1940 Act, limit the liability of our directors and officers for monetary damages. Under our articles of incorporation we shall indemnify (1) our directors and officers to the fullest extent permitted by the General Laws of the State of Maryland as limited by the 1940 Act or any valid rule, regulation or order of the Securities and Exchange Commission thereunder, including the advance of expenses under the procedures and to the fullest extent permitted by law and (2) other employees and agents to such extent as shall be authorized by our board of directors or our bylaws and be permitted by law. The effect of these provisions is to eliminate our rights and the rights of our stockholders (through stockholders' derivative suits on our behalf) to recover monetary damages against one of our directors or officers for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior) except to the extent this limitation is not permitted under applicable law, including the 1940 Act. These provisions do not limit or eliminate our rights or the rights of any of our stockholders to seek nonmonetary relief such as an injunction or rescission in the event one of our directors or officers breaches his or her duty of care. These provisions also will not alter the liability of our directors or officers under federal securities laws.

### **PLAN OF DISTRIBUTION**

We may sell the securities through underwriters or dealers, through agents, or directly to one or more purchasers. The prospectus supplement will describe the terms of the offering of the securities, including:

the name or names of any underwriters, if any, and the respective amounts underwritten by each underwriter;

the purchase price of the securities and the proceeds we will receive from the sale;

any over-allotment options under which underwriters may purchase additional securities from us;

any agency fees or underwriting discounts or commissions and other items constituting agents' or underwriters' compensation;

any initial public offering price;

any discounts or concessions allowed or reallocated or paid to dealers; and

any securities exchange or market on which the securities may be listed.

The only underwriters of the securities offered by a prospectus supplement will be the underwriters named in that prospectus supplement.

If underwriters are used in the sale, they will acquire the securities for their own account and may resell them from time to time in one or more transactions at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase the securities will be subject to the conditions set forth in the applicable underwriting agreement. We may offer the securities to the public through underwriting syndicates represented by managing underwriters or by underwriters without a syndicate. Subject to certain conditions, the underwriters will be obligated to purchase all the securities of the series offered by the prospectus supplement. Any public offering price and any discounts or concessions allowed or reallocated or paid to dealers may change from time to time. We may use underwriters with whom we have a material relationship. We will describe in the prospectus supplement, naming the underwriter, the nature of any such relationship.

We may sell securities directly or through agents we designate from time to time. We will name any agent involved in the offering and sale of securities and we will describe any commissions we will pay the agent in the prospectus supplement.

Unless the prospectus supplement states otherwise, our agent will act on a best-efforts basis for the period of its appointment.

We may authorize agents or underwriters to solicit offers by certain types of institutional investors to purchase securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. We will describe the conditions to these contracts and the commissions we must pay for solicitation of these contracts in the prospectus supplement.

We may provide agents and underwriters with indemnification against certain civil liabilities, including liabilities under the Securities Act, or contribution with respect to payments that the agents or underwriters may make with respect to such liabilities. Agents and underwriters may engage in transactions with, or perform services for, us in the ordinary course of business.

All securities we offer, other than common stock, will be new issues of securities with no established trading market. Any underwriters may make a market in these securities, but will not be obligated to do so and may discontinue any market making at any time without notice. We cannot guarantee the liquidity of the trading markets for any securities.

Any underwriter may engage in overallotment, stabilizing transactions, short covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Overallotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Short covering transactions involve purchases of the securities in the open market after the distribution is completed to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

#### **DIVIDEND REINVESTMENT PLAN**

Pursuant to our dividend reinvestment plan, if your shares of our common stock are registered in your own name you can have all distributions reinvested in additional shares of our common stock by The Bank of New York, the plan agent, if you enroll in the reinvestment plan by delivering an

authorization form to the plan agent prior to the corresponding dividend declaration date. The plan agent will effect purchases of our common stock under the reinvestment plan in the open market. If you do not elect to participate in the reinvestment plan, you will receive all distributions in cash paid by check mailed directly to you (or if you hold your shares in street or other nominee name, then to your nominee) as of the relevant record date, by the plan agent, as our dividend disbursing agent. If your shares are held in the name of a broker or nominee or if you are transferring such an account to a new broker or nominee, you should contact the broker or nominee to determine whether and how they may participate in the reinvestment plan.

The plan agent serves as agent for the holders of our common stock in administering the reinvestment plan. After we declare a dividend, the plan agent will, as agent for the participants, receive the cash payment and use it to buy common stock on the Nasdaq National Market or elsewhere for the participants' accounts. The price of the shares will be the average market price at which such shares were purchased by the plan agent.

Participants in the reinvestment plan may withdraw from the reinvestment plan upon written notice to the plan agent. Such withdrawal will be effective immediately if received not less than ten days prior to a dividend record date; otherwise, it will be effective the day after the related dividend distribution date. When a participant withdraws from the reinvestment plan or upon termination of the reinvestment plan as provided below, certificates for whole shares of common stock credited to his or her account under the reinvestment plan will be issued and a cash payment will be made for any fractional share of common stock credited to such account.

The plan agent will maintain each participant's account in the reinvestment plan and will furnish monthly written confirmations of all transactions in such account, including information needed by the stockholder for personal and tax records. Common stock in the account of each reinvestment plan participant will be held by the plan agent in non-certificated form in the name of such participant. Proxy materials relating to our stockholders' meetings will include those shares purchased as well as shares held pursuant to the reinvestment plan.

In the case of participants who beneficially own shares that are held in the name of banks, brokers or other nominees, the plan agent will administer the reinvestment plan on the basis of the number of shares of common stock certified from time to time by the record holders as the amount held for the account of such beneficial owners. Shares of our common stock may be purchased by the plan agent through any of the underwriters, acting as broker or dealer.

We pay the plan agent's fees for the handling or reinvestment of dividends and other distributions. Each participant in the reinvestment plan pays a pro rata share of brokerage commissions incurred with respect to the plan agent's open market purchases in connection with the reinvestment of distributions. There are no other charges to participants for reinvesting distributions.

Distributions are taxable whether paid in cash or reinvested in additional shares, and the reinvestment of distributions pursuant to the reinvestment plan will not relieve participants of any US federal income tax or state income tax that may be payable or required to be withheld on such distributions. For more information regarding taxes that our stockholders may be required to pay, see "US Federal Income Tax Considerations."

Experience under the reinvestment plan may indicate that changes are desirable. Accordingly, we reserve the right to amend or terminate the reinvestment plan as applied to any distribution paid subsequent to written notice of the change sent to participants in the reinvestment plan at least 90 days before the record date for the distribution. The reinvestment plan also may be amended or terminated by the plan agent with our prior written consent, on at least 90 days' written notice to participants in the reinvestment plan. All correspondence concerning the reinvestment plan should be directed to the plan agent by mail at 100 Church Street, 14th Floor, New York, New York 10286 or by phone at 800-274-2944.

### **SHARE REPURCHASES**

Shares of closed-end investment companies frequently trade at discounts to net asset value. We cannot predict whether our shares will trade above, at or below net asset value. The market price of our common stock is determined by, among other things, the supply and demand for our shares, our investment performance and investor perception of our overall attractiveness as an investment as compared with alternative investments. Our board of directors has authorized our officers, in their discretion and subject to compliance with the 1940 Act and other applicable law, to purchase on the open market or in privately negotiated transactions, outstanding shares of our common stock in the event that our shares trade at a discount to net asset value. We can not assure you that we will ever conduct any open market purchases and if we do conduct open market purchases, we may terminate them at any time.

In addition, if our shares publicly trade for a substantial period of time at a substantial discount to our then current net asset value per share, our board of directors will consider authorizing periodic repurchases of our shares or other actions designed to eliminate the discount. Our board of directors would consider all relevant factors in determining whether to take any such actions, including the effect of such actions on our status as a RIC under the Internal Revenue Code and the availability of cash to finance these repurchases in view of the restrictions on our ability to borrow. We can not assure you that any share repurchases will be made or that if made, they will reduce or eliminate market discount. Should we make any such repurchases in the future, we expect that we would make them at prices at or below the then current net asset value per share. Any such repurchase would cause our total assets to decrease, which may have the effect of increasing our expense ratio. We may borrow money to finance the repurchase of shares subject to the limitations described in this prospectus. Any interest on such borrowing for this purpose would reduce our net income.

### **CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR**

Our securities are held under a custodian agreement by BNY Midwest Trust Company. The address of the custodian is 2 North LaSalle St., Lower Level, Chicago, Illinois 60602. Our assets are held under bank custodianship in compliance with the 1940 Act. The Bank of New York acts as our transfer and dividend paying agent and registrar. The principal business address of The Bank of New York is 100 Church Street, 14th Floor, New York, New York 10286.

### **BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we generally acquire and dispose of our investments in privately negotiated transactions, we will rarely use brokers in the normal course of our business. Any broker we use will be selected on the basis of its ability to provide best price and best execution on securities trades.

### **LEGAL MATTERS**

The legality of securities offered hereby will be passed upon for us by Cooley Godward LLP, Reston, Virginia. Certain legal matters will be passed upon for the underwriters, if any, by the counsel named in the accompanying prospectus supplement.

### **EXPERTS**

The financial statements as of September 30, 2003 and for the year then ended included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Ernst & Young LLP, independent registered public accounting firm, have audited our consolidated financial statements at September 30, 2002, and for the year ended September 30, 2002 and the period from May 30, 2001 (Inception) through September 30, 2001, as set forth in their report. We've included our consolidated financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

**AVAILABLE INFORMATION**

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

We also file reports, proxy statements and other information with the SEC under the Exchange Act. Such reports, proxy statements and other information, as well as the registration statement of which this prospectus is a part and the exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained by calling the SEC at (202) 942-8090. The SEC maintains a web site that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Copies of such material may also be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.



FINANCIAL STATEMENTS

**Audited Consolidated Financial Statements**

Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of September 30, 2003 and September 30, 2002

Consolidated Schedule of Investments as of September 30, 2003

Consolidated Schedule of Investments as of September 30, 2002

Consolidated Statements of Operations for the years ended September 30, 2003 and September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001

Consolidated Statements of Stockholders Equity for the years ended September 30, 2003 and September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001

Consolidated Statements of Cash Flows for the years ended September 30, 2003 and September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001

Notes to Financial Statements

**Unaudited Consolidated Financial Statements**

Consolidated Balance Sheets as of March 31, 2004 and September 30, 2003 (unaudited)

Schedules of Investments as of March 31, 2004 and September 30, 2003 (unaudited)

Consolidated Statements of Operations for the three months ended March 31, 2004 and March 31, 2003

Consolidated Statements of Operations for the six months ended March 31, 2004 and March 31, 2003

Consolidated Statements of Stockholders' Equity for the six months ended March 31, 2004 and March 31, 2003

Consolidated Statements of Cash Flows for the six months ended March 31, 2004 and March 31, 2003

Financial Highlights for the three and six months ended March 31, 2004 and March 31, 2003

Notes to Financial Statements

F-1

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

In our opinion, the accompanying consolidated balance sheet, including the schedule of investments, and the related consolidated statements of operations, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of Gladstone Capital Corporation and its subsidiaries (the "Company") at September 30, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company for the year ended September 30, 2002 and for the period from May 30, 2001 (inception) through September 30, 2001 were audited by other auditors whose report and November 1, 2002 expressed an unqualified opinion on these statements.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland  
October 28, 2003

F-2

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have audited the accompanying consolidated balance sheet of Gladstone Capital Corporation (the Company) as of September 30, 2002, including the consolidated schedule of investments as of September 30, 2002 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gladstone Capital Corporation at September 30, 2002 and the consolidated results of its operations and its cash flows for the year ended September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

McLean, Virginia  
November 1, 2002

F-3

---

**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2003	September 30, 2002
<b>ASSETS</b>		
Investments at fair value (Cost 9/30/2003: \$109,529,893; 9/30/2002: \$79,718,354)	\$ 109,307,553	\$ 79,718,354
Cash and cash equivalents	21,143,972	51,930,529
Cash and cash equivalents pledged to creditors	80,022,249	39,998,799
Interest receivable investments in debt securities	1,041,943	685,274
Interest receivable cash and cash equivalents	955	4,389
Interest receivable officers	108,657	109,874
Due from custodian	1,207,000	
Prepaid assets	1,479,815	357,955
Other assets	254,519	116,865
<b>TOTAL ASSETS</b>	<b>\$ 214,566,663</b>	<b>\$ 172,922,039</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable	\$ 23,247	\$
Dividends payable	3,327,009	2,115,087
Accrued expenses and deferred liabilities	1,965,025	944,960
Repurchase agreement	78,449,000	39,198,719
Total Liabilities	83,764,281	42,258,766
<b>Stockholders' Equity</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 10,081,844 and 10,071,844 issued and outstanding, respectively	10,082	10,072
Capital in excess of par value	140,416,674	140,266,684
Notes receivable officers	(8,985,940)	(8,983,796)
Net unrealized depreciation on investments	(222,340)	
Undistributed/(overdistributed) net investment income	(416,094)	(629,687)
Total Stockholders' Equity	130,802,382	130,663,273
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 214,566,663</b>	<b>\$ 172,922,039</b>

*See accompanying notes.*

**GLADSTONE CAPITAL CORPORATION**  
**SCHEDULE OF INVESTMENTS**  
**SEPTEMBER 30, 2003**

Company (1)	Industry	Investment	Cost	Fair Value
America's Water Heater Rentals, LLC	Water heater rentals and servicing	Senior Term Debt (2)(4)	\$ 12,000,000	\$ 12,000,000
ARI Holdings, Inc.	Manufacturing-auto parts	Senior Term Debt (2)(3) Senior Term Debt (2)	3,511,667 1,500,000	3,511,667 1,500,000
Coyne International Enterprises	Industrial services	Senior Term Debt (2)(3)(4)	15,421,740	15,306,077
Finn Corporation	Manufacturing-landscape equipment	Senior Subordinated Term Debt(4) Common Stock Warrants for 2% ownership	10,500,000 37,000	10,421,250 431,111
Fugate & Associates, Inc.	Imaging supplies	Senior Term Debt (4) Senior Term Debt (4)	3,412,500 1,833,333	3,412,500 1,833,333
Home Care Supply, Inc.	Medical equipment rental	Senior Term Debt (2)(4)(5)	18,000,000	18,428,400
Inca Metal Products Corp. Kingway Acquisition, Inc. Clymer Acquisition, Inc.	Material handling and storage products	Senior Term Debt (2)(4)	5,775,000	4,995,375
Kozy Shack Enterprises, Inc.	Food production and sales	Senior Term Debt (2)(4) Senior Term Debt (2)(4)	900,000 6,975,000	909,000 6,922,687
Marcal Paper Mills, Inc.	Manufacturing-paper products	First Mortgage Debt (3)	9,163,653	9,163,653
Mistras Holdings, Inc.	Nondestructive testing instruments, systems and services	Senior Term Debt (2) Senior Term Debt (2)	10,000,000 5,000,000	10,000,000 5,000,000
Wingstop Restaurants International, Inc.	Restaurant fast food	Senior Term Debt (4) Senior Debt (4)	3,500,000 2,000,000	3,482,500 1,990,000
<b>Totals</b>			<b>\$ 109,529,893</b>	<b>\$ 109,307,553</b>

- (1) We do not "Control," and are not an "Affiliate" of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities and would be an "Affiliate" of a portfolio company if we owned 5% or more of its voting securities.
- (2) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
- (3) Has some paid in kind (PIK) interest. Refer to Note 2 "Summary of Significant Accounting Policies."
- (4) Fair value was based on valuation prepared and provided by Standard & Poor's Loan Evaluation Services.
- (5) Includes a success fee with a fair value of \$473,400 and no cost basis.

*See accompanying notes.*



**GLADSTONE CAPITAL CORPORATION**  
**SCHEDULE OF INVESTMENTS**  
**SEPTEMBER 30, 2002**

Company (1)	Industry	Investment	Cost	Fair Value
ARI Holdings, Inc.	Manufacturing-auto parts	Junior Subordinated Term Debt (3)	\$ 8,250,803	\$ 8,250,803
Coyne International Enterprises	Industrial services	Senior Term Debt (2)(3)	16,054,268	16,054,268
Finn Corporation	Manufacturing-landscape equipment	Senior Subordinated Term Debt Common Stock Warrants for 2% ownership	10,500,000 37,000	10,500,000 37,000
Home Care Supply, Inc.	Medical equipment rental	Senior Term Debt (2)	18,000,000	18,000,000
Inca Metal Products Corporation	Material handling and storage products	Senior Term Debt (2)	6,000,000	6,000,000
Kozy Shack Enterprises, Inc.	Food preparations	Senior Term Debt (2) Senior Term Debt (2)	4,300,000 7,500,000	4,300,000 7,500,000
Marcal Paper Mills, Inc.	Manufacturing-paper products	First Mortgage Debt (3)	9,076,283	9,076,283
Totals			\$ 79,718,354	\$ 79,718,354

- (1) We do not "Control," and are not an "Affiliate" of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities and would be an "Affiliate" of a portfolio company if we owned 5% or more of its voting securities.
- (2) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
- (3) Has some paid in kind (PIK) interest. Refer to Note 2 "Summary of Significant Accounting Policies."

*See accompanying notes.*

**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended September 30, 2003	Year Ended September 30, 2002	Period May 30, 2001 (Inception) Through September 30, 2001
<b>INVESTMENT INCOME</b>			
Interest income-investments	\$ 13,248,415	\$ 6,641,144	
Interest income-cash and cash equivalents	466,316	1,576,304	\$ 349,500
Interest income-notes receivable from officers	437,737	433,391	45,355
Managerial assistance fees	885,500	1,673,614	
Other income	116,906	131,250	
<b>Total Investment Income</b>	<b>\$ 15,154,874</b>	<b>\$ 10,455,703</b>	<b>\$ 394,855</b>
<b>EXPENSES</b>			
Salaries and benefits	\$ 2,018,004	\$ 1,367,180	\$ 229,379
Rent	209,864	125,128	3,306
Professional fees	409,826	549,781	72,088
Directors fees	73,647	22,000	38,000
Insurance	275,511	206,385	20,586
Stockholder related costs	143,273	104,167	
Financing fees	222,038		
General and administrative	506,790	464,461	124,140
<b>Total Expenses</b>	<b>\$ 3,858,953</b>	<b>\$ 2,839,102</b>	<b>\$ 487,499</b>
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>\$ 11,295,921</b>	<b>\$ 7,616,601</b>	<b>\$ (92,644)</b>
Net unrealized depreciation on investments	222,340		
<b>NET INCREASE (DECREASE) IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>	<b>\$ 11,073,581</b>	<b>\$ 7,616,601</b>	<b>\$ (92,644)</b>
<b>NET INCREASE (DECREASE) IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE:</b>			
Basic	\$ 1.10	\$ 0.76	\$ (0.03)
Diluted	\$ 1.09	\$ 0.75	\$ (0.03)
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:</b>			
Basic	10,072,677	10,064,900	3,219,525
Diluted	10,188,488	10,166,752	3,219,525

*See accompanying notes.*



**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Capital in Excess of Par Value	Notes Receivable from Sale of Common Stock	Under/(Over) Distributed Net Investment Income	Unrealized Appreciation/ (Depreciation) of Investments	Total Stockholders' Equity
	Shares	Amount					
Balance at May 30, 2001 (Inception)	43,508	\$ 44	\$ 652,587		\$		\$ 652,631
Issuance of Common Stock In Public Offering (net of underwriting discount and offering costs of \$10,760,843)	9,430,000	9,430	130,679,727				130,689,157
Issuance of Common Stock Under Stock Option Plan	586,670	586	8,799,464	(8,800,050)			
Net Decrease in Stockholders' Equity Resulting from Operations					(92,644)		(92,644)
<b>Balance at September 30, 2001</b>	<b>10,060,178</b>	<b>\$ 10,060</b>	<b>\$ 140,131,778</b>	<b>\$ (8,800,050)</b>	<b>\$ (92,644)</b>		<b>\$ 131,249,144</b>
Issuance of Common Stock Under Stock Option Plan	11,666	12	185,878	(185,890)			
Offering Costs			(50,972)				(50,972)
Repayment of Principal on Notes Receivable				2,144			2,144
Net Increase in Stockholders' Equity Resulting from Operations					7,616,601		7,616,601
Distributions Declared (\$0.81 per common share)					(8,153,644)		(8,153,644)
<b>Balance at September 30, 2002</b>	<b>10,071,844</b>	<b>\$ 10,072</b>	<b>\$ 140,266,684</b>	<b>\$ (8,983,796)</b>	<b>\$ (629,687)</b>		<b>\$ 130,663,273</b>
Issuance of Common Stock Under Stock Option Plan	10,000	10	149,990	(150,000)			
Repayment of Principal on Notes Receivable				147,856			147,856
Net Increase in Stockholders' Equity Resulting from Operations					11,295,921	(222,340)	11,073,581
Distributions Declared (\$1.10 per common share)					(11,082,328)		(11,082,328)
<b>Balance at September 30, 2003</b>	<b>10,081,844</b>	<b>\$ 10,082</b>	<b>\$ 140,416,674</b>	<b>\$ (8,985,940)</b>	<b>\$ (416,094)</b>	<b>\$ (222,340)</b>	<b>\$ 130,802,382</b>

*See accompanying notes.*



**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended September 30, 2003	Year Ended September 30, 2002	Period May 30, 2001 (Inception) Through September 30, 2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net increase (decrease) in stockholders' equity resulting from operations	\$ 11,073,581	\$ 7,616,601	\$ (92,644)
Adjustments to reconcile net increase (decrease) in stockholders' equity resulting from operations to net cash provided by (used in) operating activities:			
Depreciation	29,310	13,822	265
Net unrealized depreciation	222,340		
Increase in interest receivable	(352,018)	(719,638)	(79,899)
Increase in funds due from custodian	(1,207,000)		
(Increase) decrease in other assets	(84,616)	75,546	(103,728)
Increase in prepaid assets	(34,996)	(191,705)	(166,250)
Increase in accounts payable	23,247		
Increase in accrued expenses and deferred liabilities	1,020,065	579,000	365,960
Increase in investment balance due to payment in kind interest	(806,088)	(400,491)	
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>9,883,825</b>	<b>6,973,135</b>	<b>(76,296)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net purchase of furniture and equipment	(82,344)	(70,976)	(31,794)
Purchase of investments	(47,011,278)	(97,705,054)	
Principal repayments on investments	18,005,827	18,387,191	
Proceeds from repurchase agreements	245,070,973	44,098,719	
Repayment of repurchase agreements	(205,820,693)	(4,900,000)	
Receipt of principal on notes receivable officers	147,856	2,144	
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>10,310,341</b>	<b>(40,187,976)</b>	<b>(31,794)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from the issuance of common stock			131,341,788
Offering costs		(50,972)	
(Decrease) increase in accrued offering costs		(590,382)	590,382
Prepaid financing fees	(1,086,864)		
Distributions paid	(9,870,409)	(6,038,557)	
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(10,957,273)</b>	<b>(6,679,911)</b>	<b>131,932,170</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1)</b>	<b>9,236,893</b>	<b>(39,894,752)</b>	<b>131,824,080</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>91,929,328</b>	<b>131,824,080</b>	
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 101,166,221</b>	<b>\$ 91,929,328</b>	<b>\$ 131,824,080</b>

	Year Ended September 30, 2003	Year Ended September 30, 2002	Period May 30, 2001 (Inception) Through September 30, 2001
<b>NON-CASH FINANCING ACTIVITIES</b>			
Notes receivable issued in exchange for common stock associated with the exercise of employee stock options	\$ 150,000	\$ 185,890	\$ 8,800,050

(1)

Cash and cash equivalents consist of demand deposits and highly liquid investments with original maturities of three months or less.

*See accompanying notes.*

F-9

**GLADSTONE CAPITAL CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2003**

**Note 1. Organization**

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

Gladstone Advisers, Inc. (Advisers), a wholly-owned subsidiary, conducts the daily administrative operations of the Company and provides managerial assistance to the Company's portfolio companies.

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

**Note 2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

*Use of Estimates*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America that require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

*Reclassifications*

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of demand deposits and highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value as of September 30, 2003. Cash and cash equivalents pledged to creditors as of September 30, 2003 consists of the United States Treasury Bill that collateralizes the Company's Repurchase Agreement.

*Concentration of Credit Risk*

The Company places its cash and cash equivalents with financial institutions and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit.

*Investment Valuation*

The Company carries its investments at fair value, based on valuations voted on by its Board of Directors. Standard & Poor's Loan Evaluation Service provides an independent assessment of the loan portfolio, excluding mortgage loans and equity securities, data and assesses its own data to determine market values for a majority of the Company's portfolio securities. The Board of Directors votes to accept the valuation recommendations presented by S&P. Securities that are publicly traded, if any, are valued at the closing price on the valuation date (to date there are no publicly traded securities in our 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, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

*Property and Equipment*

Property and equipment are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets ranging from three to five years.

*Interest Income Recognition*

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible.

*Payment in Kind Interest*

The Company has loans in its portfolio which contain a payment in kind ("PIK") provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the years ended September 30, 2003 and September 30, 2002, the Company recorded PIK income of \$781,407 and \$461,627, respectively. The Company did not record any PIK income for the period from inception (May 30, 2001) through September 30, 2001.

*Stock Options*

The Company applies Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its stock-based compensation plan. In December 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) Statement No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" which amended SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123). The Company adopted SFAS 148 on January 1, 2003 and elects to continue to account for its stock-based compensation plan under the provisions of APB 25. The Company continues to provide pro forma disclosure (see Note 3) of the Company's net increase (decrease) to stockholders' equity resulting from operations calculated as if the grants of stock options had been recorded as compensation costs in accordance with SFAS 148 and 123.

*Management Fees*

The Company is self-managed and therefore does not incur management fees payable to third parties.

*Federal Income Taxes*

The Company intends to continue to qualify for treatment as a RIC under Subchapter M of the Code. As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed to stockholders. To qualify as a RIC, the Company is required to distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code.

*Dividends*

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

*New Accounting Standards*

SFAS 148

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company is required to follow the prescribed format and provide the additional disclosures required by SFAS No. 148 in its annual financial statements for the year ending September 30, 2003 and is also required to provide the disclosures in its quarterly reports containing financial statements for interim periods. The Company adopted SFAS 148 on January 1, 2003 and elected to continue to account for its stock based compensation plans under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" as are described in Note 3 of these audited consolidated financial statements. The adoption did not have an impact on the Company's consolidated financial statements.

SFAS 149

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative

Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and hedging relationships designated after June 30, 2003, except for those provisions of SFAS No. 149 which relate to SFAS No. 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003. The Company does not expect the adoption of SFAS 149 to have a material impact on the Company's consolidated financial statements.

#### SFAS 150

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise effective on July 1, 2003 for financial instruments created before May 31, 2003. The Company does not expect the adoption of SFAS No. 150 to have a material impact on the Company's consolidated financial statements.

#### FIN 45

In November 2002, the FASB published Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a guarantor recognize a liability for the fair value of an obligation assumed under a guarantee and also discusses additional disclosures to be made in the interim and annual financial statements of the guarantor regarding obligations under certain guarantees. The initial measurement and recognition requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The adoption did not have an impact on the Company's consolidated financial statements at September 30, 2003. In the normal course of business the Company enters into contracts that contain a variety of representations, which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

#### FIN 46

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." This standard clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities (more commonly known as Special Purpose Entities or SPE's). FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among the parties involved. FIN 46 also enhances the disclosure requirements related to variable interest entities. This statement is effective for variable interest entities created or in which an enterprise obtains an interest after January 31, 2003. In October 2003, the FASB voted to defer the implementation until after the fourth quarter of 2003. The Company does not expect the adoption of FIN 46 to have a material impact on the consolidated financial statements.

### **Note 3. Stock Option Plan**

Effective February 24, 2003 the Company adopted the Amended and Restated 2001 Equity Incentive Plan (the 2001 Plan). The Company has authorized 2,000,000 shares of capital stock for the



Edgar Filing: PARRA ROSENDO G - Form 4

issuance of options under the 2001 Plan to employees and directors. Options granted under the 2001 Plan may be exercised during a term not to exceed ten years from the date of grant. Unless terminated sooner by the Company's Board of Directors, the 2001 Plan will terminate on June 1, 2011 and no additional awards may be made under the 2001 Plan after that date. Only employees of the Company and its subsidiaries are eligible to receive incentive stock options and both employees and non-employee directors are eligible to receive nonstatutory stock options under the 2001 Plan.

Options granted under the 2001 Plan may be either incentive stock options or nonstatutory stock options. The option exercise price is equal to the market price on the date of the grant. A portion of the options granted during the fiscal years ended September 30, 2003 and September 30, 2002 and each option granted during the period from inception through September 30, 2001 vest as follows: one-half of the number of shares issuable upon exercise of the option vested immediately on the grant date and the remaining shares vest on the date that is one year after the grant date. The remaining options granted during the fiscal year ended September 30, 2002 vest as follows: 60% of the shares issuable upon exercise of the options vested immediately on the grant date and the remaining shares vest on the date that is one year after the grant date. Some of the options granted during the fiscal year ended September 30, 2003 vest at 25%, 25% two months after the grant date, 25% seven months after the grant date and the final 25% vest one year and two months after the grant date.

The company accounts for its stock-based compensation plans in accordance with APB 25, "Accounting for Stock Issued to Employees". The pro forma information below illustrates the effect on net increase (decrease) in stockholders' equity resulting from operations per share based on provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure", issued in December 2002.

	Year Ended September 30, 2003	Year Ended September 30, 2002	Period May 30, 2001 (Inception) Through September 30, 2001
Net increase (decrease) in stockholders' equity resulting from operations, as reported	\$ 11,073,581	\$ 7,616,601	\$ (92,644)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	\$ (1,576,555)	\$ (1,555,099)	\$ (1,734,340)
Pro forma net increase (decrease) in stockholders' equity resulting from operations	\$ 9,497,026	\$ 6,061,502	\$ (1,826,984)
Net increase (decrease) in stockholders' equity resulting from operations per share			
As reported basic	\$ 1.10	\$ 0.76	\$ (0.03)
As reported diluted	\$ 1.09	\$ 0.75	\$ (0.03)
Pro forma basic	\$ 0.94	\$ 0.60	\$ (0.57)
Pro forma diluted	\$ 0.93	\$ 0.60	\$ (0.57)

For options granted during the fiscal year ended September 30, 2003, the Company estimated a weighted-average fair value of \$2.29 using a Black-Scholes option pricing model and the following assumptions: dividend yield of 6.79%, risk-free interest rate of 0.95%, expected volatility factor of 0.1771, and expected lives of the options of three years. For options granted during the fiscal year ended September 30, 2002, the Company estimated a fair value per option on the date of grant of

Edgar Filing: PARRA ROSENDO G - Form 4

\$1.40 using a Black-Scholes option-pricing model and the following assumptions: dividend yield of 8.17%, risk-free interest rate of 2.02%, expected volatility factor of 0.258, and expected lives of the options of three years. For options granted during the period from inception through September 30, 2001, the Company estimated a fair value per option on the date of grant of \$2.51 using a Black-Scholes option-pricing model and the following assumptions: dividend yield of 6.00%, risk-free interest rate of 4.60%, expected volatility factor of 0.324, and expected lives of the options of three years.

A summary of the status of the Company's 2001 Plan for the period from inception through September 30, 2003 is as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at May 30, 2001		
Granted	1,250,000	\$ 15.00
Exercised	(586,670)	\$ 15.00
Options outstanding at September 30, 2001, of which 63,330 shares were exercisable	663,330	\$ 15.00
Granted	160,000	\$ 17.14
Exercised	(11,666)	\$ 15.93
Options outstanding at September 30, 2002, of which 741,664 shares are exercisable	811,664	\$ 15.40
Granted	170,000	\$ 17.10
Exercised	(10,000)	\$ 15.00
Options outstanding at September 30, 2003, of which 841,664 shares are exercisable	971,664	\$ 15.71

A detailed summary of the stock options outstanding at fiscal years ended September 30, 2003 and September 30, 2002 is presented in the following table:

Fiscal Year Ended	Range of Exercise Prices	Stock Options Outstanding	Weighted Average Remaining Contractual Life (Years)
September 30, 2003	\$15.00 \$19.56	971,664	8.33
September 30, 2002	\$15.00 \$17.18	811,664	9.08

During the fiscal year ended September 30, 2003, the Company issued 10,000 shares of common stock to an employee pursuant to a stock option exercise, in exchange for a full recourse note receivable of \$150,000. During the fiscal year ended September 30, 2002, the Company issued 11,666 shares of common stock to employees of the Company pursuant to stock option exercises, in exchange for full recourse notes receivable totaling \$185,890. During the period from inception through September 30, 2001, the Company issued 586,670 shares of common stock to employees of the Company pursuant to stock option exercises, in exchange for full recourse notes receivable totaling \$8,800,050. These transactions were effected pursuant to the 2001 Plan, which allows the Company to lend its employees funds to pay for the exercise of stock options. All loans made under this arrangement are fully secured by the value of the common stock purchased. Interest is charged and paid on such loans at the market rate as determined based on individual financial positions.

**Note 4. Commitments and Contingencies**

The Company occupies its McLean, Virginia office space pursuant to a license agreement scheduled to expire October 31, 2003 and has renewed the license agreement for an additional year. The Company's New York City office facility has a service agreement scheduled to expire August 31, 2004. The future scheduled payments are as follows:

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Office Lease Obligations	\$ 211,890	\$ 198,375	\$ 13,515		
Total	\$ 211,890	\$ 198,375	\$ 13,515		

**Note 5. Net Increase (Decrease) in Stockholders' Equity Resulting from Operations per Share**

The following table sets forth the computation of basic and diluted net increase (decrease) in stockholders' equity resulting from operations per share for the fiscal year ended September 30, 2003, September 30, 2002 and the period from inception through September 30, 2001:

	September 30, 2003	September 30, 2002	Period May 30, 2001 (Inception) Through September 30, 2001
Numerator for basic and diluted net increase (decrease) in stockholders' equity resulting from operations per share	\$ 11,073,581	\$ 7,616,601	\$ (92,644)
Denominator for basic weighted average shares	10,072,677	10,064,900	3,219,525
Dilutive effect of stock options	115,811	101,852	0
Denominator for diluted weighted average shares	\$ 10,188,488	\$ 10,166,752	\$ 3,219,525
Basic net increase (decrease) in stockholders' equity resulting from operations per share	\$ 1.10	\$ 0.76	\$ (0.03)
Diluted net increase (decrease) in stockholders' equity resulting from operations per share	\$ 1.09	\$ 0.75	\$ (0.03)

**Note 6. Related Party Transactions**

The Company has provided loans to employees for the exercise of options under the 2001 Plan. The loans require the quarterly payment of interest at the market rate of interest in effect at the date of issue, have varying terms not exceeding nine years and have been recorded as a reduction of stockholders' equity. The loans are evidenced by full recourse notes that are due upon maturity or 60 days following termination of employment, and the shares of common stock purchased with the proceeds of the loan are posted as collateral. During the fiscal year ended September 30, 2003, the Company issued a \$150,000 loan to an employee for the exercise of options and received the final payment for a loan issued during fiscal year 2001. During the fiscal year ended September 30, 2002, the Company issued \$185,890 in loans to two employees for the exercise of options. During the period

from inception through September 30, 2001, the Company issued \$8,800,050 in loans to seven employees for the exercise of options. The Company recognized interest income from all employee stock option loans of \$437,737, \$433,391 and \$45,355 during the fiscal years ended September 30, 2003, September 30, 2002 and the period from inception through September 30, 2001, respectively. The outstanding principal balances due on all employee stock option loans at September 30, 2003, September 30, 2002 and September 30, 2001 were \$8,985,940, \$8,983,796 and \$8,800,050, respectively.

During the fiscal year ended September 30, 2003, the Company paid personnel recruiting fees totaling \$2,269 to Snelling & Associates and \$4,625 to Medical Funding Corporation. Anthony W. Parker, a director of the Company is the President of Snelling & Associates and is the founder, Chairman and President of Medical Funding Corporation. During the fiscal year ended September 30, 2002, the Company paid personnel recruiting fees totaling \$31,750 to Medical Funding Corporation.

#### **Note 7. Repurchase Agreement**

On September 30, 2003, the Company entered into a repurchase agreement (the Repurchase Agreement) with UBS for \$78,449,000, which agreement was settled on October 1, 2003. The Repurchase Agreement was recorded at cost and was fully collateralized by a United States Treasury Bill with a fair value of \$80,050,000 and a carrying value of \$80,022,249 that matured on October 16, 2003. The interest rate on the Repurchase Agreement was 0.80%.

On September 30, 2002, the Company entered into a repurchase agreement with UBS PaineWebber for \$39,198,719, which agreement was settled on October 1, 2002. The Repurchase Agreement was recorded at cost and was fully collateralized by a United States Treasury Bill with a fair value of \$40,004,000 and a carrying value of \$39,998,799 that matured on October 3, 2002. The interest rate on the Repurchase Agreement was 1.85%.

A repurchase agreement involves the purchase by an investor, such as the Company, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. Such interest rate is effective for the period of time during which the investor's money is invested in the arrangement and is related to current market interest rates rather than the coupon rate on the purchased security. The Company requires the continual maintenance by its custodian or the correspondent in its account with the Federal Reserve/Treasury Book Entry System of underlying securities. In the future the Company plans to use a similar form of repurchase agreement as an investment option or in order to satisfy certain asset diversification requirements and maintain the Company's status as a RIC under Subchapter M of the Code.

#### **Note 8. Deferred Compensation Plan**

The Company has adopted a deferred compensation plan (the 401(k) Plan) effective January 1, 2002. The 401(k) Plan permits an employee to defer the lesser of 75% of his or her total annual compensation or the applicable Internal Revenue Service (IRS) annual limit. Employees of the Company are eligible to participate in the 401(k) Plan upon completion of 1,000 hours of service within the first six months of employment or after one year of service. The service requirement has been waived for those employees who were employed by the Company as of January 1, 2002. As of September 30, 2003, the Company funded \$23,987 in contributions to the 401(k) Plan. The Company has received a determination letter from the IRS concurring that the deferred compensation plan satisfies the qualification requirements of the Code. For the fiscal years ended September 30, 2003 and

September 30, 2002, the Company recorded \$42,607 and \$23,569, respectively, in expenses related to the 401(k) Plan. There were no expenses related to the 401(k) Plan incurred during the period from inception through September 30, 2001.

**Note 9. Dividends**

On October 7, 2003, the Company paid a dividend of \$0.33 per share on its common stock to stockholders of record as of September 30, 2003. On July 7, 2003, The Company paid a dividend of \$0.29 per share on its common stock to stockholders of record as of June 30, 2003. On April 7, 2003, the Company paid a dividend of \$0.25 per share on its common stock to stockholders of record as of March 31, 2003 and on January 7, 2003, the Company paid a dividend of \$0.23 per share on its common stock to its stockholders of record as of December 31, 2002.

On October 7, 2002, the Company paid a dividend of \$0.21 per share on its common stock to its stockholders of record as of September 30, 2002. On July 8, 2002, the Company paid a dividend of \$0.21 per share on its common stock to its stockholders of record as of June 28, 2002. On April 8, 2002, the Company paid a dividend of \$0.21 per share on its common stock to its stockholders of record as of March 28, 2002. On January 15, 2002, the Company paid a dividend of \$0.18 per share on its common stock to its stockholders of record as of December 31, 2001.

Aggregate dividends declared and paid for the 2002 fiscal year were approximately \$8.2 million. The Company declared these dividends based upon an estimate of net operating income for the year. Because of the difficult economic climate during the year, the Company's investment pace was slower than originally anticipated, and consequently, net operating income was lower than originally projected. This resulted in dividends related to the 2002 fiscal year exceeding net operating income for the year by approximately \$0.5 million. Additionally, dividends related to the 2002 fiscal year exceeded current and accumulated earnings and profits and, as a result, a portion of the Company's dividends will be treated as a return of capital to the Company's stockholders.

**Note 10. Managerial Assistance Fees**

The 1940 Act requires that a business development company make available managerial assistance to its portfolio companies. The company provides managerial assistance to its portfolio companies in connection with its investments through its wholly-owned subsidiary, Advisers, and receives fees for its managerial assistance services. Such fees are normally paid at the closing of the Company's investments in its portfolio companies, are generally non-recurring and are recognized as revenue when earned. The managerial assistance services provided by the Company vary by investment, but generally consist of reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice. For the fiscal years ended September 30, 2003 and September 30, 2002, these fees totaled \$885,500 and \$1,673,614, respectively. For the period from inception through September 30, 2001, the Company did not receive any managerial assistance fees.

From time to time, the Company is invited to participate as a co-lender in a transaction. In the event that the Company does not provide significant managerial assistance services in connection with its investment, loan fees paid to the Company in such situations are deferred and amortized over the life of the loan. The Company did not receive any such loan fees during the fiscal years ended September 30, 2003, September 30, 2002 or for the period from inception through September 30, 2001.

**Note 11. Gladstone Business Loan LLC**

On May 19, 2003, Gladstone Business Loan LLC entered into a credit agreement with CIBC World Markets Corp. to provide the Company with a \$100 million revolving credit facility. This will enable the Company to securitize existing loans in order to be able to obtain additional lending funds. At September 30, 2003, there were no outstanding borrowings from the revolving credit facility.

**Note 12. Subsequent Events**

In November 2003, Kozy Shack Enterprises, Inc. repaid its entire outstanding loan balance for full settlement of any further obligations.

On December 5, 2003 the Company sold a \$3.2 million portion of its \$5.7 million Inca Metal Products Corp., Kingway Acquisition Inc., Clymer Acquisitions, Inc. note to American Capital Strategies for \$3.2 million. This leaves the principal balance of the investment at \$2.5 million.

**Note 13. Financial Highlights**

	Year Ended September 30, 2003	Year Ended September 30, 2002	Period May 30, 2001 (Inception) Through September 30, 2001
<b>Per Share Data (1)</b>			
Net asset value at beginning of period	\$ 12.97	\$ 13.05	\$ 15.00
Net investment income (loss)	1.12	0.76	(0.03)
Net unrealized loss on investments	(0.02)		
Issuance of common stock		(0.02)	(0.80)
Offering costs and underwriting discount		(0.01)	(1.12)
Distributions from net investment income	(1.10)	(0.76)	
Distributions in excess of net investment income		(0.05)	
Net asset value at end of period	\$ 12.97	\$ 12.97	\$ 13.05
Per share market value at beginning of period	\$ 16.88	\$ 16.14	\$ 15.00(4)
Per share market value at end of period	19.45	16.88	16.14
Total Return (2)	21.74%	9.60%	7.60%(3)
Shares outstanding at end of period	10,081,844	10,071,844	10,060,178
<b>Ratios/Supplemental Data</b>			
Net assets at end of period	\$ 130,802,382	\$ 130,663,273	\$ 131,249,144
Average net assets	132,196,505	130,984,674	52,937,390
Ratio of operating expenses to average net assets	2.92%	2.17%	0.92%(3)
Ratio of net operating income (loss) to average net assets	8.38%	5.81%	(0.18)%(3)

(1) Basic per share data.

(2) Total return equals the increase of the ending market value over the beginning market value, plus distributions, divided by the beginning market value.

(3) Amounts were not annualized.

(4)

Explanation of Responses:

Represents the initial public offering price.

F-19

---

## Note 14. Selected Quarterly Data (Unaudited)

## Year Ended September 30, 2003

	Quarter Ended December 31, 2002	Quarter Ended March 31, 2003	Quarter Ended June 30, 2003	Quarter Ended September 30, 2003
Total Investment Income	\$ 3,235,432	\$ 3,859,293	\$ 4,059,744	\$ 4,000,405
Net Investment Income	2,412,154	2,919,591	3,115,736	2,848,440
Net Increase in Stockholders' Equity Resulting From Operations	2,412,154	3,662,015	2,370,899	2,628,513
Basic Earnings per Common Share	\$ 0.24	\$ 0.36	\$ 0.24	\$ 0.26
Diluted Earnings per Common Share	\$ 0.24	\$ 0.36	\$ 0.23	\$ 0.26

## Year Ended September 30, 2002

	Quarter Ended December 31, 2001	Quarter Ended March 31, 2002	Quarter Ended June 30, 2002	Quarter Ended September 30, 2002
Total Investment Income	\$ 1,689,399	\$ 2,149,551	\$ 2,915,149	\$ 3,701,604
Net Investment Income	1,196,980	1,408,482	2,224,574	2,786,565
Net Increase in Stockholders' Equity Resulting From Operations	1,196,980	1,408,482	2,224,574	2,786,565
Basic Earnings per Common Share	\$ 0.12	\$ 0.14	\$ 0.22	\$ 0.28
Diluted Earnings per Common Share	\$ 0.12	\$ 0.14	\$ 0.22	\$ 0.27

F-20



## GLADSTONE CAPITAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2004	(Audited) September 30, 2003
<b>ASSETS</b>		
Investments at fair value (Cost 3/31/2004: \$140,626,669; 9/30/2003: \$109,529,893)	\$ 138,541,292	\$ 109,307,553
Cash and cash equivalents	6,809,323	21,143,972
Cash and cash equivalents pledged to creditors	95,004,939	80,022,249
Interest receivable investments in debt securities	1,270,800	1,041,943
Interest receivable cash and cash equivalents	361	955
Interest receivable officers	109,262	108,657
Due from custodian	225,000	1,207,000
Prepaid assets	1,334,538	1,479,815
Other assets	995,555	254,519
<b>TOTAL ASSETS</b>	<b>\$ 244,291,070</b>	<b>\$ 214,566,663</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 86,795	\$ 23,247
Dividends payable		3,327,009
Borrowings under line of credit	20,500,000	
Accrued expenses and deferred liabilities	2,184,166	1,965,025
Repurchase agreement	93,105,000	78,449,000
<b>Total Liabilities</b>	<b>\$ 115,875,961</b>	<b>\$ 83,764,281</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 10,105,178 and 10,081,844 shares issued and outstanding, respectively	\$ 10,105	\$ 10,082
Capital in excess of par value	140,723,063	140,416,674
Notes receivable officers	(9,232,698)	(8,985,940)
Net unrealized depreciation on investments	(2,085,377)	(222,340)
Undistributed/(overdistributed) net investment income	(999,984)	(416,094)
<b>Total Stockholders' Equity</b>	<b>\$ 128,415,109</b>	<b>\$ 130,802,382</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 244,291,070</b>	<b>\$ 214,566,663</b>

See accompanying notes.

## GLADSTONE CAPITAL CORPORATION

## SCHEDULE OF INVESTMENTS

AS OF MARCH 31, 2004

(UNAUDITED)

Company (1)	Industry	Investment	Cost	Fair Value
America's Water Heater Rentals, LLC	Water heater rentals and servicing	Senior Term Debt (2)(4)	\$ 12,000,000	\$ 12,060,000
ARI Holdings, Inc.	Manufacturing-auto parts	Senior Term Debt (2)(3)(4)	3,583,675	3,243,226
		Senior Term Debt (2)(4)	1,387,500	1,332,000
Burt's Bees, Inc.	Personal and household products	Senior Term Debt (4)	991,667	1,000,344
Coyne International Enterprises	Industrial services	Senior Term Debt (2)(3)(4)	15,578,330	15,403,074
Finn Corporation	Manufacturing-landscape equipment	Senior Subordinated Term Debt(4)	10,500,000	9,121,875
		Common Stock Warrants for 2% ownership	37,000	435,649
Fugate & Associates, Inc.	Imaging supplies	Senior Term Debt (4)	3,237,500	3,213,219
		Senior Term Debt (4)	1,499,999	1,494,374
GQM Acquisition Corp. d/b/a Gammill, Inc.	Designer and assembler of quilting machines and accessories	Senior Term Debt (4) Senior	7,312,500	7,312,500
		Term Debt (4)	7,000,000	7,000,000
Home Care Supply, Inc.	Medical equipment rental	Senior Term Debt (2)(4)(5)	18,000,000	18,696,600
Inca Metal Products Corp. Kingway Acquisition, Inc. Clymer Acquisition, Inc.	Material handling and storage products	Senior Term Debt (2)(4)	2,488,164	2,239,347
Marcal Paper Mills, Inc.	Manufacturing-paper products	Senior Term Debt (2)(4)	6,800,000	6,205,000
		First Mortgage Debt (3)	9,210,334	9,210,334
Medassets, Inc.	Pharmaceuticals and healthcare GPOs	Second Lien Term Debt	6,000,000	6,000,000
Mistras Holdings, Inc.	Nondestructive testing instruments, systems and services	Senior Term Debt(2)(4)	10,000,000	9,775,000
		Senior Term Debt (2)(4)	5,000,000	4,837,500
Wingstop Restaurants International, Inc.	Restaurant fast food	Senior Term Debt (4)	3,500,000	3,473,750
		Senior Debt (4)	2,000,000	1,987,500
Woven Electronics Corp.	Cable and wire harness assemblers	Senior Term Debt (2)	2,500,000	2,500,000
		Senior Term Debt (2)	6,000,000	6,000,000
		Senior Term Debt (2)	6,000,000	6,000,000
Totals			\$ 140,626,669	\$ 138,541,292

## Edgar Filing: PARRA ROSENDO G - Form 4

- (1) We do not "Control," and are not an "Affiliate" of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities and would be an "Affiliate" of a portfolio company if we owned 5% or more of its voting securities.
- (2) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
- (3) Has some paid in kind (PIK) interest. Refer to Note 2 "Summary of Significant Accounting Policies" of Form 10-K for the fiscal year ended September 30, 2003.
- (4) Fair value was based on valuation prepared and provided by Standard & Poor's Loan Evaluation Services.
- (5) Includes a success fee with a fair value of \$516,600 and no cost basis.

*See accompanying notes.*

F-22

---

**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**(UNAUDITED)**

	<b>Three Months Ended March 31, 2004</b>	<b>Three Months Ended March 31, 2003</b>
<b>INVESTMENT INCOME</b>		
Interest income investments	\$ 3,878,817	\$ 3,275,962
Interest income cash and cash equivalents	17,334	113,338
Interest income notes receivable from officers	109,538	109,737
Managerial assistance fees	356,231	358,000
Other income	6,000	2,256
<b>Total Investment Income</b>	<b>\$ 4,367,920</b>	<b>\$ 3,859,293</b>
<b>EXPENSES</b>		
Salaries and benefits	\$ 419,769	\$ 477,861
Rent	33,964	54,525
Professional fees	282,292	86,577
Directors fees	32,877	20,857
Insurance	63,274	73,686
Stockholder related costs	67,320	74,342
Financing fees	149,039	
Interest	24,602	
General and administrative	173,225	151,854
<b>Total Expenses</b>	<b>\$ 1,246,362</b>	<b>\$ 939,702</b>
<b>NET INVESTMENT INCOME</b>	<b>\$ 3,121,558</b>	<b>\$ 2,919,591</b>
Realized gain on sale of investment	12,500	
Net unrealized (depreciation) appreciation on investments	(305,475)	742,424
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>	<b>\$ 2,828,583</b>	<b>\$ 3,662,015</b>
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE:</b>		
Basic	\$ 0.28	\$ 0.36
Diluted	\$ 0.27	\$ 0.36
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:</b>		
Basic	10,087,615	10,071,844
Diluted	10,375,281	10,100,062

*See accompanying notes.*

**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**(UNAUDITED)**

	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
<b>INVESTMENT INCOME</b>		
Interest income investments	\$ 7,418,513	\$ 6,203,625
Interest income cash and cash equivalents	65,955	311,504
Interest income notes receivable from officers	218,170	219,341
Managerial assistance fees	611,231	358,000
Other income	22,000	2,256
<b>Total Investment Income</b>	<b>\$ 8,335,869</b>	<b>\$ 7,094,726</b>
<b>EXPENSES</b>		
Salaries and benefits	\$ 810,476	\$ 911,101
Rent	71,724	109,145
Professional fees	459,950	201,267
Directors fees	57,210	34,357
Insurance	137,285	144,841
Stockholder related costs	119,980	111,432
Financing fees	294,035	
Interest	24,602	
General and administrative	300,413	250,837
<b>Total Expenses</b>	<b>\$ 2,275,675</b>	<b>\$ 1,762,980</b>
<b>NET INVESTMENT INCOME</b>	<b>\$ 6,060,194</b>	<b>\$ 5,331,746</b>
Realized gain on sale of investment	12,500	
Net unrealized (depreciation) appreciation on investments	(1,863,037)	742,424
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>	<b>\$ 4,209,657</b>	<b>\$ 6,074,170</b>
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE:</b>		
Basic	\$ 0.42	\$ 0.60
Diluted	\$ 0.41	\$ 0.60
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:</b>		
Basic	10,084,729	10,071,844
Diluted	10,354,405	10,112,129

*See accompanying notes.*

**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

	<b>Common Stock</b>		<b>Capital in Excess of Par Value</b>	<b>Notes Receivable From Sale of Common Stock</b>	<b>Under/(Over) Distributed Net Investment Income</b>	<b>Realized Gain on Sale of Investment</b>	<b>Unrealized Appreciation/(Depreciation) of Investments</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>						
For the six months ended March 31, 2003:								
Balance at September 30, 2002	10,071,844	\$ 10,072	\$ 140,266,684	\$ (8,983,796)	\$ (629,687)	\$	\$	\$ 130,663,273
Net Increase in Stockholders' Equity Resulting from Operations					5,331,746		742,424	6,074,170
Distributions Declared (\$0.48 per common share)					(4,834,485)			(4,834,485)
<b>Balance at March 31, 2003</b>	<b>10,071,844</b>	<b>\$ 10,072</b>	<b>\$ 140,266,684</b>	<b>\$ (8,983,796)</b>	<b>\$ (132,426)</b>	<b>\$</b>	<b>\$ 742,424</b>	<b>\$ 131,902,958</b>
For the six months ended March 31, 2004:								
Balance at September 30, 2003	10,081,844	\$ 10,082	\$ 140,416,674	\$ (8,985,940)	\$ (416,094)	\$	\$ (222,340)	\$ 130,802,382
Issuance of Common Stock Under Stock Option Plan	23,334	23	349,987	(350,010)				
Repayment of Principal on Notes Receivable				103,252				103,252
Shelf Offering			(43,598)					(43,598)
Net Increase in Stockholders' Equity Resulting from Operations					6,060,194	12,500	(1,863,037)	4,209,657
Distributions Declared (\$0.66 per common share)					(6,656,584)			(6,656,584)
<b>Balance at March 31, 2004</b>	<b>10,105,178</b>	<b>\$ 10,105</b>	<b>\$ 140,723,063</b>	<b>\$ (9,232,698)</b>	<b>\$ (1,012,484)</b>	<b>\$ 12,500</b>	<b>\$ (2,085,377)</b>	<b>\$ 128,415,109</b>

SEE ACCOMPANYING NOTES.



**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase in stockholders' equity resulting from operations	\$ 4,209,657	\$ 6,074,170
Adjustments to reconcile net increase (decrease) in stockholders' equity resulting from operations to net cash provided by (used in) operating activities:		
Depreciation	14,438	13,791
Change in net unrealized depreciation (appreciation)	1,863,037	(742,424)
Increase in interest receivable	(228,868)	(253,946)
Decrease in funds due from custodian	982,000	
Increase in other assets	(750,918)	(121,559)
Decrease in prepaid assets	27,949	45,790
Increase in accounts payable	63,548	
Increase in accrued expenses and deferred liabilities	219,141	770,601
Increase in investment balance due to payment in kind interest	(275,316)	(426,122)
	<b>\$ 6,124,668</b>	<b>\$ 5,360,301</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment, net	\$ (4,558)	\$ (54,115)
Purchase of investments	(36,000,000)	(21,500,000)
Principal repayments on investments	5,178,541	350,000
Proceeds from repurchase agreements	186,206,000	102,915,974
Repayment of repurchase agreements	(171,550,000)	(78,404,416)
Receipt of principal on notes receivable - officers	103,252	
	<b>\$ (16,066,765)</b>	<b>\$ 3,307,443</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Prepaid financing fees	\$ 117,329	\$
Increase in borrowings from the line of credit	20,500,000	
Shelf offering	(43,598)	
Distributions paid	(9,983,593)	(4,431,613)
	<b>\$ 10,590,138</b>	<b>\$ (4,431,613)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 648,041</b>	<b>\$ 4,236,131</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>\$ 101,166,221</b>	<b>\$ 91,929,328</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 8)</b>	<b>\$ 101,814,262</b>	<b>\$ 96,165,459</b>
<b>NON-CASH FINANCING ACTIVITIES</b>		
Notes receivable issued in exchange for common stock associated with the exercise of employee stock options	\$ 350,010	\$

*See accompanying notes.*





**GLADSTONE CAPITAL CORPORATION**  
**FINANCIAL HIGHLIGHTS**  
**(UNAUDITED)**

	<b>Three Months Ended March 31, 2004</b>	<b>Three Months Ended March 31, 2003</b>
<b>Per Share Data(1)</b>		
Net asset value at beginning of period	\$ 12.79	\$ 12.98
Net investment income	0.31	0.29
Realized gain on sale of investment		
Net unrealized (loss)/gain on investments	(0.03)	0.07
Issuance of common stock under stock option plan	(0.03)	
Distributions from net investment income	(0.33)	(0.25)
Repayment of principal on notes receivable		
Net asset value at end of period	\$ 12.71	\$ 13.09
Per share market value at beginning of period	\$ 22.35	\$ 16.47
Per share market value at end of period	22.41	16.18
Total Return(2)(3)	1.76%	-0.24%
Shares outstanding at end of period	10,105,178	10,071,844
<b>Ratios/Supplemental Data</b>		
Net assets at end of period	\$ 128,415,109	\$ 131,902,958
Average net assets	127,521,641	132,125,265
Ratio of expenses to average net assets annualized	3.87%	2.85%
Ratio of net investment income to average net assets annualized	9.68%	11.09%
	<b>Six Months Ended March 31, 2004</b>	<b>Six Months Ended March 31, 2003</b>
<b>Per Share Data(1)</b>		
Net asset value at beginning of period	\$ 12.97	\$ 12.97
Net investment income	0.60	0.53
Realized gain on sale of investment		
Net unrealized (loss)/gain on investments	(0.18)	0.07
Issuance of common stock under stock option plan	(0.03)	
Distributions from net investment income	(0.66)	(0.48)
Repayment of principal on notes receivable	0.01	
Net asset value at end of period	\$ 12.71	\$ 13.09
Per share market value at beginning of period	\$ 19.45	\$ 16.88
Per share market value at end of period	22.41	16.18
Total Return(2)(3)	18.76%	-1.30%
Shares outstanding at end of period	10,105,178	10,071,844
<b>Ratios/Supplemental Data</b>		
Net assets at end of period	\$ 128,415,109	\$ 131,902,958
Average net assets	128,261,840	131,844,204
Ratio of expenses to average net assets annualized	3.55%	2.67%
Ratio of net investment income to average net assets annualized	9.45%	9.21%

(1) Basic per share data.

Edgar Filing: PARRA ROSENDO G - Form 4

- (2) Amounts were not annualized for the results of the three and six-month periods ended March 31, 2004 and March 31, 2003.
- (3) Total return equals the increase of the ending market value over the beginning market value plus monthly dividends divided by the monthly beginning market value.

*See accompanying notes.*

F-27

---

**GLADSTONE CAPITAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**

**(UNAUDITED)**

**NOTE 1. UNAUDITED INTERIM FINANCIAL STATEMENTS**

Interim financial statements of Gladstone Capital Corporation (the "Company") are prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 2003, as filed with the Securities and Exchange Commission.

**NOTE 2. ORGANIZATION**

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

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

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

**NOTE 3. STOCK OPTIONS**

The following tables set forth the pro-forma effect of fair value option accounting for the three and six months ended March 31, 2004 and March 31, 2003 in accordance with Statement of Financial Accounting Standards (SFAS) Statement No. 148 "Accounting for Stock-Based Compensation Transition and Disclosure".

	<b>Three Months Ended March 31, 2004</b>	<b>Three Months Ended March 31, 2003</b>
Increase in stockholders' equity from operations, as reported	\$ 2,828,583	\$ 3,662,015
Deduct: total stock-based employee compensation expense determined under fair value method for all awards	(406,271)	(157,720)
<b>Pro-forma increase in stockholders' equity from operations</b>	<b>\$ 2,422,312</b>	<b>\$ 3,504,295</b>
Increase in stockholders' equity from operations per share		
Basic, as reported	\$ 0.28	\$ 0.36
Basic, pro-forma	\$ 0.24	\$ 0.35
Diluted, as reported	\$ 0.27	\$ 0.36
Diluted, pro-forma	\$ 0.23	\$ 0.35

	<b>Six Months Ended March 31, 2004</b>	<b>Six Months Ended March 31, 2003</b>
Increase in stockholders' equity from operations, as reported	\$ 4,209,657	\$ 6,074,170
Deduct: total stock-based employee compensation expense determined under fair value method for all awards	(810,301)	(315,441)
<b>Pro-forma increase in stockholders' equity from operations</b>	<b>\$ 3,399,356</b>	<b>\$ 5,758,729</b>
Increase in stockholders' equity from operations per share		
Basic, as reported	\$ 0.42	\$ 0.60
Basic, pro-forma	\$ 0.34	\$ 0.57
Diluted, as reported	\$ 0.41	\$ 0.60
Diluted, pro-forma	\$ 0.33	\$ 0.57

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

The following table sets forth the computation of basic and diluted net increase in stockholders' equity resulting from operations per share for the three and six months ended March 31, 2004 and March 31, 2003:

	<b>Three Months Ended March 31, 2004</b>	<b>Three Months Ended March 31, 2003</b>
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share	\$ 2,828,583	\$ 3,662,015
Denominator for basic weighted average shares	10,087,615	10,071,844
Dilutive potential shares	287,666	28,218
Denominator for diluted weighted average shares	10,375,281	10,100,062
Employee stock options	1,040,830	931,664
Basic net increase in stockholders' equity resulting from operations per common share	0.28	0.36
Diluted net increase in stockholders' equity resulting from operations per common share	0.27	0.36
	<b>Six Months Ended March 31, 2004</b>	<b>Six Months Ended March 31, 2003</b>
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share	\$ 4,209,657	\$ 6,074,170
Denominator for basic weighted average shares	10,084,729	10,071,844
Dilutive potential shares	269,676	40,285
Denominator for diluted weighted average shares	10,354,405	10,112,129
Employee stock options	1,040,830	931,664
Basic net increase in stockholders' equity resulting from operations per common share	0.42	0.60
Diluted net increase in stockholders' equity resulting from operations per common share	0.41	0.60

F-30

**NOTE 5. DIVIDENDS**

The Company is required to pay out as a dividend 90% of its ordinary income and short-term capital gains for each taxable year in order to maintain its status as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. It is the policy of the Company to pay out as a dividend up to 100% of those amounts. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based on the annual earnings estimated by the management of the Company. Based on that estimate, a dividend is declared each quarter. At year-end the Company may pay a bonus dividend, in addition to the quarterly dividends, to ensure that it has paid out at least 90% of its ordinary income and short-term capital gains for the year. The Company has a policy of retaining long-term capital gains, if any, and not paying them out as dividends. Effective October 31, 2003, the Company began paying a monthly dividend. The following table illustrates the 2004 fiscal year monthly dividends per share and the 2003 quarterly dividend per share for the six months ended March 31:

<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend per Share</b>	<b>Monthly or Quarterly</b>
Mar. 18, 2004	Mar. 31, 2004	\$ 0.11	Monthly
Feb. 16, 2004	Feb. 27, 2004	\$ 0.11	Monthly
Jan. 19, 2004	Jan. 30, 2004	\$ 0.11	Monthly
Dec. 18, 2003	Dec. 31, 2003	\$ 0.11	Monthly
Nov. 17, 2003	Nov. 28, 2003	\$ 0.11	Monthly
Oct. 20, 2003	Oct. 31, 2003	\$ 0.11	Monthly
Sept. 30, 2003	Oct. 6, 2003	\$ 0.33	Quarterly
June 30, 2003	July 7, 2003	\$ 0.29	Quarterly
March 31, 2003	April 7, 2003	\$ 0.25	Quarterly
Dec. 31, 2002	Jan 7, 2003	\$ 0.23	Quarterly

**NOTE 6. INVESTMENT VALUATION**

The Company carries its investments at fair value, as determined by its Board of Directors. Securities that are publicly traded are valued at the closing price on the valuation date. Debt and equity securities that are not publicly traded are valued at fair value as determined in good faith by the Board of Directors. Beginning in March 2003, the Company engaged Standard & Poor's Loan Evaluation Service (S&P) to perform independent valuations of its investments. The Board of Directors uses the recommended valuations as prepared by S&P as a component of the foundation for the final fair value determination. In making such determination, the Board of Directors values non-convertible debt securities at cost plus amortized original issue discount plus PIK interest, if any, unless adverse factors lead to a determination of a lesser valuation. In valuing convertible debt, equity, success fees or other equity like securities, the Board of Directors determines the fair value based on the collateral, the issuer's ability to make payments, the earnings of the issuer, sales to third parties of similar securities, the comparison to publicly traded securities, discounted cash flow and other pertinent factors. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have resulted had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains ultimately realized on these

investments to be different than the valuation currently assigned. Because there is a lag between when we close a loan and when the loan can be evaluated by S&P, new loans are not valued immediately by S&P; rather, the Board makes its own determination about the value of the loan in accordance with our valuation policy. Because S&P does not provide values for mortgage loans or equity securities, the directors also determine fair value of these.

**NOTE 7. LOAN AND MANAGERIAL ASSISTANCE FEES**

The 1940 Act requires that a business development company make available managerial assistance to its portfolio companies. The Company provides managerial assistance to its portfolio companies through its wholly-owned subsidiary, Gladstone Capital Advisers, Inc. The Company receives fee income for managerial assistance it renders to portfolio companies in connection with its investments. Such fees are normally paid at the closing of the Company's investments and are generally non-recurring. These managerial assistance services vary by investment, but generally consist of reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice. For the three and six months ended March 31, 2004 these fees totaled approximately \$356,000 and \$611,000, respectively, and for the three and six months ended March 31, 2003, these fees totaled \$358,000.

From time to time, the Company will be invited to participate as a co-lender in a transaction. Where the Company does not provide significant managerial assistance services in connection with its investment, loan fees paid to the Company in such situations will be deferred and amortized over the life of the loan.

**NOTE 8. PAYMENT IN KIND INTEREST**

The Company has loans in its portfolio, which contain a payment in kind ("PIK") provision. The PIK interest is added to the principal balance of the loan and recorded as income. To maintain the Company's status as a RIC (as discussed in Note 5, above), this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the three and six months ended March 31, 2004, the Company recorded PIK income of \$137,862 and \$276,405, respectively, and for the three and six months ended March 31, 2003, the Company recorded PIK income of \$223,754 and \$435,076, respectively. At March 31, 2004 and September 30, 2003 the Company had accrued on its balance sheet, a total in PIK income of \$887,890 and \$608,572 respectively. The Company does not have any original issue discount income.

**NOTE 9. REPURCHASE AGREEMENT**

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



repurchase obligation, the Company might suffer a loss to the extent that the proceeds from the sale of the underlying securities were less than the repurchase price. A seller's bankruptcy could delay or prevent a sale of the underlying securities.

On March 31, 2004, the Company entered into a Repurchase Agreement with UBS Paine Webber for \$93,105,000, which agreement was settled on April 1, 2004. The Repurchase Agreement was recorded at cost and was fully collateralized by a United States Treasury Bill with a fair value of \$95,025,000 and a carrying value of \$95,004,939 that matured on April 8, 2004. The interest rate on the Repurchase Agreement was 0.92%. On September 30, 2003, the Company entered into a Repurchase Agreement with UBS for \$78,449,000, which agreement was settled on October 1, 2003. The Repurchase Agreement was recorded at cost and was fully collateralized by a United States Treasury Bill with a fair value of \$80,050,000 and a carrying value of \$80,022,249 that matured on October 16, 2003. The interest rate on the Repurchase Agreement was 0.80%.

**NOTE 10. CONTRACTUAL OBLIGATIONS**

The Company occupies its McLean, Virginia office space pursuant to a license agreement scheduled to expire on October 31, 2004. The Company's New York City office facility has a service agreement scheduled to expire August 31, 2004. The future scheduled payments are as follows:

Contractual Obligations	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Office Lease Obligations	\$ 113,473	\$ 113,473			
Total	\$ 113,473	\$ 113,473			

**NOTE 11. INTEREST RATE CAP AGREEMENT**

Pursuant to our line of credit, we have agreed to enter into hedging transactions, and as such have purchased an interest rate cap agreement in February 2004 as a result of our borrowing under the line of credit. The transaction will effectively limit the interest rate on a portion of our borrowings.

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

In February 2004, the Company entered into a cap agreement at a cost of \$304,000 which is recorded in other assets on the Company's consolidated balance sheet at March 31, 2004. The agreement provides that the Company's floating interest rate or cost of funds on a portion of the portfolio's borrowings will be capped at 5% when the LIBOR rate is in excess of 5%.

**NOTE 12. DEFERRED COMPENSATION PLAN**

The Company has adopted a deferred compensation plan (the "Plan") effective January 1, 2002. The Plan permits an employee to defer the lesser of 75% of his or her total compensation or the applicable Internal Revenue Service ("IRS") limit. The employees are eligible to participate in the Plan

upon completion of 1,000 hours of service within the first six months of employment or after one year of service. The service requirement is waived for those employees who were employed as of January 1, 2002. The Company has funded \$23,987 in contributions to the Plan that were accrued in the fiscal year ended September 30, 2003. The Company has received a determination letter from the IRS concurring that the deferred compensation plan satisfies the qualification requirements of the Code.

**NOTE 13. SUBSEQUENT EVENTS**

In April 2004, the Company sold \$4.6 million of its principal interests in Gammill, Inc. The Company's remaining investments in Gammill, subsequent to the sale, are \$4.963 million and \$4.75 million, or a total of \$9.713 million.

Also, in April 2004, Wingstop Restaurants International, Inc. repaid its entire \$5.5 million outstanding loan obligations for full settlement of any further obligations and remitted the related prepayment fees and success fee upon termination.

**PART C  
OTHER INFORMATION**

**Item 24. Financial Statements and Exhibits****1. Financial Statements**

The following financial statements of Gladstone Capital Corporation (the "Company" or the "Registrant") are included in the registration statement in "Part A: Information Required in a Prospectus":

**Audited Consolidated Financial Statements**

Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm  
 Report of Ernst & Young LLP, Independent Registered Public Accounting Firm  
 Consolidated Balance Sheets as of September 30, 2003 and September 30, 2002  
 Consolidated Schedule of Investments as of September 30, 2003  
 Consolidated Schedule of Investments as of September 30, 2002  
 Consolidated Statements of Operations for the years ended September 30, 2003 and September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001  
 Consolidated Statements of Stockholders Equity for the years ended September 30, 2003 and September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001  
 Consolidated Statements of Cash Flows for the years ended September 30, 2003 and September 30, 2002 and the period from May 30, 2001 (inception) through September 30, 2001  
 Notes to Financial Statements

**Unaudited Consolidated Financial Statements**

Consolidated Balance Sheets as of March 31, 2004 and September 30, 2003 (audited)  
 Schedules of Investments as of March 31, 2004 and September 30, 2003 (audited)  
 Consolidated Statements of Operations for the six months ended March 31, 2004 and March 31, 2003  
 Consolidated Statements of Operations for the three months ended March 31, 2004 and March 31, 2003  
 Consolidated Statements of Stockholders Equity for the six months ended March 31, 2004 and March 31, 2003  
 Consolidated Statements of Cash Flows for the six months ended March 31, 2004 and March 31, 2003  
 Financial Highlights for the three and six months ended March 31, 2004 and March 31, 2003  
 Notes to Financial Statements

**2. Exhibits**

Exhibit Number	Description
a.1 (1)	Articles of Incorporation.
a.2 (1)	Articles of Amendment and Restatement of the Articles of Incorporation.
b.1 (1)	Bylaws.
b.2 (5)	Amendment to Bylaws.
c	Not applicable.
d.1 (1)	Form of Direct Registration Transaction Advice for the Company's common stock, par value \$0.001 per share, the rights of holders of which are defined in Exhibits a and b.
d.2 (1)	Specimen Stock Certificate.

## Edgar Filing: PARRA ROSENDO G - Form 4

d.3+	Form of indenture.
e (1)	Dividend Reinvestment Plan.
f	Not applicable.
g	Not applicable.
h	Not applicable.
i.1 (1)	Amended and Restated 2001 Equity Incentive Plan.
i.2 (1)	Form of Stock Option Agreement.
i.3 (1)	First Amendment to Amended and Restated 2001 Equity Incentive Plan.
i.4 (1)	Form of Early Exercise Stock Purchase Agreement.
i.5+	Second Amendment to Amended and Restated 2001 Equity Incentive Plan.
i.6+	Third Amendment to Amended and Restated 2001 Equity Incentive Plan.
j (1)	Custody Agreement with First Union National Bank with respect to safekeeping.
k.1 (1)	Stock Transfer Agency Agreement between the Company and the Bank of New York.
k.2 (1)	Employment Agreement dated June 25, 2001 between the Company and David Gladstone.
k.3 (1)	Employment Agreement dated July 23, 2001 between the Company and Terry Lee Brubaker.
k.4 (1)	Amendment to Employment Agreement dated August 8, 2001, between the Company and David Gladstone.
k.5+	Employment Agreement dated September 12, 2002 between the Company and George Stelljes III.
k.6 (2)	Promissory Note of David Gladstone in favor of the Company, dated August 23, 2001.
k.7 (2)	Promissory Note of Terry Brubaker in favor of the Company, dated August 23, 2001.
k.8 (2)	Promissory Note of Harry Brill in favor of the Company, dated August 23, 2001.
k.9+	Facility Service License, dated August 1, 2002, between the Company and Teqcorner, LLC.
k.10 (3)	Credit Agreement dated as of May 19, 2003 between Gladstone Business Loan LLC and CIBC World Markets Corporation.
k.11 (4)	Amendment No. 1 to Credit Agreement dated as of September 17, 2003.
k.12 (6)	Amendment No. 2 to Credit Agreement dated as of February 6, 2004.
k.13 (4)	Facility License Agreement, dated November 1, 2003, between the Company and Teqcorner LLC.
k.14*	Second Amendment to Employment Agreement dated July 15, 2003 between the Company and David Gladstone.
k.15*	Amendment to Employment Agreement dated July 15, 2003 between the Company and Terry Lee Brubaker.
k.16*	Amendment to Employment Agreement dated July 15, 2003 between the Company and George Stelljes III.
k.17*	Third Amendment to Employment Agreement dated April 22, 2004 between the Company and David Gladstone.
k.18*	Second Amendment to Employment Agreement dated May 6, 2004 between the Company and Terry Lee Brubaker.
k.19*	Second Amendment to Employment Agreement dated May 6, 2004 between the Company and George Stelljes III.
k.20*	Loan Agreement dated as of June 22, 2004 between the Company and Branch Banking and Trust Company.
l+	Opinion of Cooley Godward LLP.
m	Not applicable.
n.1*	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
n.2*	Consent of Ernst & Young LLP, independent registered public accounting firm.
n.3+	Consent of Cooley Godward LLP (included in Exhibit I).
o	Not applicable.

C-2

## Edgar Filing: PARRA ROSENDO G - Form 4

p (1)	Subscription Agreement dated May 30, 2001.
q	Not applicable.
r+	Code of Ethics.
s+	Powers of Attorney.

- (1) *Previously filed and incorporated by reference from the Registrant's Registration Statement on Form N-2 (333-63700).*
- (2) *Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2001, filed October 4, 2001.*
- (3) *Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed August 14, 2003.*
- (4) *Previously filed and incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended September 30, 2003, filed December 11, 2003.*
- (5) *Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2003, filed February 17, 2004.*
- (6) *Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed May 13, 2004.*
- + *Previously filed as an exhibit to this registration statement.*
- \* *Filed herewith.*

### Item 25. Marketing Arrangements

The information contained under the heading "Plan of Distribution" on page 83 of the prospectus is incorporated herein by reference, and any information concerning any underwriters will be contained in the accompanying prospectus supplement, if any.

### Item 26. Other Expenses of Issuance and Distribution

Commission registration fee	\$ 6,900
Nasdaq National Market Additional Listing Fee*	22,500
Accounting fees and expenses*	25,000
Legal fees and expenses*	250,000
Printing and engraving*	50,000
Miscellaneous fees and expenses*	10,000
	<hr/>
Total	\$ 364,400
	<hr/>

\* *Estimated for filing purposes.*

All of the expenses set forth above shall be borne by the Company.

### Item 27. Persons Controlled By or Under Common Control

Explanation of Responses:

## Edgar Filing: PARRA ROSENDO G - Form 4

The Company has two wholly-owned subsidiaries: Gladstone Capital Advisers, Inc., a Delaware corporation ("Advisers") (formerly known as Gladstone Advisers, Inc., a Virginia corporation) and Gladstone Business Loan LLC, a Delaware limited liability company ("Gladstone Business Loan"). The Company owns 100% of the voting securities of Advisers and Gladstone Business Loan. Advisers and Gladstone Business Loan are consolidated with the Company for financial reporting purposes.

C-3

---

**Item 28. Number of Holders of Securities**

The following table sets forth the approximate number of record holders of the Company's common stock at June 30, 2004.

Title of Class	Number of Record Holders
Common stock, \$0.001 par value per share	77

**Item 29. Indemnification**

The Annotated Code of Maryland, Corporations and Associations (the "Maryland Law"), Section 2-418 provides that a Maryland corporation may indemnify any director of the corporation and any person who, while a director of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, other enterprise or employee benefit plan, made a party to any proceeding by reason of service in that capacity unless it is established that the act or omission of the director was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty; or the director actually received an improper personal benefit in money, property or services; or, in the case of any criminal proceeding, the director had reasonable cause to believe that the act or omission was unlawful. Indemnification may be made against judgments, penalties, fines, settlements, and reasonable expenses actually incurred by the director in connection with the proceeding, but if the proceeding was one by or in the right of the corporation, indemnification may not be made in respect of any proceeding in which the director shall have been adjudged to be liable to the corporation. Such indemnification may not be made unless authorized for a specific proceeding after a determination has been made, in the manner prescribed by the law, that indemnification is permissible in the circumstances because the director has met the applicable standard of conduct. On the other hand, the director must be indemnified for expenses if he or she has been successful in the defense of the proceeding or as otherwise ordered by a court. The law also prescribes the circumstances under which the corporation may advance expenses to, or obtain insurance or similar cover for, directors. The law also provides for comparable indemnification for corporate officers and agents.

The Articles of Incorporation of the Company provide that its directors and officers shall, and its agents in the discretion of the board of directors may, be indemnified to the fullest extent permitted from time to time by the laws of Maryland (with such power to indemnify officers and directors limited to the scope provided for in Section 2-418 as currently in force), provided, however, that such indemnification is limited by the Investment Company Act of 1940 or by any valid rule, regulation or order of the Securities and Exchange Commission thereunder. The Company's Bylaws provide that the Company may not indemnify any director or officer against liability to the Company or its security holders to which he or she might otherwise be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of such disabling conduct.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the provisions described above, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person in the successful defense of an action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its

counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of the court of the issue.

The Company carries liability insurance for the benefit of its directors and officers on a claims-made basis of up to \$10,000,000, subject to a retention of up to \$200,000 for certain claims.

**Item 30. Business and Other Connections of Investment Adviser**

Not applicable.

**Item 31. Location of Accounts and Records**

The Company maintains at its principal office physical possession of each account, book or other document required to be maintained by Section 31(a) of the 1940 Act and the rules thereunder.

**Item 32. Management Services**

Not applicable.

**Item 33. Undertakings**

The Registrant hereby undertakes:

(1) to suspend the offering of shares until the prospectus is amended if (1) subsequent to the effective date of this registration statement, its net asset value declines more than ten percent from its net asset value as of the effective date of this registration statement; or (2) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.

(2) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(3) that, for the purpose of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective;

(4) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(5) that, for the purpose of determining any liabilities under the Securities Act of 1933, each post effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Post-effective Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the County of Fairfax, in the Commonwealth of Virginia, on the 15th day of July, 2004.

**GLADSTONE CAPITAL CORPORATION**

By: /s/ DAVID GLADSTONE

David Gladstone  
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Post-effective Amendment has been signed by the following persons in the capacities indicated on July 15, 2004.

Signature	Title
*	
David Gladstone	Chairman of the Board and Chief Executive Officer (principal executive officer)
*	
Terry Brubaker	Vice Chairman, Chief Operating Officer and Director
*	
George Stelljes III	President, Chief Investment Officer and Director
*	
Harry Brill	Chief Financial Officer (principal financial and accounting officer)
*	
David A.R. Dullum	Director
*	
Anthony W. Parker	Director
*	
Michela A. English	Director
*	
Paul W. Adelgren	Director

\*

\_\_\_\_\_  
Maurice W. Coulon                      Director

\*

\_\_\_\_\_  
John H. Outland                      Director

\*By:            /s/ DAVID GLADSTONE  
\_\_\_\_\_  
David Gladstone  
*(attorney-in-fact)*

C-7

\_\_\_\_\_

## EXHIBIT LIST

Exhibit Number	Description
a.1 (1)	Articles of Incorporation.
a.2 (1)	Articles of Amendment and Restatement of the Articles of Incorporation.
b.1 (1)	Bylaws.
b.2 (5)	Amendment to Bylaws.
c	Not applicable.
d.1 (1)	Form of Direct Registration Transaction Advice for the Company's common stock, par value \$0.001 per share, the rights of holders of which are defined in Exhibits a and b.
d.2 (1)	Specimen Stock Certificate.
d.3+	Form of indenture.
e (1)	Dividend Reinvestment Plan.
f	Not applicable.
g	Not applicable.
h	Not applicable.
i.1 (1)	Amended and Restated 2001 Equity Incentive Plan.
i.2 (1)	Form of Stock Option Agreement.
i.3 (1)	First Amendment to Amended and Restated 2001 Equity Incentive Plan.
i.4 (1)	Form of Early Exercise Stock Purchase Agreement.
i.5+	Second Amendment to Amended and Restated 2001 Equity Incentive Plan.
i.6+	Third Amendment to Amended and Restated 2001 Equity Incentive Plan.
j (1)	Custody Agreement with First Union National Bank with respect to safekeeping.
k.1 (1)	Stock Transfer Agency Agreement between the Company and the Bank of New York.
k.2 (1)	Employment Agreement dated June 25, 2001 between the Company and David Gladstone.
k.3 (1)	Employment Agreement dated July 23, 2001 between the Company and Terry Lee Brubaker.
k.4 (1)	Amendment to Employment Agreement dated August 8, 2001, between the Company and David Gladstone.
k.5+	Employment Agreement dated September 12, 2002 between the Company and George Stelljes III.
k.6 (2)	Promissory Note of David Gladstone in favor of the Company, dated August 23, 2001.
k.7 (2)	Promissory Note of Terry Brubaker in favor of the Company, dated August 23, 2001.
k.8 (2)	Promissory Note of Harry Brill in favor of the Company, dated August 23, 2001.

Edgar Filing: PARRA ROSENDO G - Form 4

Exhibit Number	Description
k.9+	Facility Service License, dated August 1, 2002, between the Company and Teqcorner, LLC.
k.10 (3)	Credit Agreement dated as of May 19, 2003 between Gladstone Business Loan LLC and CIBC World Markets Corporation.
k.11 (4)	Amendment No. 1 to Credit Agreement dated as of September 17, 2003.

Edgar Filing: PARRA ROSENDO G - Form 4

k.12 (6)	Amendment No. 2 to Credit Agreement dated as of February 6, 2004.
k.13 (4)	Facility License Agreement, dated November 1, 2003, between the Company and Teqcorner LLC.
k.14*	Second Amendment to Employment Agreement dated July 15, 2003 between the Company and David Gladstone.
k.15*	Amendment to Employment Agreement dated July 15, 2003 between the Company and Terry Lee Brubaker.
k.16*	Amendment to Employment Agreement dated July 15, 2003 between the Company and George Stelljes III.
k.17*	Third Amendment to Employment Agreement dated April 22, 2004 between the Company and David Gladstone.
k.18*	Second Amendment to Employment Agreement dated May 6, 2004 between the Company and Terry Lee Brubaker.
k.19*	Second Amendment to Employment Agreement dated May 6, 2004 between the Company and George Stelljes III.
k.20*	Loan Agreement dated as of June 22, 2004 between the Company and Branch Banking and Trust Company.
l+	Opinion of Cooley Godward LLP.
m	Not applicable.
n.1*	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
n.2*	Consent of Ernst & Young LLP, independent registered public accounting firm.
n.3+	Consent of Cooley Godward LLP (included in Exhibit I).
o	Not applicable.
p (1)	Subscription Agreement dated May 30, 2001.
q	Not applicable.
r+	Code of Ethics.
s+	Powers of Attorney.

- (1) *Previously filed and incorporated by reference from the Registrant's Registration Statement on Form N-2 (333-63700).*
- (2) *Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2001, filed October 4, 2001.*
- (3) *Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed August 14, 2003.*
- (4) *Previously filed and incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended September 30, 2003, filed December 11, 2003.*
- (5) *Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2003, filed February 17, 2004.*
- (6)

Edgar Filing: PARRA ROSENDO G - Form 4

*Previously filed and incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed May 13, 2004.*

+

*Previously filed as an exhibit to this registration statement.*

\*

*Filed herewith.*

---