

GLADSTONE CAPITAL CORP
Form POS 8C
December 19, 2017
Table of Contents

As filed with the Securities and Exchange Commission on December 19, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

1933 Act File No. 333-208637

Form N-2
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PRE-EFFECTIVE AMENDMENT NO.

POST-EFFECTIVE AMENDMENT NO. 5

GLADSTONE CAPITAL CORPORATION

(Exact name of registrant as specified in charter)

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1521 WESTBRANCH DRIVE, SUITE 100

MCLEAN, VA 22102

(Address of principal executive offices)

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

DAVID GLADSTONE

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

GLADSTONE CAPITAL CORPORATION

1521 WESTBRANCH DRIVE, SUITE 100

MCLEAN, VIRGINIA 22102

(Name and address of agent for service)

COPIES TO:

Lori B. Morgan

Bass, Berry & Sims PLC

150 Third Avenue South

Suite 2800

Nashville, TN 37201

(615) 742-6280

(615) 742-6293 (Facsimile)

Approximate date of proposed public offering: From time to time after the effective date of this registration statement.

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

It is proposed that this filing will become effective (check appropriate box):

When declared effective pursuant to Section 8(c).

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

Table of Contents

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

SUBJECT TO COMPLETION, DATED DECEMBER 19, 2017

PRELIMINARY PROSPECTUS

\$300,000,000

COMMON STOCK

PREFERRED STOCK

SUBSCRIPTION RIGHTS

WARRANTS

DEBT SECURITIES

We may offer, from time to time, up to \$300,000,000 aggregate initial offering price of our common stock, \$0.001 par value per share, preferred stock, \$0.001 par value per share, subscription rights, warrants representing rights to purchase shares of our common or preferred stock, or debt securities, or concurrent, separate offerings of these securities, which we refer to in this prospectus collectively as our Securities, in one or more offerings. The Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. In the case of our common stock and warrants or rights to acquire such common stock hereunder, the offering price per share of our common stock by us, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing common stockholders, (ii) with the consent of the holders of the majority of our outstanding stock, or (iii) under such other circumstances as the U.S. Securities and Exchange Commission (SEC) may permit. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company under the Investment Company Act of 1940, as amended. For federal income tax purposes, we have elected to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, to or through underwriters or dealers, at the market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The prospectus supplement relating

to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See *Plan of Distribution*. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The Nasdaq Global Select Market (Nasdaq) under the symbol GLAD. As of December 18, 2017, the last reported sales price for our common stock was \$9.54. Our 6.00% Series 2024 Term Preferred Stock, or our Series 2024 Term Preferred Stock, is also traded on the Nasdaq under the symbol GLADN. As of December 18, 2017, the last reported sales price for our Series 2024 Term Preferred Stock was \$25.85.

Please read this prospectus and the accompanying prospectus supplement, if any, before investing, and keep it for future reference. It concisely sets forth important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information about us with the SEC. This information is available free of charge by contacting us at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, or by calling us collect at (703) 287-5800 or on our website at www.gladstonecapital.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus. The SEC also maintains a website at www.sec.gov that contains such information. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The securities in which we invest generally would be rated below investment grade if they were rated by rating agencies. Below investment grade securities, which are often referred to as junk, have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be difficult to value and are illiquid.

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

The SEC has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is

Table of Contents**TABLE OF CONTENTS**

	Page
<u>Prospectus Summary</u>	1
<u>The Offering</u>	3
<u>Fees and Expenses</u>	5
<u>Additional Information</u>	7
<u>Risk Factors</u>	8
<u>Special Note Regarding Forward-Looking Statements</u>	25
<u>Use of Proceeds</u>	25
<u>Price Range of Common Stock and Distributions</u>	25
<u>Common Share Price Data</u>	26
<u>Ratio of Earnings to Fixed Charges</u>	27
<u>Consolidated Selected Financial Data</u>	28
<u>Selected Quarterly Data (Unaudited)</u>	29
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Senior Securities</u>	51
<u>Business</u>	52
<u>Portfolio Companies</u>	67
<u>Management</u>	73
<u>Control Persons and Principal Stockholders</u>	85
<u>Dividend Reinvestment Plan</u>	86
<u>Material U.S. Federal Income Tax Considerations</u>	87
<u>Regulation as a Business Development Company</u>	89
<u>Description of Our Securities</u>	91
<u>Certain Provisions of Maryland Law and of Our Charter and Bylaws</u>	95
<u>Share Repurchases</u>	97
<u>Plan of Distribution</u>	97
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	98
<u>Brokerage Allocation and Other Practices</u>	99
<u>Proxy Voting Policies and Procedures</u>	99
<u>Legal Matters</u>	100
<u>Experts</u>	100
<u>Index to Consolidated Financial Statements</u>	F-1

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

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to \$300,000,000 of our Securities on terms to be determined at the time of the offering. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. To the extent required by law, we will amend or supplement the information contained in this prospectus and any accompanying prospectus supplement to reflect any material changes to such information subsequent to the date of the prospectus and any accompanying prospectus supplement and prior to the completion of any offering pursuant to the prospectus and any accompanying prospectus supplement. Please carefully read this prospectus and any accompanying prospectus supplement together with the additional information described under *Additional Information* and *Risk Factors* before you make an investment decision.

Table of Contents**PROSPECTUS SUMMARY**

The following summary highlights some of the information in this prospectus. It is not complete and may not contain all the information that you may want to consider. You should read the entire prospectus and any prospectus supplement carefully, including the section entitled Risk Factors. Except where the context suggests otherwise, the terms we, us, our, the Company and Gladstone Capital refer to Gladstone Capital Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; Gladstone Commercial refers to Gladstone Commercial Corporation; Gladstone Investment refers to Gladstone Investment Corporation; Gladstone Land refers to Gladstone Land Corporation; Gladstone Securities refers to Gladstone Securities, LLC; Affiliated Public Funds refers collectively to Gladstone Commercial, Gladstone Investment and Gladstone Land and Gladstone Companies refers to the Affiliated Public Funds, Adviser, Administrator and their affiliated companies.

General

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001 and completed our initial public offering on August 24, 2001. We are externally managed and operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). For federal income tax purposes, we have elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). We intend to continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment by meeting certain requirements, including minimum distribution requirements. We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (U.S.).

Our Investment Objectives and Strategy

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the U.S. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established lower middle market companies (which we generally define as companies with annual earnings before interest, taxes, depreciation and amortization (EBITDA) of \$3 million to \$15 million) in the U.S. that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our primary investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from \$8 million to \$30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We lend to borrowers that need funds for growth capital, to finance acquisitions, or to recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We expect that our investment portfolio over time will consist of approximately 90.0% debt investments and 10.0% equity investments, at cost. As of September 30, 2017, our investment portfolio was made up of approximately 90.1% debt investments and 9.9% equity investments, at cost.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

In July 2012, the SEC granted us an exemptive order (the Co-Investment Order) that expands our ability to co-invest with certain of our affiliates under certain circumstances and any future BDC or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser, or any combination of the foregoing, subject to the conditions in the SEC's order. We believe this ability to co-invest will continue to enhance our ability to further our investment objectives and strategies.

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

Table of Contents

As of September 30, 2017, our investment portfolio consisted of investments in 47 companies located in 22 states in 19 different industries with an aggregate fair value of \$352.4 million. Since our initial public offering in 2001 through September 30, 2017, we have invested in over 217 different companies, while making 176 consecutive monthly or quarterly cash distributions to common stockholders totaling approximately \$297.8 million, or \$17.77 per share. We expect that our investment portfolio will primarily include the following four categories of investments in private companies operating in the U.S.:

Senior Secured Debt Securities: We seek to invest a portion of our assets in senior secured debt securities also known as senior loans, secured first lien loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses senior debt to cover a substantial portion of the funding needs of its business. The senior secured debt security usually takes the form of first priority liens on all, or substantially all, of the assets of the business. Senior secured debt securities may include investments sourced from the syndicated loan market.

Senior Secured Subordinated Debt Securities: We seek to invest a portion of our assets in secured second lien debt securities, also known as senior subordinated loans and senior subordinated notes. These secured second lien debts rank junior to the borrowers' senior debt and may be secured by a first priority lien on a portion of the assets of the business and may be designated as second lien notes (including our participation and investment in syndicated second lien loans). Additionally, we may receive other yield enhancements, such as success fees, in connection with these senior secured subordinated debt securities.

Junior Subordinated Debt Securities: We seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior subordinated debts may be secured by certain assets of the borrower or unsecured loans. Additionally, we may receive other yield enhancements in addition to or in lieu of success fees, such as warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.

Preferred and Common Equity/Equivalents: In some cases we will purchase equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of the businesses in which we invest.

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

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered higher risk, as compared to investment-grade debt instruments. In addition, many of the debt securities we hold typically do not amortize prior to maturity.

Our Investment Adviser and Administrator

We are externally managed by our Adviser, an affiliate of ours, under an investment advisory and management agreement (the *Advisory Agreement*) and another of our affiliates, the Administrator provides administrative services to us pursuant to a contractual agreement (the *Administration Agreement*). Each of the Adviser and Administrator are privately-held companies that are indirectly owned and controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone and Terry Lee Brubaker, our vice chairman and chief operating officer, also serve on the board of directors of the Adviser, the board of managers of the Administrator, and serve as executive officers of the Adviser and the Administrator. The Administrator employs, among others, our chief financial officer and treasurer, chief valuation officer, chief compliance officer, general counsel and secretary (who also serves as the president of the Administrator) and their respective staffs. The Adviser and Administrator have extensive experience in our lines of business and also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to: Gladstone Commercial, a publicly-traded real estate investment trust; Gladstone Investment, a publicly-traded BDC and RIC; and Gladstone Land, a publicly-traded real estate investment trust. In the future, the Adviser and

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Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a SEC registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Adviser also has offices in other states. We have been externally managed by the Adviser pursuant to the Advisory Agreement since October 1, 2004 pursuant to which we pay the Adviser a base management fee and an incentive fee for its services.

Table of Contents**THE OFFERING**

We may offer, from time to time, up to \$300,000,000 of our Securities, on terms to be determined at the time of the offering. Our Securities may be offered at prices and on terms to be disclosed in one or more prospectus supplements. In the case of an offering of our common stock and warrants or rights to acquire such common stock hereunder in any offering, the offering price per share, exclusive of any underwriting commission or discount, will not be less than the net asset value (NAV) per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders, or (iii) under such other circumstances as the SEC may permit. If we were to sell shares of our common stock below our then current NAV per share, such sales would result in an immediate dilution to the NAV per share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See *Plan of Distribution*. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

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

Common Stock Trading Symbol (Nasdaq) GLAD

6.00% Series 2024 Term Preferred Stock (the Series 2024 Term Preferred Stock) Trading Symbol (Nasdaq) GLADN

Use of Proceeds Unless otherwise specified in any prospectus supplement, we expect to use the net proceeds from the sale of our Securities first to pay down existing short-term debt, then to make investments in lower middle market businesses in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. See *Use of Proceeds*.

Dividends and Distributions We have paid monthly distributions to the holders of our common stock since October 2003 (and prior to that quarterly distributions since January 2002) and generally intend to continue to do so. In September 2017 we issued, and in October 2017 we made our first distribution on, our Series 2024 Term Preferred Stock and have paid monthly distributions thereafter. The amount of monthly distributions on our capital stock is generally determined by our Board of Directors on a quarterly basis and is based on management's estimate of the fiscal year's taxable income. See *Price Range of Common Stock and Distributions*. Because our distributions to common stockholders are based on estimates of taxable income that may differ from actual results, future distributions payable to our common stockholders may also include, and past distributions have included, a return of capital. Such return of capital distributions may increase an investor's tax liability for capital gains upon the sale of our shares by reducing the investor's tax basis for such shares. See *Risk Factors Risks Related to an Investment in Our Securities Distributions to our stockholders have included and may in the future include a return of capital*. Certain additional amounts may be deemed as distributed to common stockholders for income tax purposes and may also constitute a return of capital. Other types of securities we might offer will likely pay distributions in accordance with their terms.

Taxation We intend to continue to elect to be treated for federal income tax purposes as a RIC. So long as we continue to qualify, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute, for each of our taxable years, at least 90.0% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term

capital losses, if any, out of assets legally available for distribution. See *Material U.S. Federal Income Tax Considerations*.

Table of Contents

Trading at a Discount	Common shares of closed-end investment companies frequently trade at a discount to their NAV. The possibility that our common shares may trade at a discount to our NAV is separate and distinct from the risk that our NAV per common share may decline. We cannot predict whether our common shares will trade above, at or below NAV, although during the past three years, our common stock has often traded, and at times significantly, below NAV. See <i>Risk Factors Risks related to an Investment in our Securities Shares of closed-end investment companies frequently trade at a discount from NAV.</i>
Certain Anti-Takeover Provisions	Our Board of Directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A classified board of directors also may serve to deter hostile takeovers or proxy contests, as may certain provisions of Maryland law and other measures we have adopted. See <i>Certain Provisions of Maryland Law and of Our Charter and Bylaws.</i>
Dividend Reinvestment Plan	Our transfer agent, Computershare, Inc., offers a dividend reinvestment plan for our common stockholders. This is an opt in dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Stockholders who do not so elect will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See <i>Dividend Reinvestment Plan.</i> There is no dividend reinvestment plan for our Series 2024 Term Preferred Stock.
Management Arrangements	Gladstone Management Corporation serves as the Adviser, and Gladstone Administration, LLC serves as the Administrator. For a description of the Adviser, the Administrator, the Gladstone Companies and the contractual arrangements with these companies, see <i>Management Certain Transactions.</i>

Table of Contents**FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Capital, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Capital. The following percentages are annualized and have been calculated based on actual expenses incurred in the quarter ended September 30, 2017 and average net assets attributable to common stockholders for the quarter ended September 30, 2017.

Stockholder Transaction Expenses:

Sales load (as a percentage of offering price) (1)	%
Offering expenses (as a percentage of offering price) (1)	%
Dividend reinvestment plan expenses (per sales transaction fee) (2)	Up to \$25.00 Transaction fee
Total stockholder transaction expenses (1)	%
Annual expenses (as a percentage of net assets attributable to common stock) (3) :	
Base management fee (4)	2.84%
Loan servicing fee (5)	2.07%
Incentive fee (20% of realized capital gains and 20% of pre-incentive fee net investment income) (6)	2.36%
Interest payments on borrowed funds (7)	2.20%
Dividend expense on mandatorily redeemable preferred stock (8)	2.10%
Other expenses (9)	1.36%
Total annual expenses (10)	12.93%

- (1) The amounts set forth in this table do not reflect the impact of any sales load, sales commission or other offering expenses borne by Gladstone Capital and its stockholders. The prospectus supplement relating to an offering of securities pursuant to this prospectus will disclose the estimated offering price and the estimated offering expenses and total stockholder transaction expenses borne by Gladstone Capital and its stockholders as a percentage of the offering price. In the event that securities to which this prospectus relates are sold to or through underwriters, the prospectus supplement will also disclose the applicable sales load.
- (2) The expenses of the dividend reinvestment plan, if any, are included in stock record expenses, a component of Other expenses. If a participant elects by written notice to the plan agent prior to termination of his or her account to have the plan agent sell part or all of the shares held by the plan agent in the participant's account and remit the proceeds to the participant, the plan agent is authorized to deduct a transaction fee, plus per share brokerage commissions, from the proceeds. The participants in the dividend reinvestment plan will also bear a transaction fee, plus per share brokerage commissions, incurred with respect to open market purchases. See *Dividend Reinvestment Plan* for information on the dividend reinvestment plan.
- (3) The percentages presented in this table are gross of credits to any fees.
- (4) In accordance with the Advisory Agreement, our annual base management fee is 1.75% (0.4375% quarterly) of our average gross assets, which are defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, and adjusted appropriately for any share issuances or repurchases. In accordance with the requirements of the SEC, the table above shows Gladstone Capital's base management fee as a percentage of average net assets attributable to common shareholders. For purposes of the table, the gross base management fee has been converted to 2.84% of the average net assets as of September 30, 2017 by dividing the total dollar amount of the management fee by Gladstone Capital's average net assets. The base management fee for the quarter ended September 30, 2017 before application of any credits was \$1.6 million.

Under the Advisory Agreement, the Adviser has provided and continues to provide managerial assistance to our portfolio companies. It may also provide services other than managerial assistance to our portfolio companies and receive fees therefor. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. Generally, at the end of each quarter, 100.0% of these fees are non-contractually, unconditionally and irrevocably credited against the base management fee that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel

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of the Adviser. For the quarter ended September 30, 2017, the base management fee credit was \$0.3 million. See *Management Certain Transactions*.

- (5) The Adviser services, administers and collects on the loans held by Gladstone Business Loan, LLC (*Business Loan*), in return for which the Adviser receives a 1.5% annual loan servicing fee payable monthly by Business Loan based on the monthly aggregate balance of loans held by Business Loan in accordance with our Fifth Amended and Restated Credit Agreement, with KeyBank National Association (*KeyBank*), as administrative agent, lead arranger and a lender, as amended (the *Credit Facility*). For the three months ended September 30, 2017, the total loan servicing fee was \$1.1 million. The entire loan servicing fee paid to the Adviser by Business Loan is generally non-contractually, unconditionally and irrevocably credited against the base management fee otherwise payable to the Adviser since Business Loan is a consolidated subsidiary of the Company, and overall, the base management fee (including any loan servicing fee) cannot exceed 1.75% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement. See *Management Certain Transactions Investment Advisory and Management Agreement* and footnote 6 below.

Table of Contents

- (6) In accordance with our Advisory Agreement, the incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20.0% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100.0% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125.0% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide the Adviser with 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125.0% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 1.75% base management fee (see footnote 4 above). The capital gains-based incentive fee equals 20.0% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year. We have not recorded any capital gains-based incentive fee from our inception through September 30, 2017. The income-based incentive fee for the quarter ended September 30, 2017 was \$1.3 million.

From time to time, the Adviser has non-contractually, unconditionally and irrevocably agreed to waive a portion of the incentive fees, to the extent net investment income did not cover 100.0% of the distributions to common stockholders during the period. For the quarter ended September 30, 2017, the incentive fee credit was \$0.3 million. There can be no guarantee that the Adviser will continue to credit any portion of the fees under the Advisory Agreement in the future.

Examples of how the incentive fee would be calculated are as follows:

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

Assuming pre-incentive fee net investment income of 2.00%, the income-based incentive fee would be as follows:
 $= 100\% \times (2.00\% - 1.75\%)$
 $= 0.25\%$

Assuming pre-incentive fee net investment income of 2.30%, the income-based incentive fee would be as follows:
 $= (100\% \times (\text{catch-up} : 2.1875\% - 1.75\%)) + (20\% \times (2.30\% - 2.1875\%))$
 $= (100\% \times 0.4375\%) + (20\% \times 0.1125\%)$
 $= 0.4375\% + 0.0225\%$
 $= 0.46\%$

Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains-based incentive fee would be as follows:
 $= 20\% \times (6\% - 1\%)$
 $= 20\% \times 5\%$
 $= 1\%$

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For a more detailed discussion of the calculation of the two-part incentive fee, see *Management Certain Transactions Investment Advisory and Management Agreement*.

- (7) Includes amortization of deferred financing costs. As of September 30, 2017, we had \$93.0 million in borrowings outstanding on our Credit Facility.
- (8) Includes amortization of deferred financing costs related to our 6.75% Series 2021 Term Preferred Stock (the Series 2021 Term Preferred Stock), and Series 2024 Term Preferred Stock, as well as amounts paid to preferred stockholders during the three months ended September 30, 2017. See *Description of Our Securities Preferred Stock Series 2024 Term Preferred Stock* for additional information.
- (9) Includes our overhead expenses, including payments under the Administration Agreement based on our projected allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement. See *Management Certain Transactions Investment Advisory and Management Agreement* and *Business Transactions with Related Parties Administration Agreement*.
- (10) Total annualized gross expenses, based on actual amounts incurred for the quarter ended September 30, 2017, would be \$28.5 million. After all non-contractual, unconditional and irrevocable credits described in footnote 4, footnote 5 and footnote 6 above are applied to the base management fee, the loan servicing fee, and the incentive fee, total annualized expenses after fee credits, based on actual amounts incurred for the quarter ended September 30, 2017, would be \$21.4 million or 9.7% as a percentage of net assets.

Table of Contents**Examples**

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Securities. In calculating the following expense amounts, we have assumed that our quarterly operating expenses would remain at the levels set forth in the table above and are gross of credits to any fees. The amounts set forth below do not reflect the impact of sales load or offering expenses to be borne by Gladstone Capital or its stockholders. In the prospectus supplement relating to an offering of securities pursuant to this prospectus, the examples below will be restated to reflect the impact of the estimated offering expenses borne by Gladstone Capital and its stockholders and, in the event that securities to which this prospectus relates are sold to or through underwriters, the impact of the applicable sales load. **The examples below and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, incentive fees, if any, and other expenses) may be greater or less than those shown. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%.**

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment:				
assuming a 5% annual return consisting entirely of ordinary income (1)(2)	\$ 116	\$ 327	\$ 510	\$ 871
assuming a 5% annual return consisting entirely of capital gains (2)(3)	\$ 125	\$ 348	\$ 539	\$ 904

- (1) While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Additionally, we have assumed that the entire amount of such 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments.
- (2) While the example assumes reinvestment of all dividends and distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the average cost of shares of our common stock purchased in the open market in the period beginning on or before the payment date of the distribution and ending when the plan agent has expended for such purchases all of the cash that would have been otherwise payable to participants. See *Dividend Reinvestment Plan* for additional information regarding our dividend reinvestment plan.
- (3) For purposes of this example, we have assumed that the entire amount of such 5% annual return would constitute capital gains and that no accumulated capital losses or unrealized depreciation exist that would have to be overcome first before a capital gains based incentive fee is payable.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form N-2 under the Securities Act of 1933, as amended, which we refer to as the Securities Act, with respect to the Securities offered by this prospectus. This prospectus, which is a part of the registration statement, does not contain all of the information set forth in the registration statement or exhibits and schedules thereto. For further information with respect to our business and our Securities, reference is made to the registration statement, including all of the amendments, exhibits and schedules thereto.

We also certain file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Such reports, proxy statements and other information, as well as the registration statement and the amendments, exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website 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 website is <http://www.sec.gov>. Copies of such material may also be obtained from the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on the Nasdaq and our corporate website is located at www.gladstonecapital.com. The information contained on, or accessible through, our website is not a part of this prospectus.

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

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

Table of Contents

RISK FACTORS

You should carefully consider the risks described below and all other information contained in this prospectus and the applicable prospectus supplement before making a decision to purchase our securities. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our Securities and NAV of our common stock could decline, and you may lose all or part of your investment.

Risks Related to the Economy

Market conditions could negatively impact our business, results of operations, cash flows and financial condition.

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

changes in interest rates and credit spreads;

the availability of credit, including the price, terms and conditions under which it can be obtained;

the quality, pricing and availability of suitable investments and credit losses with respect to our investments;

the ability to obtain accurate market-based valuations;

loan values relative to the value of the underlying assets;

default rates on the loans underlying our investments and the amount of related losses;

prepayment rates, delinquency rates and legislative / regulatory changes with respect to our investments and loans, and the timing and amount of servicer advances;

competition;

the actual and perceived state of the economy and public capital markets generally;

the impact of potential changes to the tax code; and

the attractiveness of other types of investments relative to investments in lower middle market companies generally.

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Changes in these factors are difficult to predict, and a change in one factor can affect other factors resulting in adverse effects to our financial condition.

The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the volatility and dislocation that the capital markets have historically experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, significant changes in the capital markets have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

Market interest rates may have an effect on the value of our securities.

One of the factors that will influence the price of our securities will be the distribution yield on our securities (as a percentage of the price of our securities) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our securities to expect a higher distribution yield and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our securities to decrease.

Table of Contents

Rising interest rates may negatively impact our investments and have an adverse effect on our business, financial condition, results of operations, and cash flows.

Over the past year, the Federal Reserve has made gradual increases in the federal funds rate, the latest increase occurring December 13, 2017 by a quarter percentage point of 1.25% to 1.5%, with similar increases in March and June of calendar year 2017. A substantial portion of our debt investments have variable interest rates that reset periodically and are generally based on LIBOR with a floor, so an increase in interest rates above the applicable floor may make it more difficult for our portfolio companies to meet their debt servicing obligations to us, which could result in a default under their loan documents with us. To the extent that interest rates increase, this may negatively impact the operating performance of our portfolio companies as they shift cash from other productive uses to the payment of interest or may cause our portfolio companies to refinance or otherwise repay our debt investments earlier than they otherwise would, requiring us to incur management time and expense to re-deploy such proceeds, including on terms that may not be as favorable as our existing loans. There can be no guarantee the Federal Reserve will continue to raise rates at the gradual pace they originally proposed.

The current U.S. presidential administration, or the Administration, may make substantial changes to certain regulations that may adversely affect our business.

The Administration has called for substantial change to fiscal and tax policies, which may include comprehensive tax reform, including significant changes to taxation of business entities and the deductibility of interest expense. On February 3, 2017, President Trump signed an executive order calling for the Administration to review U.S. financial laws and regulations in order to determine their consistency with a set of core principles identified in the order. Some areas identified as subject to potential change, amendment or repeal include the Dodd-Frank Act, the Consumer Protection Act, the Volcker Rule, credit risk retention requirements and the authorities of the Federal Reserve and the Financial Stability Oversight Council. We cannot predict which, if any, of these or other actions will be taken or, if taken, their effect on the financial stability of the credit market in which we operate. Such actions could have a significant adverse effect on our business, financial condition, results of operations, and cash flows.

Changes in the tax laws as a result of the potential enactment of the Tax Cuts and JOBS Act could impact our operations and profitability.

On November 16, 2017, the U.S. House of Representatives passed the Tax Cuts and JOBS Act. On December 2, 2017, the U.S. Senate passed a revised version of the Tax Cuts and JOBS Act, and on December 15, 2017, a conference committee agreed to a compromise bill (the Tax Reform Bill). The Tax Reform Bill, if enacted into law, would make significant changes to the U.S. federal income tax rules applicable to both individuals and entities, including corporations. There is uncertainty as to the likelihood and timing of the enactment of the Tax Reform Bill and we are unable to determine what the impact of any such legislation could have on our operations or profitability. You should consult with your tax advisor with respect to the status of the Tax Reform Bills and its potential effect on your investment in our securities.

Pending legislation may allow us to incur additional leverage.

As a BDC, under the 1940 Act we generally are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets or we may borrow an amount equal to 100% of net assets). The Financial CHOICE Act of 2017, which was passed by the U.S. House of Representatives in June 2017, would modify this section of the 1940 Act and increase the amount of debt that BDCs may incur by modifying the asset coverage percentage from 200% to 150%. As a result, if such legislation is passed with no significant modifications, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

We may experience fluctuations in our quarterly and annual results based on the impact of inflation in the U.S.

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

The recent volatility of oil and natural gas prices could impair certain of our portfolio companies' operations and ability to satisfy obligations to their respective lenders and investors, including us, which could negatively impact our financial condition.

Our portfolio includes a concentration of companies in the oil and gas industry with the fair value of these investments representing approximately \$34.7 million, or 9.9% of our total portfolio at fair value as of September 30, 2017. These businesses provide services to oil and

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gas companies and are indirectly impacted by the prices of, and demand for, oil and natural gas, which have recently experienced volatility, including significant decline in prices, and such volatility could continue or increase in the future. A substantial or extended decline in oil and natural gas demand or prices may adversely affect the business, financial condition, cash flows, liquidity or results of operations of these portfolio companies and might impair their ability to meet capital expenditure obligations and financial commitments. A prolonged or continued decline in oil prices could therefore have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

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

Our investments in lower middle market companies are extremely risky and could cause you to lose all or a part of your investment.

Investments in lower middle market companies are subject to a number of significant risks including the following:

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

Lower middle market companies may have limited financial resources and may not be able to repay the loans we make to them. Our strategy includes providing financing to portfolio companies that typically do not have readily available access to financing. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower's ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry, or negative economic conditions. Deterioration in a borrower's financial condition and prospects usually will be accompanied by deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guaranties we may have obtained from the borrower's management. As of September 30, 2017, two portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately \$27.9 million, or 7.5% of the cost basis of all debt investments in our portfolio. While we are working with the portfolio companies to improve their profitability and cash flows, there can be no assurance that our efforts will prove successful. Although we will sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender's security interest.

Lower middle market companies typically have narrower product lines and smaller market shares than large businesses. Because our target portfolio companies are lower middle market businesses, they will tend to be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and other capabilities and a larger number of qualified managerial, and technical personnel.

There is generally little or no publicly available information about these businesses. Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, the Adviser and its employees, Gladstone Securities and certain consultants to perform due diligence investigations of these portfolio companies, their operations, and their prospects. We may not learn all of the

material information we need to know regarding these businesses through our investigations.

Lower middle market companies generally have less predictable operating results. We expect that our portfolio companies may have significant variations in their operating results, may from time to time be exposed to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position, or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash

Table of Contents

flow, and other coverage tests typically imposed by their senior lenders. A borrower's failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower's ability to repay our loan would be jeopardized.

Lower middle market companies are more likely to be dependent on one or two persons. Typically, the success of a lower middle market business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability, or resignation of one or more of these persons could have a material adverse impact on our borrower and, in turn, on us.

Lower middle market companies may have limited operating histories. While we intend to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Portfolio companies with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

Debt securities of lower middle market companies typically are not rated by a credit rating agency. Typically a lower middle market private business cannot or will not expend the resources to have their debt securities rated by a credit rating agency. We expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be at rates below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered high risk as compared to investment-grade debt instruments.

Table of Contents

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

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments, based on our investment valuation policy (the Policy) (which has been approved by our Board of Directors). Our Board of Directors reviews valuation recommendations that are provided by the professionals of the Adviser and Administrator, with oversight and direction from our chief valuation officer, an employee of the Administrator who reports directly to our Board of Directors, (collectively, the Valuation Team). In valuing our investment portfolio, several techniques are used, including, a total enterprise value approach, a yield analysis, market quotes, and independent third party assessments. Currently, Standard & Poor's Securities Evaluation, Inc. provides estimates of fair value on our proprietary debt investments and we use another independent valuation firm to provide valuation inputs for our significant equity investments, including earnings multiple ranges, as well as other information. In addition to these techniques, other factors are considered when determining fair value of our investments, including but limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on proprietary debt and equity investments made during the current three month reporting period ended September 30, 2017 are generally valued at original cost basis. For additional information on our valuation policies, procedures and processes, refer to Note 2 *Summary of Significant Accounting Policies* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

Fair value measurements of our investments may involve subjective judgments and estimates and due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate from period to period. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which it is recorded.

Our NAV would be adversely affected if the fair value of our investments that are approved by our Board of Directors are higher than the values that we ultimately realize upon the disposal of such securities.

Our most recent NAV was calculated on September 30, 2017 and our NAV when calculated effective December 31, 2017 and thereafter may be higher or lower.

As of September 30, 2017, our NAV per share was \$8.40, which was based on the fair value our investments that were reviewed and approved by the Valuation Committee and Board of Directors in connection with financial statements that were audited by our independent registered public accounting firm. NAV per share as of December 31, 2017 may be higher or lower than \$8.40 based on potential changes in valuations, our issuance of shares of common stock under our at-the-market program subsequent to September 30, 2017, or dividends paid and earnings for the quarter then ended. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis and if our December 31, 2017 fair value is less than the September 30, 2017 fair value, we will record an unrealized loss on our investment portfolio. If the fair value is greater, we will record an unrealized gain on our investment portfolio. Upon publication of our next quarterly NAV per share determination (generally in our next Quarterly Report on Form 10-Q), the market price of our common stock may fluctuate materially.

The valuation process for certain of our portfolio holdings creates a conflict of interest.

A substantial portion of our portfolio investments are made in the form of securities that are not publicly traded. As a result, our Board of Directors determines the fair value of these securities in good faith pursuant to the Policy. In connection with that determination, the Valuation Team prepares portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. The participation of the Adviser's investment professionals in our valuation process, and the pecuniary interest in the Adviser by Mr. Gladstone, may result in a conflict of interest as the management fees that we pay the Adviser are based on our gross assets less cash.

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

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to quickly obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important investment

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opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, the Adviser, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

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

Table of Contents

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

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

In addition, we will generally not be in a position to control any portfolio company by investing in its debt securities. This is particularly true when we invest in syndicated loans, which are loans made by a larger group of investors whose investment objectives may not be completely aligned with ours. As of September 30, 2017, syndicated loans made up approximately 10.0% of our portfolio at cost, or \$41.3 million. We therefore are subject to the risk that other lenders in these investments may make decisions that could decrease the value of our portfolio holdings.

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

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

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

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

We may be unable to invest a significant portion of the net proceeds from an offering, from exiting an investment, prepayment of an investment, or other capital source on acceptable terms, which could harm our financial condition and operating results.

Delays in investing the net proceeds raised in an offering or from exiting an investment, prepayment of an investment or other capital source may cause our performance to be worse than that of other fully invested BDCs or other lenders or investors pursuing comparable investment strategies. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds from any offering, from exiting an investment, prepayment of an investment or other capital source on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

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

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. For the year ended September 30, 2017, we received prepayments of investments totaling \$71.6 million. We will generally first use any proceeds from prepayments to repay any borrowings outstanding on our Credit Facility. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally,

prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Table of Contents

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

Additional taxation at the federal, state or municipality level may have an adverse effect on our portfolio companies' earnings and reduce their ability to repay our loans to them, thus affecting our quarterly and annual operating results.

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

As of September 30, 2017, we had investments in 47 portfolio companies, of which there were five investments that comprised approximately \$110.9 million, or 31.5% of our total investment portfolio, at fair value. A consequence of a concentration in a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such investments or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25.0% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25.0% of the value of our total assets. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us. As of September 30, 2017, our largest industry concentrations of our total investments at fair value were in diversified/conglomerate service companies, representing 22.9%; healthcare, education and childcare companies, representing 13.1%; and diversified/conglomerate manufacturing companies, representing 11.6%. Therefore, we are susceptible to the economic circumstances in these industries, and a downturn in one or more of these industries could have a material adverse effect on our results of operations and financial condition.

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

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

The disposition of our investments may result in contingent liabilities.

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

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

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

Portfolio company litigation or other litigation or claims against us or our personnel could result in additional costs and the diversion of management time and resources.

In the course of investing in and often providing significant managerial assistance to certain of our portfolio companies, certain persons employed by the Adviser may serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, even if without merit, we or such employees may be named as defendants in such litigation, which could result in additional costs, including defense costs, and the diversion of management time and resources. Additionally, other litigations or claims against us or our

personnel could result in additional costs, including defense costs, and the diversion of management time and resources.

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

When we make a subordinated loan, we may receive warrants to purchase stock issued by the borrower or other yield enhancements, such as success fees. Our goal is to ultimately dispose of these equity interests and realize gains upon our disposition of such interests. We expect that, over time, the gains we realize on these warrants and other yield enhancements will offset any losses we experience on loan defaults. However,

Table of Contents

any warrants we receive may not appreciate in value and, in fact, may decline in value and any other yield enhancements, such as success fees, may not be realized. Accordingly, we may not be able to realize gains from our equity interests or other yield enhancements and any gains we do recognize may not be sufficient to offset losses we experience on our loan portfolio.

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

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

Risks Related to Our External Financing

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

We will have a continuing need for capital to finance our investments. As of September 30, 2017, we had \$93.0 million in borrowings, at cost, outstanding under our Credit Facility, which provides for maximum borrowings of \$170.0 million, with a revolving period end date of January 19, 2019. Our Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. Our Credit Facility contains covenants that require our wholly-owned subsidiary Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies without lenders' consent. The Credit Facility also limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts deemed to have been paid during the prior year in accordance with Section 855(a) of the Code. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, interest rate type, payment frequency and status, average life and lien property. Our Credit Facility further requires us to comply with other financial and operational covenants, which obligate us to, among other things, maintain certain financial ratios, including asset and interest coverage, and a minimum number of 25 obligors in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of \$205.0 million plus 50.0% of all equity and subordinated debt raised after May 1, 2015 less 50% of any equity and subordinated debt retired or redeemed after May 1, 2015, which equates to \$221.8 million as of September 30, 2017, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of September 30, 2017, and as defined in the performance guaranty of our Credit Facility, we were in compliance with all of our Credit Facility covenants; however, our continued compliance depends on many factors, some of which are beyond our control.

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

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

The revolving period end date of our Credit Facility is January 19, 2019 (the Revolving Period End Date) and if our Credit Facility is not renewed or extended by the Revolving Period End Date, all principal and interest will be due and payable on or before May 1, 2020. Subject to certain terms and conditions, our Credit Facility may be expanded to a total of \$250.0 million through the addition of other lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our Credit Facility. There can be no guarantee that we will be able to renew, extend or replace our Credit Facility upon its Revolving Period End Date on terms that are favorable to us, if at all. Our ability to expand our Credit Facility, and to obtain replacement financing at or before the Revolving Period End Date, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand our Credit Facility, or to renew, extend or refinance our Credit Facility by the Revolving Period End Date, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

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If we are unable to secure replacement financing, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, and such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. Such circumstances would also increase the likelihood that we would be required to redeem some or all of our outstanding mandatorily redeemable preferred stock, which could potentially require us to sell more assets. In addition to selling assets, or as an alternative, we may issue equity in order to repay amounts outstanding under our Credit Facility. Based on the recent trading prices of our stock, such an equity offering may have a substantial dilutive impact on our existing

Table of Contents

stockholders' interest in our earnings, assets and voting interest in us. If we are not able to renew, extend or refinance our Credit Facility prior to its maturity, it could result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds to fund investments or maintain distributions to stockholders.

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

The last equity offering we completed was on September 27, 2017, inclusive of an overallotment option, for a total of 2,070,000 shares of 6.0% preferred stock at a public offering price of \$25.00 per share. In addition, subsequent to September 30, 2017 and through November 13, 2017, we sold an additional 471,498 shares under our at-the-market program. However, there can be no assurance that we will be able to raise capital through issuing equity in the near future, especially with respect to common stock, as we are not requesting that our stockholders approve the Company's ability to issue shares of common stock at a price below NAV at the Company's 2018 Annual Meeting of Stockholders to be held in February. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

Senior securities. We may issue senior securities representing indebtedness (including borrowings under our Credit Facility) and senior securities that are stock, such as our Series 2024 Term Preferred Stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue such senior securities in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200% on such senior security immediately after each issuance of such senior security. As a result of incurring indebtedness (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue senior securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our senior securities is not at least 200%. If the aggregate value of our assets declines, we might be unable to satisfy that 200% requirement. To satisfy the 200% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to stockholders. Furthermore, if we have to issue common stock at below NAV per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that are stock.

Common and Convertible Preferred Stock. Because we are constrained in our ability to issue debt or senior securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our existing common stockholder may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then current NAV per common share, such sales would result in an immediate dilution to the NAV per common share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10.0% of our common stock at a 5.0% discount from NAV, a stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or \$5 per \$1,000 of NAV. This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has in previous years. As noted above, the 1940 Act prohibits the issuance of multiple classes of senior securities that are stock. As a result, we would be prohibited from issuing convertible preferred stock to the extent that such a security was deemed to be a separate class of stock from our outstanding Series 2024 Term Preferred Stock.

Table of Contents

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

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

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10.0)%	(5.0)%	0.0%	5.0%	10.0%
Corresponding return to common stockholder ^(A)	(18.2)%	(9.9)%	(1.6)%	6.8%	15.1%

^(A) The hypothetical return to common stockholders is calculated by multiplying our total assets as of September 30, 2017 by the assumed rates of return and subtracting all interest accrued on our debt for the year ended September 30, 2017, adjusted for the dividends on our Series 2021 Term Preferred Stock and 2024 Term Preferred Stock; and then dividing the resulting difference by our total assets attributable to common stock. Based on \$365.9 million in total assets, \$93.0 million drawn on our Credit Facility (at cost), \$51.8 million in aggregate liquidation preference of our Series 2024 Term Preferred Stock, and \$219.7 million in net assets, each as of September 30, 2017.

Based on the outstanding balance on our Credit Facility of \$93.0 million at cost, as of September 30, 2017, the effective annual interest rate of 5.3% as of that date, and aggregate liquidation preference of our Series 2024 Term Preferred Stock of \$51.8 million, our investment portfolio at fair value would have had to produce an annual return of at least 1.7% to cover annual interest payments on the outstanding debt and dividends on our Series 2024 Term Preferred Stock.

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

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

As of September 30, 2017, based on the total principal balance of debt outstanding, our portfolio consisted of approximately 91.6% of loans at variable rates with floors and approximately 8.4% at fixed rates.

We do not currently hold any interest rate cap agreements. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to an interest rate cap agreement is linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement. For additional information on market interest rate fluctuations, see *Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risk*.

Risks Related to Our Regulation and Structure

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

To maintain our qualification as a RIC, we must meet income source, asset diversification, and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90.0% of our investment company taxable income to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create original issue discount, which we must recognize as ordinary income over the term of the debt investment or PIK interest which is accrued

generally over the term of the debt investment but not paid in cash, both of which will increase the amounts we are required to distribute to maintain RIC status. Because such original issue discounts (OID) and PIK interest will not produce distributable cash for us at the same time as we are required to make distributions, we will need to use cash from other sources to satisfy such distribution requirements. The asset diversification requirements must be met at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our shares. For additional information regarding asset coverage ratio and RIC requirements, see *Business Material U.S. Federal Income Tax Considerations Regulated Investment Company Status*.

From time to time, some of our debt investments may include success fees that would generate payments to us if the business is ultimately sold. Because the satisfaction of these success fees, and the ultimate payment of these fees, is uncertain, we generally only recognize them as income when the payment is received. Success fee amounts are characterized as ordinary income for tax purposes and, as a result, we are required to distribute such amounts to our stockholders in order to maintain RIC status.

Table of Contents

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

As a BDC, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets.

We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe to be attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to BDCs. As a result of such violation, specific rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the 1940 Act, which would significantly decrease our operating flexibility.

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

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

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

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

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

any person who beneficially owns, directly or indirectly, 10.0% or more of the voting power of our outstanding voting stock (an interested stockholder);

an affiliate of ours who at any time within the two-year period prior to the date in question was an interested stockholder; or

an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our Board of Directors and approved by the affirmative vote of at least 80.0% of the votes entitled to be cast by holders of our outstanding shares of voting stock and two-thirds of the votes entitled to be cast by holders of our voting stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a

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change in control even if a change in control were in our stockholders' interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our Board of Directors prior to the time that someone becomes an interested stockholder.

Our charter permits our Board of Directors to issue up to 50.0 million shares of capital stock. Our Board of Directors may classify or reclassify any unissued common stock or preferred stock into other classes or series of stock and establish the preferences,

Table of Contents

conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our Board of Directors could authorize the issuance of preferred stock with terms and conditions that could have a priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock, which it did in connection with our issuance of approximately 2.1 million shares of Series 2024 Term Preferred Stock. Preferred stock, including our Series 2024 Term Preferred Stock, could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

Risks Related to Our External Management

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

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

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

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

In addition, we depend upon the Adviser to maintain its relationships with private equity sponsors, placement agents, investment banks, management groups and other financial institutions, and we expect to rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the Adviser or members of our investment team fail to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the Adviser has relationships are not obligated to provide us with investment opportunities, and we can offer no assurance that these relationships will generate investment opportunities for us in the future.

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

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

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

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

Table of Contents

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

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

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

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as debt instruments with PIK interest or OID. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser. Our OID investments totaled \$20.7 million as of September 30, 2017, at cost, which are all syndicated loan investments. For the year ended September 30, 2017, we recognized \$0.3 million of OID income and the unamortized balance of OID investments as of September 30, 2017 totaled \$0.4 million. As of September 30, 2017, we had six investments which had a PIK interest component and we recorded PIK interest income of \$5.0 million during the year ended September 30, 2017. We collected \$2.0 million in PIK interest in cash for the year ended September 30, 2017.

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

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

There are significant potential conflicts of interest, including with the Adviser, which could impact our investment returns.

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

More specifically, in certain circumstances we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of September 30, 2017, our Board of Directors has approved the following types of co-investment transactions:

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Our affiliate, Gladstone Commercial, may, under certain circumstances, lease property to portfolio companies that we do not control. We may pursue such transactions only if (i) the portfolio company is not controlled by us or any of our affiliates, (ii) the portfolio company satisfies the tenant underwriting criteria of Gladstone Commercial, and (iii) the transaction is approved by a majority of our independent directors and a majority of the independent directors of Gladstone Commercial. We expect that any such negotiations between Gladstone Commercial and our portfolio companies would result in lease terms consistent with the terms that the portfolio companies would be likely to receive were they not portfolio companies of ours.

We may invest simultaneously with our affiliate Gladstone Investment in senior loans in the broadly syndicated market whereby neither we nor any affiliate has the ability to dictate the terms of the loans.

Pursuant to the Co-Investment Order, under certain circumstances, we may co-invest with Gladstone Investment and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund), or any combination of the foregoing, subject to the conditions included therein. In connection with investments made pursuant to the Co-Investment Order a required majority of our Board of Directors must approve the transaction. A required majority is a vote of both a majority of our directors who have no financial interest in the transaction and a majority of the directors who are not interested persons of the Company.

Table of Contents

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

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

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

The Advisory Agreement provides for a base management fee based on our gross assets and an incentive fee which consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. Since our 2007 fiscal year, our Board of Directors has accepted on a quarterly basis voluntary, unconditional and irrevocable credits to reduce the annual base management fee, which was previously 2.0%, but following an amendment to the Advisory Agreement, effective July 1, 2015 is now 1.75%, on syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations. Further, our Board of Directors has accepted on a quarterly basis non-contractual, unconditional and irrevocable credits from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of distributions to common stockholders. Any waived fees may not be recouped by the Adviser in the future. However, the Adviser is not required to issue these or other credits of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these management and incentive fees will increase. If the Adviser does not issue these credits in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

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

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

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

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

Risks Related to an Investment in Our Securities

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

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

Table of Contents

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

We intend to distribute at least 90.0% of our investment company taxable income to our stockholders on a quarterly basis by paying monthly distributions. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Furthermore, we expect to retain some or all net realized long-term capital gains by first offsetting them with realized capital losses, and secondly through a deemed distribution to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine in certain cases to distribute these gains to our common stockholders. In addition, our Credit Facility restricts the amount of distributions we are permitted to make. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions. Further, the terms of our outstanding preferred stock may restrict our ability to pay distributions on our common stock or require us to redeem shares of preferred stock if we do not meet the required asset coverage ratio for senior securities that are stock and fail to cure such required asset coverage ratio within the applicable cure period. See

Risks Related to Our Regulation and Structure We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification.

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

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

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

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

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

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

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

Shares of closed-end investment companies frequently trade at a discount from NAV per common share. Since our inception, our common stock has at times traded above NAV, and at times below NAV per share. Subsequent to September 30, 2017, our common stock has traded only at premiums (of up to 17.3%) to our NAV per share, which was \$8.40 as of September 30, 2017. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our NAV.

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Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our common stockholders and our independent directors. Additionally, when our common stock is trading below its NAV per share, our dividend yield may exceed the weighted average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional shares in such circumstances. Thus, for as long as our common stock may trade below NAV, we will be subject to significant constraints on our ability to raise capital through the issuance of common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

Table of Contents

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

At our annual meeting of stockholders on February 11, 2016, our stockholders approved a proposal designed to allow us to sell shares of our common stock below the then current NAV per share of our common stock in one or more offerings for a period of one year from the date of such approval, subject to certain conditions (including, but not limited to, that the number of common shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale). Absent such stockholder approval, we would not be able to access the capital markets in an offering at below the then current NAV per share due to restrictions applicable to BDCs under the 1940 Act.

We exercised this right with our Board of Directors' approval when we completed a public offering of 2,173,444 million shares of our common stock in October 2016, inclusive of an overallotment option, for gross proceeds totaling \$17.3 million, at a public offering price of \$7.98 per share, which was below our September 30, 2016 NAV of \$8.62 per share.

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

We did not request that our stockholders approve the Company's ability to issue shares of common stock at a price below NAV at our annual meeting of stockholders held on February 9, 2017 and are not requesting that our stockholders approve the Company's ability to issue shares of common stock at a price below NAV at the Company's 2018 Annual Meeting of Stockholders to be held in February. Should we decide to issue shares of common stock at a price below NAV in the future, we will seek the requisite approval of our stockholders.

We may not be permitted to declare a dividend or make any distribution to stockholders or repurchase shares until such time as we satisfy the asset coverage tests under the provisions of the 1940 Act that apply to BDCs. As a BDC, we have the ability to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our debt at a time when such sales and/or repayments may be disadvantageous.

Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth. As a result of the annual distribution requirement to qualify as a RIC, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue senior securities representing indebtedness, including borrowing money from banks or other financial institutions or senior securities that are stock, such as our mandatorily redeemable preferred stock, only in amounts such that our asset coverage on each senior security, as defined in the 1940 Act, equals at least 200% after each such incurrence or issuance. Further, we may not be permitted to declare a dividend or make any distribution to our outstanding stockholders or repurchase shares until such time as we satisfy these tests. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder dilution. We have incurred leverage to generate capital to make additional investments. If the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which could prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous.

If we fail to pay dividends on our Series 2024 Term Preferred Stock for two years, the holders of our Series 2024 Term Preferred Stock will be entitled to elect a majority of our directors.

The terms of our Series 2024 Term Preferred Stock provide for annual dividends in the amount of \$1.50 per outstanding share of Series 2024 Term Preferred Stock. In accordance with the terms of our Series 2024 Term Preferred Stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of Series 2024 Term Preferred Stock will be entitled to elect a majority of our Board of Directors.

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Holders of our preferred stock and future holders of any securities ranking senior to our common stock have dividend, distribution and liquidation rights that are senior to the rights of the holders of our common stock.

In September 2017, we completed a public offering of the Series 2024 Term Preferred Stock, at a public offering price of \$25.00 per share. In such offering, we issued approximately 2.1 million shares of Series 2024 Term Preferred Stock. The shares of Series 2024 Term Preferred Stock have dividend, distribution and liquidation rights that are senior to the rights of the holders of our common stock. Further, in

Table of Contents

the future, we may attempt to increase our capital resources by making additional offerings of preferred equity securities or issuing debt securities. Upon liquidation, holders of our preferred stock, holders of our debt securities, if any, and lenders with respect to other borrowings, including the Credit Facility, would receive a distribution of our available assets in full prior to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our common stockholders bear the risk of our future offerings reducing the per share trading price of our common stock and diluting their interest in us.

Other Risks

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

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

Cybersecurity risks and cyber incidents may adversely affect our business by causing a disruption to our operations, or the operations of businesses in which we invest, a compromise or corruption of our confidential information and/or damage to our business relationships, all of which could negatively impact our business, financial condition and operating results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided to us by third-party service providers. We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that a cyber incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

Our business is dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

sudden electrical or telecommunications outages;

natural disasters such as earthquakes, tornadoes and hurricanes;

disease pandemics;

events arising from local or larger scale political or social matters, including terrorist acts; and

cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

Table of Contents**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

All statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance, financial condition future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with our Adviser, and its affiliates, the use of borrowed money to finance our investments, the adequacy of our financing sources and working capital, and our ability to co-invest, among other factors. In some cases, you can identify forward-looking statements by terminology such as estimate, may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, expect, should, potential, likely or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) the recurrence of adverse events in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker and Robert L. Marcotte; (4) changes in our investment objectives and strategy; (5) availability, terms (including the possibility of interest rate volatility) and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; (8) our ability to maintain our qualification as a RIC and as a BDC; and (9) those factors described in the Risk Factors section of this prospectus and any accompanying prospectus supplement. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus. The forward-looking statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act.

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we expect to use the net proceeds from the sale of the Securities first to pay down existing short-term debt, then to make investments in lower middle market businesses in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. For the quarter ended September 30, 2017, indebtedness under our Credit Facility had a weighted average interest rate of approximately 5.2%, excluding effects of amortization on our deferred financing costs, and the revolving period ends on January 19, 2019. We anticipate that substantially all of the net proceeds of any offering of Securities will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of any offering of Securities primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash dividends, for each taxable year, a minimum of 90% of our annual ordinary income and short-term capital gains, if any, to our stockholders in the form of monthly dividends. We intend to retain long-term capital gains and treat them as deemed distributions for tax purposes. We report the estimated tax characterization of each dividend when declared while the actual tax characterization of dividends for each calendar year are reported to each stockholder on IRS Form 1099-DIV. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of record of common stock, all cash distributions paid with respect to our common stock can be reinvested automatically under our dividend reinvestment plan in additional whole and fractional shares of our common stock. A stockholder whose shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in a dividend reinvestment plan. See *Risk Factors Risks Related to Our Regulation and Structure We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations.*

Our common stock is quoted on the Nasdaq under the symbol GLAD. Our common stock has historically traded at prices both above and below its NAV. There can be no assurance that any premium to NAV will be attained or maintained. As of December 18, 2017 there were 36 stockholders of record, meaning individuals or entities that we carry in our records as the registered holder (although not necessarily the beneficial owner) of our common stock.

The following table sets forth the range of high and low intraday sale prices of our common stock as reported on the Nasdaq and the distributions declared by us for the last two completed fiscal years and the current fiscal year through December 18, 2017.

Table of Contents**COMMON SHARE PRICE DATA**

	Sales Price			Declared Common Distributions	Premium (Discount) of	Premium (Discount) of
	NAV (1)	High	Low		High to NAV (2)	Low to NAV (2)
Fiscal Year ended September 30, 2016						
First Quarter	8.38	9.09	6.39	0.21	8.5	(23.8)
Second Quarter	7.92	7.59	4.71	0.21	(4.2)	(40.5)
Third Quarter	7.95	7.67	6.80	0.21	(3.5)	(14.5)
Fourth Quarter	8.62	8.75	7.24	0.21	1.5	(16.0)
Fiscal Year ended September 30, 2017						
First Quarter	8.36	9.62	7.33	0.21	15.1	(12.3)
Second Quarter	8.33	9.92	8.67	0.21	19.1	4.1
Third Quarter	8.38	10.12	9.15	0.21	20.8	9.2
Fourth Quarter	8.40	9.95	8.98	0.21	18.5	6.9
Fiscal Year ending September 30, 2018						
First Quarter (through December 18, 2017)	*	9.92	9.16	0.21	*	*

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low intraday sale prices. The NAV per shares shown are based on outstanding shares at the end of each period.
- (2) The (discounts) premiums to NAV per share set forth in these columns represent the high or low, as applicable, intraday sale price per share for the relevant quarter minus the NAV per share as of the end of such quarter, and therefore may not reflect the (discount) premium to NAV per share on the date of the high and low intraday sale prices.
- * Not yet available, as the NAV per share as of the end of this quarter has not yet been determined.

Share Repurchases

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of the Company's common stock. The program expired on January 31, 2017. During the year ended September 30, 2016, we repurchased 87,200 shares of our common stock at an average share price of \$6.53, resulting in aggregate gross purchases of \$0.6 million. We did not repurchase any shares during the year ended September 30, 2017. See *Share Repurchases*.

The following are our outstanding classes of securities as of December 18, 2017.

Title of Class	Amount Authorized	Amount Held by us for	
		Our Account	Amount Outstanding
Common Stock	44,560,000		26,632,182
6.00% Series 2024 Term Preferred Stock	5,440,000		2,070,000

Table of Contents**RATIOS OF EARNINGS TO FIXED CHARGES**

For the years ended September 30, 2017, 2016, 2015, 2014 and 2013, the ratios of three income metrics to fixed charges of the Company, computed as set forth below, were as follows:

	Year Ended September 30,				
	2017	2016	2015	2014	2013
Net investment income plus fixed charges to fixed charges	3.6x	3.4x	3.0x	3.5x	3.6x
Net investment income plus net realized losses plus fixed charges to fixed charges (A)	3.0x	4.3x	(0.8x)	1.9x	2.8x
Net increase (decrease) in net assets resulting from operations plus fixed charges to fixed charges	3.1x	2.4x	1.9x	2.6x	5.5x

For purposes of computing the ratios, fixed charges include interest expense on borrowings, dividend expense on mandatorily redeemable preferred stock and amortization of deferred financing fees.

- (A) Due to realized losses on certain investments during the year ended September 30, 2015, the ratio of net investment income plus net realized losses plus fixed charges to fixed charges was less than 1:1. We would have needed to generate additional net investment income of approximately \$17.0 million during the year ended September 30, 2015 to achieve a coverage ratio of 1:1.

Table of Contents**CONSOLIDATED SELECTED FINANCIAL DATA**

The following consolidated selected financial data for the fiscal years ended September 30, 2017, 2016, 2015, 2014 and 2013 are derived from our audited accompanying *Consolidated Financial Statements*. The other data included in the second table below is unaudited. The data should be read in conjunction with our accompanying *Notes to Consolidated Financial Statements* and notes thereto and *Management's Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this prospectus.

GLADSTONE CAPITAL CORPORATION**CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA**

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE)

	Year Ended September 30,				
	2017	2016	2015	2014	2013
Statement of Operations Data:					
Total Investment Income	\$ 39,233	\$ 39,112	\$ 38,058	\$ 36,585	\$ 36,154
Total Expenses, Net of Credits from Adviser	17,800	19,625	20,358	18,217	17,768
Net Investment Income	21,433	19,487	17,700	18,368	18,386
Net Realized and Unrealized (Loss) Gain	(4,253)	(8,120)	(9,216)	(7,135)	13,833
Net Increase in Net Assets Resulting from Operations	\$ 17,180	\$ 11,367	\$ 8,484	\$ 11,233	\$ 32,219
Per Share Data:					
Net Investment Income per Common Share - Basic and Diluted ^(A)	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.87	\$ 0.88
Net Increase in Net Assets Resulting from Operations per Common Share - Basic and Diluted ^(A)	0.67	0.49	0.40	0.53	1.53
Distributions Declared and Paid Per Common Share ^(B)	0.84	0.84	0.84	0.84	0.84
From net investment income	0.84	0.70	0.84	0.12	0.78
From realized gains		0.14			
From return of capital				0.72	0.06
Statement of Assets and Liabilities Data:					
Total Assets	\$ 365,860	\$ 337,178	\$ 382,482	\$ 301,429	\$ 295,091
Net Assets	219,650	201,207	191,444	199,660	205,992
Net Asset Value Per Common Share	8.40	8.62	9.06	9.51	9.81
Common Shares Outstanding	26,160,684	23,344,422	21,131,622	21,000,160	21,000,160
Weighted Common Shares Outstanding - Basic and Diluted	25,495,117	23,200,642	21,066,844	21,000,160	21,000,160
Senior Securities Data:					
Total borrowings, at cost ^(C)	\$ 93,000	\$ 71,300	\$ 127,300	\$ 36,700	\$ 46,900
Mandatorily redeemable preferred stock ^{(C)(D)}	51,750	61,000	61,000	61,000	38,497

(A) Per share data is based on the weighted average common stock outstanding for both basic and diluted.

(B) The tax character of distributions is determined on an annual basis. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders* included elsewhere in this prospectus.

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

^(D) Represents the total liquidation preference of our mandatorily redeemable preferred stock.

Table of Contents

	Year Ended September 30,				
	2017	2016	2015	2014	2013
Other Unaudited Data:					
Number of Portfolio Companies at Year End	47	45	48	45	47
Average Size of Portfolio Company Investment at Cost	\$ 8,754	\$ 8,484	\$ 8,547	\$ 7,762	\$ 7,069
Principal Amount of New Investments	99,241	79,401	102,299	81,731	80,418
Proceeds from Loan Repayments, Investments Sold and Exits ^(A)	83,444	121,144	40,273	72,560	117,048
Weighted Average Yield on Investments, excluding loans on non-accrual status ^(B)	11.57%	11.08%	10.93%	11.47%	11.63%
Weighted Average Yield on Investments, including loans on non-accrual status ^(C)	10.61	10.27	9.84	9.99	9.74
Total Return ^(D)	27.90	11.68	2.40	9.62	9.90

^(A) Includes non-cash reductions in cost basis.

^(B) Weighted average yield on investments, excluding loans on non-accrual status, equals interest income on investments divided by the weighted average interest-bearing principal balance throughout the fiscal year.

^(C) Weighted average yield on investments, including loans on non-accrual status, equals interest income on investments divided by the weighted average total principal balance throughout the fiscal year.

^(D) Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account dividends reinvested in accordance with the terms of the dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, refer to Note 9 *Distributions to Common Stockholders* elsewhere in this prospectus.

SELECTED QUARTERLY DATA (UNAUDITED)

The following tables set forth certain quarterly financial information for each of the eight quarters in the two years ended September 30, 2017. The information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

	Quarter Ended			
	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017
Total investment income	\$ 9,974	\$ 8,793	\$ 9,632	\$ 10,834
Net investment income	5,207	5,359	5,379	5,488
Net Increase (decrease) in net assets resulting from operations	916	4,656	6,163	5,445
Net Increase (decrease) in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted)	\$ 0.04	\$ 0.18	\$ 0.24	\$ 0.21

	Quarter Ended			
	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
Total investment income	\$ 10,060	\$ 9,456	\$ 9,844	\$ 9,750
Net investment income	4,759	4,917	4,907	4,905
Net Increase (decrease) in net assets resulting from operations	(8,704)	(6,139)	5,516	20,697
Net Increase (decrease) in Net Assets Resulting From Operations per Weighted Average Common Share (Basic and Diluted)	\$ (0.38)	\$ (0.26)	\$ 0.24	\$ 0.89

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

OVERVIEW

General

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

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the U.S. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our investment objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from \$8 million to \$30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We expect that our investment portfolio over time will consist of approximately 90.0% debt investments and 10.0% equity investments, at cost. As of September 30, 2017, our investment portfolio was made up of approximately 90.1% debt investments and 9.9% equity investments, at cost.

We focus on investing in lower middle market companies in the U.S. that meet certain criteria, including, but not limited to, the following: the sustainability of the business free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, reasonable capitalization of the borrower, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples and, to a lesser extent, the potential to realize appreciation and gain liquidity in our equity position, if any. We lend to borrowers that need funds for growth capital or to finance acquisitions or recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity and have opportunistically made several co-investments with our affiliate Gladstone Investment, a BDC also managed by our Advisor, pursuant to an exemptive order granted by the SEC. We believe this ability to co-invest will continue to enhance our ability to further our investment objectives and strategies. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

Going into fiscal year 2018, we intend to continue to make new conservative investments in businesses with steady cash flows. We are focused on building our pipeline and making investments that meet our objectives and strategies and that provide appropriate returns, in light of the accompanying risks.

Business

Portfolio and Investment Activity

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

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

Table of Contents

During the year ended September 30, 2017, we invested \$99.2 million in eleven new portfolio companies and extended \$17.6 million of investments to existing portfolio companies. In addition, during the year ended September 30, 2017, we exited nine portfolio companies through sales and early payoffs. We received a total of \$83.4 million in combined net proceeds and principal repayments from the aforementioned portfolio company exits as well as existing portfolio companies during the year ended September 30, 2017. This activity resulted in a net increase in our overall portfolio by two portfolio companies to 47 and a net increase of 7.8% in our portfolio at cost since September 30, 2016. We intend to continue to make new conservative investments in businesses with steady cash flows. We are focused on building our pipeline and making investments that meet our objectives and strategies and that provide appropriate returns, in light of the accompanying risks. From our initial public offering in August 2001 and through September 30, 2017, we have made 470 different loans to, or investments in, 217 companies for a total of approximately \$1.7 billion, before giving effect to principal repayments on investments and divestitures.

During the year ended September 30, 2017, the following significant transactions occurred:

In October 2016, RP Crown Parent, LLC paid off at par for net proceeds of \$2.0 million.

In October 2016, our \$3.9 million secured first lien debt investment in Vertellus Specialties, Inc. was restructured. As a result of the restructure, we received a new \$1.1 million secured second lien debt investment in Vertellus Holdings LLC and common equity with a cost basis of \$3.0 million.

In November 2016, we completed the sale of substantially all the assets of RBC Acquisition Corp. (RBC) for net proceeds of \$36.3 million, which resulted in a realized loss of \$2.3 million. In connection with the sale, we received success fee income of \$1.1 million and net receivables of \$1.5 million, which are recorded within Other assets, net.

In November 2016, we invested \$5.2 million in Sea Link International IRB, Inc. through secured second lien debt and equity.

In December 2016, we sold our investment in Behrens Manufacturing, LLC (Behrens), which resulted in success fee income of \$0.4 million and a realized gain of \$2.5 million. In connection with the sale, we received net cash proceeds of \$8.2 million, including the repayment of our debt investment of \$4.3 million at par.

In December 2016, we invested \$7.0 million in Vacation Rental Pros Property Management, LLC through secured second lien debt.

In December 2016, Autoparts Holdings Limited paid off at par for proceeds of \$0.7 million.

In December 2016, we invested \$5.0 million in LDiscovery, LLC through secured second lien debt.

In February 2017, we invested \$10.0 million in Belnick, Inc. through secured second lien debt.

In February 2017, we invested \$29.0 million in NetFortris Corp. through secured first lien debt.

In February 2017, Vitera Healthcare Solutions, LLC paid off at par for net proceeds of \$4.5 million.

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In March 2017, LCR Contractors, LLC paid off at par for net cash proceeds of \$8.6 million. In connection with the payoff, we received a prepayment fee of \$0.2 million.

In April 2017, we invested \$22.0 million in HB Capital Resources, Ltd. through secured second lien debt.

In May 2017, we invested an additional \$4.1 million in an existing portfolio company, Lignetics, Inc., through secured second lien debt and equity, to support an acquisition.

In May 2017, we invested \$4.0 million in Keystone Acquisition Corp. through secured second lien debt.

In June 2017, we invested \$3.0 million in Medical Solutions Holdings, Inc. through secured second lien debt.

In July 2017, our loan to SourceHOV, LLC was paid off for net proceeds of \$4.8 million, resulting in a realized loss of \$0.2 million.

In August 2017, we invested \$12.5 million in EL Academies, Inc. through secured first lien debt and equity.

In August 2017, Drumcree, LLC paid off at par for net cash proceeds of \$6.3 million.

In August 2017, The Active Network, Inc. paid off at par for net proceeds of \$0.5 million.

In August 2017, we invested \$1.0 million in Neustar, Inc. through secured second lien debt.

In September 2017, our investment in Targus Cayman HoldCo, Ltd. was restructured. As part of the transaction, our secured first lien debt investment with a cost basis of approximately \$2.6 million was converted to shares of common equity with a cost basis of approximately \$2.6 million. There were no changes to our existing common stock investment with a cost basis of approximately \$2.3 million.

Table of Contents

In September 2017, we invested \$0.5 million in Frontier Financial Group, Inc. through equity. Refer to Note 15 *Subsequent Events* in the accompanying *Consolidated Financial Statements* included elsewhere in this prospectus for portfolio activity occurring subsequent to September 30, 2017.

Capital Raising

We have been able to meet our capital needs through extensions of and increases to the Credit Facility and by accessing the capital markets in the form of public equity offerings of common and preferred stock. We have successfully extended the Credit Facility's revolving period multiple times, most recently to January 2019, and currently have a total commitment amount of \$170.0 million. Additionally, we issued 2.1 million shares of our 6.00% Series 2024 Term Preferred Stock, par value \$0.001 per share (Series 2024 Term Preferred Stock) at a public offering price of \$25.00 per share, for gross proceeds of \$51.8 million in September 2017, inclusive of the overallotment, approximately 2.2 million shares of our common stock for gross proceeds of \$17.3 million in October 2016, inclusive of the November 2016 overallotment, and 2.3 million shares of common stock for gross proceeds of \$19.7 million in October 2015, inclusive of the November 2015 overallotment. Additionally, during the twelve months ended September 30, 2017, we sold 642,818 shares of our common stock under our at-the-market program with Cantor Fitzgerald & Co., at a weighted-average price of \$9.88 per share and raised \$6.4 million of gross proceeds. Refer to *Liquidity and Capital Resources Equity Common Stock* and *Liquidity and Capital Resources Equity Term Preferred Stock* for further discussion of our common stock and mandatorily redeemable preferred stock and *Liquidity and Capital Resources Revolving Line of Credit* for further discussion of the Credit Facility.

Although we were able to access the capital markets historically and in recent years, we believe uncertain market conditions could affect the trading price of our capital stock and thus may inhibit our ability to finance new investments through the issuance of equity. When our stock trades below NAV per common share, as it has often done in previous years, our ability to issue equity is constrained by provisions of the 1940 Act, which generally prohibits the issuance and sale of our common stock below NAV per common share without first obtaining approval from our stockholders and our independent directors, other than through sales to our then-existing stockholders pursuant to a rights offering. We did not request that our stockholders approve the Company's ability to issue shares of common stock at a price below NAV at our annual meeting of stockholders held on February 9, 2017. Should we decide to issue shares of common stock at a price below NAV in the future, we will seek the requisite approval of our stockholders at such time.

On December 18, 2017, the closing market price of our common stock was \$9.54, a 13.6% premium to our September 30, 2017 NAV per share of \$8.40.

Regulatory Compliance

Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have an asset coverage (as defined in Sections 18 and 61 of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock. As of September 30, 2017, our asset coverage on our senior securities representing indebtedness was 388.2% and our asset coverage on our senior securities that are stock was 249.6%.

Recent Developments

At-the-Market Program

Subsequent to September 30, 2017 and through November 13, 2017, we sold an additional 471,498 shares of our common stock under our at-the-market program with Cantor Fitzgerald & Co, at a weighted-average price of \$9.69 per share and raised \$4.6 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately \$4.5 million.

Table of Contents***Distributions***

On October 10, 2017, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

Record Date	Payment Date	Distribution per Common Share	Distribution per Series 2024 Term Preferred Share
October 20, 2017	October 31, 2017	\$ 0.07	\$ 0.141667 ^(A)
November 20, 2017	November 30, 2017	0.07	0.125
December 19, 2017	December 29, 2017	0.07	0.125
Total for the Quarter		\$ 0.21	\$ 0.391667

(A) The dividend paid on October 31, 2017 included the pro-rated period from and including the issuance date of September 27, 2017 to and including September 30, 2017, and the full month of October 2017.

Portfolio and Investment Activity

In October 2017, we sold our investment in Flight Fit N Fun LLC, which had a cost basis and fair value of \$8.5 million and \$9.2 million, respectively, as of September 30, 2017. In connection with the sale, we received net cash proceeds of approximately \$9.4 million, including the repayment of our debt investment of \$7.8 million at par.

In October 2017, PSC Industrial Holdings, LLC paid off at par for net proceeds of \$3.5 million.

In October 2017, we invested \$11.0 million in AVST Parent Holdings, LLC through secured first lien debt.

In November 2017, DataPipe, Inc. paid off at par for net proceeds of \$2.0 million.

In November 2017, we invested \$5.0 million in DigiCert Holdings, Inc. through secured second lien debt.

In November 2017, we invested \$4.0 million in Red Ventures, LLC through secured second lien debt.

In November 2017, we invested \$1.0 million in ABG Intermediate Holdings 2, LLC through secured second lien debt.

In November 2017, we invested \$7.5 million in Arc Drilling Holdings, LLC through secured first lien debt and equity.

In November 2017, we invested \$7.5 million in Gray Matter Systems, LLC through secured second lien debt.

Table of Contents**RESULTS OF OPERATIONS****Comparison of the Year Ended September 30, 2017 to the Year Ended September 30, 2016**

	2017	For the Year Ended September 30, 2016	\$ Change	% Change
INVESTMENT INCOME				
Interest income	\$ 37,073	\$ 35,219	\$ 1,854	5.3%
Other income	2,160	3,893	(1,733)	(44.5)
Total investment income	39,233	39,112	121	0.3
EXPENSES				
Base management fee	5,781	5,684	97	1.7
Loan servicing fee	4,146	3,890	256	6.6
Incentive fee	4,779	4,514	265	5.9
Administration fee	1,102	1,182	(80)	(6.8)
Interest expense on borrowings	3,073	2,899	174	6.0
Dividend expense on mandatorily redeemable preferred stock	4,152	4,118	34	0.8
Amortization of deferred financing fees	1,094	1,075	19	1.8
Other expenses	1,945	2,459	(514)	(20.9)
Expenses, before credits from Adviser	26,072	25,821	251	1.0
Credit to base management fee loan servicing fee	(4,146)	(3,890)	(256)	6.6
Credit to fees from Adviser - other	(4,126)	(2,306)	(1,820)	78.9
Total expenses, net of credits	17,800	19,625	(1,825)	(9.3)
NET INVESTMENT INCOME	21,433	19,487	1,946	10.0
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized (loss) gain on investments	(3,475)	7,216	(10,691)	(148.2)
Net realized loss on other	(1,288)	(64)	(1,224)	(1,912.5)
Net unrealized appreciation (depreciation) of investments	625	(15,334)	15,959	104.1
Net unrealized (depreciation) appreciation of other	(115)	62	(177)	(285.5)
Net loss from investments and other	(4,253)	(8,120)	3,867	47.6
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 17,180	\$ 11,367	\$ 5,813	51.1%
PER BASIC AND DILUTED COMMON SHARE				
Net investment income	\$ 0.84	\$ 0.84	\$	%
Net increase in net assets resulting from operations	\$ 0.67	\$ 0.49	\$ 0.18	36.7%

Investment Income

Interest income increased by 5.3% for the year ended September 30, 2017, as compared to the prior year. This increase was due primarily to an increase in the weighted average yield on our interest-bearing portfolio. The weighted average yield on our interest-bearing investments is based on the current stated interest rate on interest-bearing investments which increased to 11.6% for the year ended September 30, 2017 compared to 11.1% for the year ended September 30, 2016, inclusive of any allowances on interest receivables made during those periods. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2017, was \$320.1 million, compared

to \$317.0 million for the prior year, an increase of \$3.1 million, or 1.0%.

As of September 30, 2017, two portfolio companies, Sunshine Media Holdings (Sunshine) and Alloy Die Casting Co. (ADC), were either fully or partially on non-accrual status, with an aggregate debt cost basis of approximately \$27.9 million, or 7.5% of the cost basis of all debt investments in our portfolio. As of September 30, 2016, two portfolio companies, Sunshine and Vertellus Holdings, LLC, were either fully or partially on non-accrual status, with an aggregate debt cost basis of approximately \$26.5 million, or 7.7% of the cost basis of all debt investments in our portfolio.

Other income decreased by 44.5% during the year ended September 30, 2017, as compared to the prior year. This decrease was primarily due to a \$1.9 million decrease in success fees recognized year over year. For the year ended September 30, 2017, other income consisted primarily of \$1.5 million in success fees recognized, \$0.3 million in dividend income, and \$0.3 million in prepayment fees received. For the year ended September 30, 2016, other income consisted primarily of \$3.4 million in success fees recognized, \$0.3 million in dividend income, and \$0.2 million in prepayment fees.

Table of Contents

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

Portfolio Company	As of September 30, 2017		Year Ended September 30, 2017	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
NetFortris Corp. ^(A)	\$ 24,240	6.9%	\$ 1,566	4.0%
IA Tech, LLC	23,633	6.7	2,813	7.2
HB Capital Resources, Ltd. ^(A)	22,110	6.3	1,107	2.8
WadeCo Specialties, Inc.	22,016	6.2	1,936	4.9
Lignetics, Inc.	18,949	5.4	1,862	4.8
Subtotal five largest investments	110,948	31.5	9,284	23.7
Other portfolio companies	241,425	68.5	29,922	76.3
Total Investment Portfolio	\$ 352,373	100.0%	\$ 39,206	100.0%

Portfolio Company	As of September 30, 2016		Year Ended September 30, 2016	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
RBC Acquisition Corp.	\$ 37,345	11.6%	\$ 3,347	8.6%
IA Tech, LLC ^(A)	23,230	7.2	888	2.3
WadeCo Specialties, Inc.	18,980	5.9	2,059	5.3
United Flexible, Inc.	17,744	5.5	2,108	5.4
Lignetics, Inc.	14,821	4.6	1,708	4.3
Subtotal five largest investments	112,120	34.8	10,110	25.9
Other portfolio companies	209,994	65.2	28,997	74.1
Total Investment Portfolio	\$ 322,114	100.0%	\$ 39,107	100.0%

^(A) New investment during applicable period.

Expenses

Expenses, net of credits from the Adviser, decreased by 9.3% for the year ended September 30, 2017 as compared to the prior year. This decrease was primarily due to decreases in our net base management and incentive fees to the Advisor.

Interest expense increased by 6.0% during the year ended September 30, 2017, as compared to the prior year, due to an increase in the LIBOR component of the effective interest rate partially offset by a lower weighted average balance outstanding. The effective interest rate on our Credit Facility, excluding the impact of deferred financing costs, was 5.3% during the year ended September 30, 2017 compared to 4.5% during the prior year period. The weighted average balance outstanding on our Credit Facility during the year ended September 30, 2017, was approximately \$58.4 million, as compared to \$64.0 million in the prior year period, a decrease of 8.8%.

Other expenses decreased by 20.9% during the year ended September 30, 2017, as compared to the prior year, primarily due to decreases in shareholder related costs and professional fees.

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Net base management fee earned by the Adviser decreased by \$0.8 million, or 17.4%, during the year ended September 30, 2017, as compared to the prior year period, resulting from an increase in portfolio company fee credits due to new investments made in the current year period.

Our Board of Directors accepted non-contractual, unconditional and irrevocable credits from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of our distributions to common stockholders during the years ended September 30, 2017 and 2016, which credits totaled \$2.3 million and \$1.4 million, respectively.

Table of Contents

The base management, loan servicing and incentive fees, and associated non-contractual, unconditional and irrevocable credits, are computed quarterly, as described under *Transactions with the Adviser* in Note 4 *Related Party Transactions* of the accompanying *Notes to Consolidated Financial Statements* and are summarized in the following table:

	Year Ended September 30,	
	2017	2016
Average total assets subject to base management fee ^(A)	\$ 330,343	\$ 324,800
Multiplied by annual base management fee of 1.75%	1.75%	1.75%
Base management fee ^(B)	5,781	5,684
Portfolio company fee credit	(1,588)	(785)
Syndicated loan fee credit	(221)	(92)
Net Base Management Fee	\$ 3,972	\$ 4,807
Loan servicing fee ^(B)	\$ 4,146	\$ 3,890
Credit to base management fee loan servicing fee ^(B)	(4,146)	(3,890)
Net Loan Servicing Fee	\$	\$
Incentive fee ^(B)	\$ 4,779	\$ 4,514
Incentive fee credit	(2,317)	(1,429)
Net Incentive Fee	\$ 2,462	\$ 3,085
Portfolio company fee credit	\$ (1,588)	\$ (785)
Syndicated loan fee credit	(221)	(92)
Incentive fee credit	(2,317)	(1,429)
Credit to Fees from Adviser Other ^(B)	\$ (4,126)	\$ (2,306)

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

^(B) Reflected, on a gross basis, as a line item on our accompanying *Consolidated Statement of Operations* located elsewhere in this prospectus.

Realized Loss and Unrealized Appreciation**Net Realized Loss on Investments**

For the year ended September 30, 2017, we recorded a net realized loss on investments of \$3.5 million, which resulted primarily from the sale of substantially all the assets of RBC for a \$2.3 million realized loss and the write-off of \$5.0 million on our investment in Sunshine, partially offset by the sale of Behrens for a \$2.5 million realized gain and a \$1.2 million realized gain related to an additional earn-out from Funko, LLC (Funko), which we exited in the prior year.

For the year ended September 30, 2016, we recorded a net realized gain on investments of \$7.2 million, which resulted primarily from the sales of Funko, Southern Petroleum Laboratories, Inc. (SPL), Westland Technologies, Inc. (Westland), and Ashland Acquisitions, LLC (Ashland) for a combined realized gain of \$18.7 million and net proceeds of \$35.4 million. This realized gain was partially offset by a combined realized loss of \$11.7 million recognized from the sale of Heartland Communications Group (Heartland) and the restructures of Targus Group International, Inc. (Targus) and Precision Acquisition Group Holdings, Inc. (Precision) during the year ended September 30, 2016. We also recognized a realized loss of \$0.6 million during the year ended September 30, 2016 related to a settlement associated with WP Evenflo Group Holdings, Inc.,

which we previously exited at a realized gain of \$1.0 million in September 2014.

Net Realized Loss on Other

We incurred a loss on extinguishment of debt of \$1.3 million during the year ended September 30, 2017, which resulted from the write-off of unamortized deferred issuance costs at the time of redemption of our 6.75% Series 2021 Term Preferred Stock, par value \$0.001 per share (Series 2021 Preferred Stock) in September 2017. During the year ended September 30, 2016, we recorded a net realized loss of \$0.1 million due to the expiration of our interest rate cap agreement in January 2016.

Table of Contents**Net Unrealized Appreciation of Investments**

During the year ended September 30, 2017, we recorded net unrealized appreciation of investments in the aggregate amount of \$0.6 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2017, were as follows:

Portfolio Company	Year Ended September 30, 2017			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
WadeCo Specialties, Inc.	\$	\$ 2,900	\$	\$ 2,900
SourceHOV LLC	(218)	1,756	97	1,635
Funko, LLC	1,273	(106)		1,167
Targus Cayman HoldCo, Ltd.		662		662
LWO Acquisitions Company, LLC		608		608
Flight Fit N Fun LLC		456		456
IA Tech, LLC		403		403
Vitera Healthcare Solutions, LLC		213	115	328
PIC 360, LLC		315		315
B+T Group Acquisition Inc.		305		305
Travel Sentry, Inc.		255		255
Leeds Novamark Capital I, L.P.		229		229
NetFortris Corp.	(14)	239		225
PSC Industrial Holdings Corp.		219		219
United Flexible, Inc.		177		177
Drumcree, LLC		169	(15)	154
Merlin International, Inc.		150		150
Vision Government Solutions, Inc.		141		141
TWS Acquisition Corporation		127		127
Westland Technologies, Inc.	126			126
Meridian Rack & Pinion, Inc.		(246)		(246)
L Discovery		(265)		(265)
Edge Adhesives Holdings, Inc.		(468)		(468)
FedCap Partners, LLC		(514)		(514)
Behrens Manufacturing, LLC	2,544		(3,211)	(667)
New Trident Holdcorp, Inc.		(878)		(878)
Defiance Integrated Technologies, Inc.		(1,125)		(1,125)
RBC Acquisition Corp.	(2,330)		1,119	(1,211)
Vertellus Holdings LLC	109	(1,456)		(1,347)
Francis Drilling Fluids, Ltd.		(2,066)		(2,066)
Alloy Die Casting, Corp.		(2,303)		(2,303)
Sunshine Media Holdings	(5,000)	(995)	3,612	(2,383)
Other, net (<\$250)	35	33	(27)	41
Total:	\$ (3,475)	\$ (1,065)	\$ 1,690	\$ (2,850)

The primary drivers of our net unrealized appreciation for the year ended September 30, 2017, were an increase in the value of WadeCo Specialties, Inc., increased performance on certain of our portfolio companies, and the reversal of previously recorded depreciation on our investment in Sunshine upon partial write-off. These factors were partially offset by a decline in performance and decrease in comparable multiples used in the valuation of certain of our other portfolio companies and the reversal of \$3.2 million of previously recorded unrealized appreciation on our investment in Behrens upon exit.

Table of Contents

The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2016, were as follows:

Portfolio Company	Year Ended September 30, 2016			Net Gain (Loss)
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	
RBC Acquisition Corp.	\$ 1,207	\$ 11,896	\$	\$ 13,103
Legend Communications of Wyoming, LLC		2,857	27	2,884
Behrens Manufacturing, LLC		2,206		2,206
Funko, LLC	16,874	98	(16,009)	963
Southern Petroleum Laboratories, Inc.	873	871	(995)	749
Precision Acquisition Group Holdings, Inc.	(3,821)	(1,282)	5,805	702
Westland Technologies, Inc.	909	622	(866)	665
J. America, Inc.		482		482
Triple H Food Processors		351		351
RP Crown Parent, LLC		276		276
GFRC Holdings, LLC		(271)		(271)
Ashland Acquisitions, LLC	72	183	(572)	(317)
Mikaway		(379)		(379)
FedCap Partners, LLC		(381)		(381)
New Trident Holdcorp, Inc.		(442)		(442)
AG Transportation Holdings, LLC		(454)		(454)
WP Evenflo Group Holdings, Inc.	(550)			(550)
WadeCo Specialties, Inc.		(722)		(722)
Vision Government Solutions, Inc.		(779)		(779)
Vertellus Specialties Inc.		(975)		(975)
Lignetics, Inc.		(1,251)		(1,251)
SourceHOV LLC		(1,380)		(1,380)
LWO Acquisitions Company, LLC		(3,170)		(3,170)
Defiance Integrated Technologies, Inc.		(3,184)		(3,184)
Sunshine Media Holdings		(3,360)		(3,360)
Targus Cayman HoldCo, Ltd.	(5,500)	(2,952)	4,198	(4,254)
Francis Drilling Fluids, Ltd.		(8,156)		(8,156)
Other, net (<\$250)	(2,848)	(528)	2,902	(474)
Total:	\$ 7,216	\$ (9,824)	\$ (5,510)	\$ (8,118)

The primary drivers of our net unrealized depreciation for the year ended September 30, 2016, were a decline in financial and operation performance of certain portfolio companies and the reversal of \$16.0 million of previously recorded unrealized appreciation on our investment in Funko upon exit. This depreciation was partially offset by unrealized appreciation, primarily on RBC of \$11.9 million, which was driven by proceeds received associated with the sale of RBC in November 2016, and the reversal of \$4.2 million of previously recorded unrealized depreciation on our investment in Targus upon restructure.

As of September 30, 2017, the fair value of our investment portfolio was less than its cost basis by approximately \$59.1 million and our entire investment portfolio was valued at 85.6% of cost, as compared to cumulative net unrealized depreciation of \$59.7 million and a valuation of our entire portfolio at 84.4% of cost as of September 30, 2016. This year over year increase in the cumulative unrealized depreciation on investments represents net unrealized appreciation of \$0.6 million for the year ended September 30, 2017.

The cumulative net unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

Net Unrealized (Appreciation) Depreciation of Other

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During the year ended September 30, 2017, we recorded \$0.1 million of unrealized depreciation on our Credit Facility at fair value. During the year ended September 30, 2016, we reversed \$0.1 million of unrealized depreciation related to the expiration of our interest rate cap agreement in January 2016.

Table of Contents**Comparison of the Year Ended September 30, 2016 to the Year Ended September 30, 2015**

	2016	For the Year Ended September 30, 2015	\$ Change	% Change
INVESTMENT INCOME				
Interest income	\$ 35,219	\$ 34,895	\$ 324	0.9%
Other income	3,893	3,163	730	23.1
Total investment income	39,112	38,058	1,054	2.8
EXPENSES				
Base management fee	5,684	6,888	(1,204)	(17.5)
Loan servicing fee	3,890	3,816	74	1.9
Incentive fee	4,514	4,083	431	10.6
Administration fee	1,182	1,033	149	14.4
Interest expense on borrowings	2,899	3,828	(929)	(24.3)
Dividend expense on mandatorily redeemable preferred stock	4,118	4,116	2	0.0
Amortization of deferred financing fees	1,075	1,106	(31)	(2.8)
Other expenses	2,459	2,188	271	12.4
Expenses, before credits from Adviser	25,821	27,058	(1,237)	(4.6)
Credit to base management fee loan servicing fee	(3,890)	(3,816)	(74)	1.9
Credit to fees from Adviser - other	(2,306)	(2,884)	578	(20.0)
Total expenses, net of credits	19,625	20,358	(733)	(3.6)
NET INVESTMENT INCOME	19,487	17,700	1,787	10.1
NET REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized gain (loss) on investments	7,216	(33,666)	40,882	(121.4)
Net realized loss on other	(64)	(510)	446	87.5
Net unrealized (depreciation) appreciation of investments	(15,334)	23,647	(38,981)	(164.8)
Net unrealized appreciation of other	62	1,313	(1,251)	(95.3)
Net loss from investments and other	(8,120)	(9,216)	1,096	(11.9)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 11,367	\$ 8,484	\$ 2,883	34.0%
PER BASIC AND DILUTED COMMON SHARE				
Net investment income	\$ 0.84	\$ 0.84	\$	%
Net increase in net assets resulting from operations	\$ 0.49	\$ 0.40	\$ 0.09	22.5%

Investment Income

Interest income increased by 0.9% for the year ended September 30, 2016, as compared to the prior year. This increase was due primarily to an increase in the weighted average yield on our interest-bearing portfolio partially offset by a slight decrease in the principal balance of our interest-bearing investment portfolio outstanding during the year. The weighted average yield on our interest-bearing investments is based on the current stated interest rate on interest-bearing investments which increased to 11.1% for the year ended September 30, 2016 compared to 10.9% for the year ended September 30, 2015, inclusive of any allowances on interest receivables made during those periods. The weighted average principal balance of our interest-bearing investment portfolio during the year ended September 30, 2016, was \$317.0 million, compared to \$319.1 million for the prior year, a decrease of \$2.1 million, or 0.1%.

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As of September 30, 2016, two portfolio companies, Sunshine and Vertellus Specialties, Inc., were either fully or partially on non-accrual status, with an aggregate debt cost basis of approximately \$26.5 million, or 7.7% of the cost basis of all debt investments in our portfolio. As of September 30, 2015, two portfolio companies, Sunshine and Heartland, were either fully or partially on non-accrual status, with an aggregate debt cost basis of approximately \$26.4 million, or 7.1% of the cost basis of all debt investments in our portfolio.

Other income increased by 23.1% during the year ended September 30, 2016, as compared to the prior year. For the year ended September 30, 2016, other income consisted primarily of \$3.4 million in success fees recognized, \$0.3 million in dividend income received, and \$0.2 million in prepayment fees received. For the year ended September 30, 2015, other income consisted primarily of \$1.9 million in success fees recognized, \$0.9 million in dividend income, and \$0.3 million in settlement fees.

Table of Contents

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

Portfolio Company	As of September 30, 2016		Year Ended September 30, 2016	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
RBC Acquisition Corp.	\$ 37,345	11.6%	\$ 3,347	8.6%
IA Tech, LLC ^(A)	23,230	7.2	888	2.3
WadeCo Specialties, Inc.	18,980	5.9	2,059	5.3
United Flexible, Inc.	17,744	5.5	2,108	5.4
Lignetics, Inc.	14,821	4.6	1,708	4.3
Subtotal five largest investments	112,120	34.8	10,110	25.9
Other portfolio companies	209,994	65.2	28,997	74.1
Total Investment Portfolio	\$ 322,114	100.0%	\$ 39,107	100.0%

Portfolio Company	As of September 30, 2015		Year Ended September 30, 2015	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Funko, LLC	\$ 26,814	7.3%	\$ 1,385	3.6%
WadeCo Specialties, Inc.	21,920	6.0	1,896	5.0
RBC Acquisition Corp.	20,617	5.6	2,343	6.2
United Flexible, Inc. ^(A)	20,355	5.6	1,226	3.2
Francis Drilling Fluids, Ltd.	19,928	5.5	2,946	7.7
Subtotal five largest investments	109,634	30.0	9,796	25.7
Other portfolio companies	256,257	70.0	28,257	74.3
Total Investment Portfolio	\$ 365,891	100.0%	\$ 38,053	100.0%

^(A) New investment during applicable period.

Expenses

Expenses, net of credits from the Adviser, decreased for the year ended September 30, 2016, by 3.6% as compared to the prior year. This decrease was primarily due to decreases in our net base management fees to the Adviser and interest expense on borrowings, partially offset by an increase in the net incentive fee to the Adviser.

Interest expense decreased by \$0.9 million, or 24.3%, during the year ended September 30, 2016, as compared to the prior year, primarily due to decreased borrowings outstanding throughout the period on our Credit Facility. The weighted average balance outstanding on our Credit Facility during the year ended September 30, 2016, was approximately \$64.0 million, as compared to \$92.5 million in the prior year period, a decrease of 30.8%.

Net base management fee earned by the Adviser decreased by \$0.6 million, or 10.5%, during the year ended September 30, 2016, as compared to the prior year period, resulting from a decrease in the average total assets outstanding and a decrease in the annual base management fee from 2.0% to 1.75%, which was effective July 1, 2015.

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The base management, loan servicing and incentive fees, and associated non-contractual, unconditional and irrevocable credits, are computed quarterly, as described under *Transactions with the Adviser* in Note 4 *Related Party Transactions* of the accompanying *Notes to Consolidated Financial Statements* and are summarized in the following table:

	Year Ended September 30,	
	2016	2015
Average total assets subject to base management fee ^(A)	\$ 324,800	\$ 355,510
Multiplied by annual base management fee of 1.75% 2.0%	1.75%	1.75% - 2.0%
Base management fee ^(B)	5,684	6,888
Portfolio fee credit	(785)	(1,399)
Syndicated loan fee credit	(92)	(118)
Net Base Management Fee	\$ 4,807	\$ 5,371

Table of Contents

	Year Ended September 30,	
	2016	2015
Loan servicing fee ^(B)	\$ 3,890	\$ 3,816
Credit to base management fee loan servicing fee ^(B)	(3,890)	(3,816)
Net Loan Servicing Fee	\$	\$
Incentive fee ^(B)	\$ 4,514	\$ 4,083
Incentive fee credit	(1,429)	(1,367)
Net Incentive Fee	\$ 3,085	\$ 2,716
Portfolio fee credit	\$ (785)	\$ (1,399)
Syndicated loan fee credit	(92)	(118)
Incentive fee credit	(1,429)	(1,367)
Credit to Fees from Adviser - Other ^(B)	\$ (2,306)	\$ (2,884)

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

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

Realized Loss and Unrealized Appreciation**Net Realized Loss on Investments**

For the year ended September 30, 2016, we recorded a net realized gain on investments of \$7.2 million, which resulted primarily from the sales of Funko, SPL, Westland, and Ashland for a combined realized gain of \$18.7 million and net proceeds of \$35.4 million. This realized gain was partially offset by a combined realized loss of \$11.7 million recognized from the sale of Heartland and the restructures of Targus and Precision during the year ended September 30, 2016. We also recognized a realized loss of \$0.6 million during the year ended September 30, 2016 related to a settlement associated with WP Evenflo Group Holdings, Inc., which we had previously exited at a realized gain of \$1.0 million in September 2014.

For the year ended September 30, 2015, we recorded a net realized loss on investments of \$34.2 million, which resulted primarily from the sales of Midwest Metal Distribution, Inc. (Midwest Metal), Sunburst Media Louisiana LLC (Sunburst), Saunders & Associates (Saunders) and the restructure of GFRC Holdings LLC (GFRC) for a combined realized loss of \$34.1 million and net proceeds of \$7.1 million. This realized loss was partially offset by the realized gain of \$1.6 million we recognized on the early payoff of North American Aircraft Services, LLC (NAAS).

Net Realized Loss on Other

During the year ended September 30, 2016, we recorded a net realized loss of \$0.1 million due to the expiration of our interest rate cap agreement in January 2016. For the year ended September 30, 2015, we recorded a net realized loss on other of \$0.5 million resulting primarily from uncollected escrows on the previous sale of Midwest Metal during the three months ended December 31, 2014.

Table of Contents**Net Unrealized (Depreciation) Appreciation of Investments**

During the year ended September 30, 2016, we recorded net unrealized depreciation of investments in the aggregate amount of \$15.3 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2016, were as follows:

Portfolio Company	Year Ended September 30, 2016			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
RBC Acquisition Corp.	\$ 1,207	\$ 11,896	\$	\$ 13,103
Legend Communications of Wyoming, LLC		2,857	27	2,884
Behrens Manufacturing, LLC		2,206		2,206
Funko, LLC	16,874	98	(16,009)	963
Southern Petroleum Laboratories, Inc.	873	871	(995)	749
Precision Acquisition Group Holdings, Inc.	(3,821)	(1,282)	5,805	702
Westland Technologies, Inc.	909	622	(866)	665
J. America, Inc.		482		482
Triple H Food Processors		351		351
RP Crown Parent, LLC		276		276
GFRC Holdings, LLC		(271)		(271)
Ashland Acquisitions, LLC	72	183	(572)	(317)
Mikawaya		(379)		(379)
FedCap Partners, LLC		(381)		(381)
New Trident Holdcorp, Inc.		(442)		(442)
AG Transportation Holdings, LLC		(454)		(454)
WP Evenflo Group Holdings, Inc.	(550)			(550)
WadeCo Specialties, Inc.		(722)		(722)
Vision Government Solutions, Inc.		(779)		(779)
Vertellus Specialties Inc.		(975)		(975)
Lignetics, Inc.		(1,251)		(1,251)
SourceHOV LLC		(1,380)		(1,380)
LWO Acquisitions Company, LLC		(3,170)		(3,170)
Defiance Integrated Technologies, Inc.		(3,184)		(3,184)
Sunshine Media Holdings		(3,360)		(3,360)
Targus Cayman HoldCo, Ltd.	(5,500)	(2,952)	4,198	(4,254)
Francis Drilling Fluids, Ltd.		(8,156)		(8,156)
Other, net (<\$250)	(2,848)	(528)	2,902	(474)
Total:	\$ 7,216	\$ (9,824)	\$ (5,510)	\$ (8,118)

The primary drivers of our net unrealized depreciation for the year ended September 30, 2016, were a decline in financial and operational performance of certain portfolio companies and the reversal of \$16.0 million of previously recorded unrealized appreciation on our investment in Funko upon exit. This depreciation was partially offset by unrealized appreciation, primarily on RBC of \$11.9 million, which was driven by proceeds received associated with the sale of RBC in November 2016, and the reversal of \$4.2 million of previously recorded unrealized depreciation on our investment in Targus upon restructure.

Table of Contents

During the year ended September 30, 2015, we recorded net unrealized appreciation of investments in the aggregate amount of \$23.6 million. The net realized gain (loss) and unrealized appreciation (depreciation) across our investments for the year ended September 30, 2015, were as follows:

Portfolio Company	Year Ended September 30, 2015			
	Realized (Loss) Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Funko, LLC	\$	\$ 11,451	\$	\$ 11,451
Sunburst Media Louisiana, LLC	(1,333)	2,130	2,295	3,092
Precision Acquisition Group Holdings, Inc.		2,831		2,831
Sunshine Media Holdings		1,861		1,861
Heartland Communications Group		1,123		1,123
Behrens Manufacturing, LLC		1,102		1,102
Ameriquial Group, LLC		1,063		1,063
Westland Technologies, Inc.		899		899
Midwest Metal Distribution, Inc.	(14,980)		15,578	598
Ashland Acquisitions, LLC		571		571
AG Transportation Holdings, LLC		516		516
New Trident Holdcorp, Inc.		(282)		(282)
Vertellus Specialties Inc.		(315)		(315)
LWO Acquisitions Company, LLC		(390)		(390)
SourceHOV LLC		(473)		(473)
FedCap Partners, LLC		(507)		(507)
North American Aircraft Services, LLC	1,578		(2,216)	(638)
WadeCo Specialties, Inc.		(818)		(818)
Alloy Die Casting		(1,251)		(1,251)
Targus Group International, Inc.		(1,254)		(1,254)
Meridian Rack & Pinion, Inc.		(1,647)		(1,647)
B+T Group Acquisition Inc.		(1,934)		(1,934)
Francis Drilling Fluids, Ltd.		(2,575)		(2,575)
PLATO Learning, Inc.		(2,663)		(2,663)
Edge Adhesives Holdings, Inc.		(3,196)	6	(3,190)
Saunders & Associates	(8,884)	(3,255)	8,680	(3,459)
GFRC Holdings, LLC	(10,797)	(5,308)	10,483	(5,622)
RBC Acquisition Corp.		(7,647)		(7,647)
Other, net (<\$250)	750	(985)	(226)	(461)
Total:	\$ (33,666)	\$ (10,953)	\$ 34,600	\$ (10,019)

The largest driver of our net unrealized appreciation for the year ended September 30, 2015 was the reversal of an aggregate of \$34.6 million in cumulative unrealized depreciation primarily related to the sales of Midwest Metal, Sunburst, Saunders, and the restructure of GFRC. Net unrealized appreciation was also driven by an increase in performance on Funko of \$11.5 million. This appreciation was offset by decreases in comparable multiples used in valuations and a decline in the financial and operational performance of GFRC and RBC.

As of September 30, 2016, the fair value of our investment portfolio was less than its cost basis by approximately \$59.7 million and our entire investment portfolio was valued at 84.4% of cost, as compared to cumulative net unrealized depreciation of \$44.4 million and a valuation of our entire portfolio at 89.2% of cost as of September 30, 2015. This year over year increase in the cumulative unrealized depreciation on investments represents net unrealized depreciation of \$15.3 million for the year ended September 30, 2016.

The cumulative net unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution to stockholders.

Net Unrealized (Appreciation) Depreciation of Other

During the year ended September 30, 2016, we reversed \$0.1 million of unrealized depreciation related to the expiration of our interest rate cap agreement in January 2016. During year ended September 30, 2015, we recorded \$1.3 million of net unrealized depreciation on our Credit Facility recorded at fair value whereas no such amounts were incurred during the year ended September 30, 2016.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****Operating Activities**

Our cash flows from operating activities are primarily generated from the interest payments on debt securities that we receive from our portfolio companies, as well as net proceeds received through repayments or sales of our investments. We utilize this cash primarily to fund new investments, make interest payments on our Credit Facility, make distributions to our stockholders, pay management and administrative fees to the Adviser and Administrator, and for other operating expenses. Net cash used in operating activities for the year ended September 30, 2017 was \$12.9 million as compared to net cash provided by operating activities of \$60.0 million for the year ended September 30, 2016. The change was primarily due to an increase in purchases of investments and a decrease in principal repayments on investments and net proceeds from sale of investments period over period. Purchases of investments were \$112.1 million during the year ended September 30, 2017 compared to \$80.0 million during the prior year period. Repayments and net proceeds from sales were \$83.4 million during the year ended September 30, 2017 compared to \$121.1 million during the prior year period.

As of September 30, 2017, we had loans to, syndicated participations in or equity investments in 47 private companies, with an aggregate cost basis of approximately \$411.4 million. As of September 30, 2016, we had loans to, syndicated participations in or equity investments in 45 private companies, with an aggregate cost basis of approximately \$381.8 million.

The following table summarizes our total portfolio investment activity during the years ended September 30, 2017 and 2016:

	Year Ended September 30,	
	2017	2016
Beginning investment portfolio, at fair value	\$ 322,114	\$ 365,891
New investments	99,241	79,401
Disbursements to existing portfolio companies	12,851	10,145
Scheduled principal repayments	(3,646)	(1,934)
Unscheduled principal repayments	(71,558)	(107,293)
Net proceeds from sales of investments	(8,240)	(21,438)
Net unrealized depreciation of investments	(1,065)	(9,824)
Reversal of prior period net depreciation (appreciation) of investments	1,690	(5,510)
Net realized (loss) gain on investments	(3,475)	7,216
Increase in investment balance due to PIK interest (A)	4,729	5,002
Cost adjustments on non-accrual loans		388
Net change in premiums, discounts and amortization	(268)	70
Ending Investment Portfolio, at Fair Value	\$ 352,373	\$ 322,114

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

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at September 30, 2017.

Year Ending September 30,	Amount (A)
2018	\$ 43,413
2019	51,545
2020	87,823
2021	61,056
2022	52,503
Thereafter	79,970

Total contractual repayments	\$ 376,310
Equity investments	40,922
Adjustments to cost basis on debt investments	(5,797)
 Investment Portfolio as of September 30, 2017, at Cost:	 \$ 411,435

^(A) Subsequent to September 30, 2017, three debt investments with aggregate principal balances maturing during each of the years ending September 30, 2019, September 30, 2020, and September 30, 2022, of \$2.0 million, \$7.8 million and \$3.5 million, respectively, were repaid at par. Additionally, debt investments in one portfolio company with a combined principal balance of \$5.7 million, which had maturity dates during the fiscal year ended September 30, 2019, were extended to mature during the fiscal year ending September 30, 2021.

Table of Contents

Financing Activities

Net cash provided by financing activities for the year ended September 30, 2017 was \$11.7 million, which consisted primarily of \$21.7 million in net borrowings on our Credit Facility and \$22.7 million in proceeds from the issuance of common stock, partially offset by \$21.4 million in distributions to common stockholders and a net decrease of \$9.3 million in term preferred stock due to the redemption of our Series 2021 Term Preferred Stock and issuance of a lesser amount of Series 2024 Term Preferred Stock.

Net cash used in financing activities for the year ended September 30, 2016 was \$57.7 million, which consisted primarily of \$56.0 million in net repayments on our Credit Facility and \$19.5 million in distributions to common stockholders, partially offset by \$19.7 million in proceeds from the issuance of common stock, net of underwriting costs.

Net cash provided by financing activities for the year ended September 30, 2015 of \$72.0 million consisted primarily of \$90.6 million in net borrowings on our Credit Facility offset by \$17.7 million in distributions to common stockholders.

Distributions to Stockholders

Common Stock Distributions

To qualify to be taxed as a RIC and thus avoid corporate level federal income tax on the income we distribute to our stockholders, we are required to distribute to our stockholders on an annual basis at least 90.0% of our investment company taxable income. Additionally, our Credit Facility has a covenant that generally restricts the amount of distributions to stockholders that we can pay out to be no greater than our aggregate net investment income, net capital gains and amounts elected to have been paid during the prior year in accordance with Section 855(a) of the Code. In accordance with these requirements, we paid monthly cash distributions of \$0.07 per common share for each month during the years ended September 30, 2017, 2016 and 2015, which totaled an aggregate of \$21.4 million, \$19.5 million and \$17.7 million, respectively. In October 2017, our Board of Directors declared a monthly distribution of \$0.07 per common share for each of October, November and December 2017. Our Board of Directors declared these distributions to our stockholders based on our estimates of our investment company taxable income for the fiscal year ending September 30, 2018. From inception through September 30, 2017, we have paid 176 either monthly or quarterly consecutive distributions to common stockholders totaling approximately \$297.8 million or \$17.77 per share.

For each of the fiscal years ended September 30, 2017, 2016, and 2015, Investment Company Taxable Income exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$0.3 million, \$5.5 million, and \$1.7 million, respectively, of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year.

Preferred Stock Dividends

Our Board of Directors declared and we paid monthly cash dividends of \$0.140625 per share to holders of our Series 2021 Term Preferred Stock for each month during the years ended September 30, 2017, 2016, and 2015, which totaled an aggregate of \$4.1 million during each of the years ended September 30, 2017, 2016, and 2015. In October 2017, our Board of Directors declared a combined dividend for the pro-rated period from and including the issuance date, September 27, 2017, to and including September 30, 2016 and the full month of October 2017, which totaled \$0.141667 per share, to the holders of our Series 2024 Term Preferred Stock and monthly cash dividends of \$0.125 per share to holders of our Series 2024 Term Preferred Stock for each of November and December 2017.

In accordance with GAAP, we treat these monthly dividends as an operating expense. For federal income tax purposes, the dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

Equity

Registration Statement

We filed Post-Effective Amendment No. 2 to our current universal shelf registration statement on Form N-2 (our Registration Statement) (File No. 333-208637) with the SEC on December 22, 2016, which was declared effective by the SEC on February 6, 2017. Our Registration Statement permits us to issue, through one or more transactions, up to an aggregate of \$300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, preferred stock or debt securities. As of September 30, 2017, we had the ability to issue up to \$224.6 million in securities under the Registration Statement.

Common Stock

In February 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or the Sales Agreements) with KeyBanc Capital Markets Inc. and Cantor Fitzgerald & Co., each a Sales Agent, under which we had the ability to issue and sell, from time to time, through the Sales Agents, up to an aggregate offering price of \$50.0 million shares of our common stock. In May 2017, we terminated the Sales Agreement with KeyBanc Capital Markets Inc. and amended the Sales Agreement with Cantor Fitzgerald & Co. to reference our current registration statement. All other material terms of the Sales Agreement remained unchanged. During the year ended September 30, 2017, we sold 642,818 shares of our common stock under the Sales Agreement with Cantor Fitzgerald & Co., at a weighted-

Table of Contents

average price of \$9.88 per share and raised \$6.4 million of gross proceeds. Net proceeds, after deducting commissions and offering costs borne by us, were approximately \$6.1 million. As of September 30, 2017, we had a remaining capacity to sell up to \$42.5 million of common stock under the Sales Agreement with Cantor Fitzgerald & Co. We did not sell any shares under the Sales Agreements during the year ended September 30, 2016.

Pursuant to our prior Registration Statement, on October 27, 2015, we completed a public offering of 2.0 million shares of our common stock at a public offering price of \$8.55 per share, which was below our then current NAV per share. In November 2015, the underwriters exercised their option to purchase an additional 300,000 shares. Gross proceeds totaled \$19.7 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately \$18.4 million. The net proceeds of this offering were used to repay borrowings under our Credit Facility.

In January 2016, our Board of Directors authorized a share repurchase program for up to an aggregate of \$7.5 million of the Company's common stock. The program expired on January 31, 2017. During the year ended September 30, 2016, we repurchased 87,200 shares of our common stock at an average share price of \$6.53, resulting in aggregate gross purchases of \$0.6 million. We did not repurchase any shares during the year ended September 30, 2017.

Pursuant to our prior Registration Statement, in October 2016, we completed a public offering of 2.0 million shares of our common stock at a public offering price of \$7.98 per share, which was below our then current NAV per share. In November 2016, the underwriters partially exercised their overallotment option to purchase an additional 173,444 shares of our common stock. Gross proceeds totaled \$17.3 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately \$16.4 million. The net proceeds of this offering were used to repay borrowings under our Credit Facility.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the timing or terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. To the extent that our common stock trades at a market price below our NAV per share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder and independent director approval or a rights offering to existing common stockholders. We did not request that our stockholders approve the Company's ability to issue shares of common stock at a price below NAV at our annual meeting of stockholders held on February 9, 2017.

On December 18, 2017, the closing market price of our common stock was \$9.54, a 13.6% premium to our September 30, 2017 NAV per share of \$8.40.

Term Preferred Stock

Pursuant to our current registration statement, in September 2017, we completed a public offering of approximately 2.1 million shares of our Series 2024 Term Preferred Stock at a public offering price of \$25.00 per share. Gross proceeds totaled \$51.8 million and net proceeds, after deducting underwriting discounts, commissions and offering expenses borne by us, were approximately \$49.8 million. We incurred approximately \$1.9 million in total underwriting discounts and offering costs related to the issuance of the Series 2024 Term Preferred Stock, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period from issuance through September 30, 2024, the mandatory redemption date. The net proceeds plus borrowings under our Credit Facility were used to voluntarily redeem all 2.4 million outstanding shares of our then existing 6.75% Series 2021 Term Preferred Stock, par value \$0.001 per share. In connection with the voluntary redemption of our Series 2021 Term Preferred Stock, we incurred a loss on extinguishment of debt of \$1.3 million, which has been reflected in Realized loss on other in our accompanying *Consolidated Statement of Operations* and which is primarily comprised of the unamortized deferred issuance costs at the time of redemption.

The shares of our Series 2024 Term Preferred Stock are traded under the ticker symbol GLADN on the Nasdaq. Our Series 2024 Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.00% per year, payable monthly (which equates in total to approximately \$3.1 million per year). We are required to redeem all of the outstanding Series 2024 Term Preferred Stock on September 30, 2024 for cash at a redemption price equal to \$25.00 per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date of redemption (the Redemption Price). We may additionally be required to mandatorily redeem some or all of the shares of our Series 2024 Term Preferred Stock early, at the Redemption Price, in the event of the following: (1) upon the occurrence of certain events that would constitute a change in control, and (2) if we fail to maintain an asset coverage of at least 200% on our senior securities that are stock (which is currently only our Series 2024 Term Preferred Stock) and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report. The asset coverage on our senior securities that are stock as of September 30, 2017 was 249.6%, calculated in accordance with Sections 18 and 61 of the 1940 Act.

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We may also voluntarily redeem all or a portion of the Series 2024 Term Preferred Stock at our option at the Redemption Price at any time after September 30, 2019. If we fail to redeem our Series 2024 Term Preferred Stock pursuant to the mandatory redemption required on September 30, 2024, or in any other circumstance in which we are required to mandatorily redeem our Series 2024 Term Preferred Stock, then the fixed dividend rate will increase by 4.0% for so long as such failure continues. As of September 30, 2017, we have not redeemed, nor have we been required to redeem, any shares of our outstanding Series 2024 Term Preferred Stock.

Table of Contents**Revolving Credit Facility**

On May 1, 2015, we, through Business Loan, entered into a Fifth Amended and Restated Credit Agreement with KeyBank, as administrative agent, lead arranger and a lender, which increased the commitment amount of our Credit Facility from \$137.0 million to \$140.0 million, extended the revolving period end date by three years to January 19, 2019, decreased the marginal interest rate added to 30-day LIBOR from 3.75% to 3.25% per annum, set the unused commitment fee at 0.50% on all undrawn amounts, expanded the scope of eligible collateral, and amended other terms and conditions to among other items. If our Credit Facility is not renewed or extended by January 19, 2019, all principal and interest will be due and payable on or before April 19, 2020. Subject to certain terms and conditions, our Credit Facility may be expanded up to a total of \$250.0 million through additional commitments of new or existing lenders. We incurred fees of approximately \$1.1 million in connection with this amendment, which are being amortized through our Credit Facility's revolving period end date of January 19, 2019. On June 19, 2015, we, through Business Loan, entered into certain joinder and assignment agreements with three new lenders to increase borrowing capacity on our Credit Facility by \$30.0 million to \$170.0 million. We incurred fees of approximately \$0.6 million in connection with this expansion, which are being amortized through our Credit Facility's revolving period end date of January 19, 2019.

On October 9, 2015, August 18, 2016, and August 24, 2017, we entered into Amendments No. 1, 2 and 3 to our Credit Facility, respectively, each of which clarified or modified various constraints on available borrowings.

Interest is payable monthly during the term of our Credit Facility. Available borrowings are subject to various constraints imposed under our Credit Facility, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required. Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with KeyBank and with The Bank of New York Mellon Trust Company, N.A. as custodian. KeyBank, which also serves as the trustee of the account, generally remits the collected funds to us once a month.

Our Credit Facility contains covenants that require Business Loan to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions), and restrict material changes to our credit and collection policies without the lenders' consents. Our Credit Facility generally limits distributions to our stockholders on a fiscal year basis to the sum of our net investment income, net capital gains and amounts elected to have been paid during the prior year in accordance with Section 855(a) of the Code. Business Loan is also subject to certain limitations on the type of loan investments it can apply as collateral towards the borrowing base to receive additional borrowing availability under our Credit Facility, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, portfolio company leverage and lien property. Our Credit Facility further requires Business Loan to comply with other financial and operational covenants, which obligate Business Loan to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of 25 obligors required in the borrowing base. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatorily redeemable preferred stock) of \$205.0 million plus 50% of all equity and subordinated debt raised after May 1, 2015 less 50% of any equity and subordinated debt retired or redeemed after May 1, 2015, which equates to \$221.8 million as of September 30, 2017, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Sections 18 and 61 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code.

As of September 30, 2017, and as defined in the performance guaranty of our Credit Facility, we had a net worth of \$268.6 million, asset coverage on our senior securities representing indebtedness of 388.2% and an active status as a BDC and RIC. In addition, we had 32 obligors in our Credit Facility's borrowing base as of September 30, 2017. As of September 30, 2017, we were in compliance with all of our Credit Facility covenants. Refer to Note 5 *Borrowings* of our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus for additional information regarding our Credit Facility.

Off-Balance Sheet Arrangements

We generally recognize success fee income when the payment has been received. As of September 30, 2017 and September 30, 2016, we had off-balance sheet success fee receivables on our accruing debt investments of \$4.6 million and \$3.4 million (or approximately \$0.18 per common share and \$0.14 per common share), respectively, that would be owed to us based on our current portfolio if fully paid off. Consistent with GAAP, we generally have not recognized our success fee receivables and related income in our *Consolidated Financial Statements* until earned. Due to the contingent nature of our success fees, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

Contractual Obligations

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We have lines of credit, delayed draw term loans, and an uncalled capital commitment with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit, the unused delayed draw term

Table of Contents

loans and the uncalled capital commitment as of September 30, 2017 and September 30, 2016 to be immaterial. The following table shows our contractual obligations as of September 30, 2017, at cost:

Contractual Obligations ^(A)	Payments Due by Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Credit Facility ^(B)	\$	\$ 93,000	\$	\$	\$ 93,000
Mandatorily Redeemable Preferred Stock				51,750	51,750
Interest expense on debt obligations ^(C)	7,740	10,860	6,210	3,105	27,915
Total	\$ 7,740	\$ 103,860	\$ 6,210	\$ 54,855	\$ 172,665

(A) Excludes our unused line of credit commitments, an unused delayed draw term loan and uncalled capital commitments to our portfolio companies in an aggregate amount of \$19.8 million, at cost, as of September 30, 2017.

(B) Principal balance of borrowings outstanding under our Credit Facility, based on the current contractual revolver period end date to the revolving nature of the facility.

(C) Includes estimated interest payments on our Credit Facility and dividend obligations on our Series 2024 Term Preferred Stock. The amount of interest expense calculated for purposes of this table was based upon rates and balances as of September 30, 2017. Dividend payments on our Series 2024 Term Preferred Stock assume quarterly dividend declarations and monthly dividend distributions through the date of mandatory redemption.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, including disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates under different assumptions or conditions. We have identified our investment valuation policy (which has been approved by our Board of Directors) (the Policy) as our most critical accounting policy, which is described in Note 2 *Summary of Significant Accounting Policies* in the accompanying notes to our *Consolidated Financial Statements* included elsewhere in this prospectus. Additionally, refer to Note 3 *Investments* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus for additional information regarding fair value measurements and our application of Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*. We have also identified our revenue recognition policy as a critical accounting policy, which is described in Note 2 *Summary of Significant Accounting Policies* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

Investment Valuation**Credit Monitoring and Risk Rating**

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

The Adviser risk rates all of our investments in debt securities. The Adviser does not risk rate our equity securities. For syndicated loans that have been rated by an SEC registered Nationally Recognized Statistical Rating Organization (NRSRO), the Adviser generally uses the average of two corporate level NRSRO s risk ratings for such security. For all other debt securities, the Adviser uses a proprietary risk rating system. While the Adviser seeks to mirror the NRSRO systems, we cannot provide any assurance that the Adviser s risk rating system will provide the same risk rating as an NRSRO for these securities. The Adviser s risk rating system is used to estimate the probability of default on debt securities and the expected loss if there is a default. The Adviser s risk rating system uses a scale of 0 to >10, with >10 being the lowest probability of default. It is the Adviser s understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on an NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, the

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Adviser's scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB from an NRSRO; however, no assurance can be given that a >10 on the Adviser's scale is equal to a BBB or Baa2 on an NRSRO scale. The Adviser's risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

Table of Contents

The following table reflects risk ratings for all proprietary loans in our portfolio at September 30, 2017 and September 30, 2016, representing approximately 91.9% of the principal balance of all debt investments in our portfolio at the end of each period:

Rating	As of September 30,	
	2017	2016
Highest	9.0	8.0
Average	5.7	5.3
Weighted Average	5.8	5.3
Lowest	1.0	1.0

The following table reflects the risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO at September 30, 2017 and 2016, representing approximately 6.9% and 7.3%, respectively, of the principal balance of all debt investments in our portfolio at the end of each fiscal year:

Rating	As of September 30,	
	2017	2016
Highest	6.0	5.0
Average	4.4	3.9
Weighted Average	4.6	4.0
Lowest	3.0	2.0

The following table reflects the risk ratings for all syndicated loans in our portfolio that were not rated by an NRSRO at September 30, 2017 and 2016, representing approximately 1.2% and 2.7%, respectively, of the principal balance of all debt investments in our portfolio at the end of each fiscal year:

Rating	As of September 30,	
	2017	2016
Highest	3.0	5.0
Average	3.0	4.0
Weighted Average	3.0	3.5
Lowest	3.0	3.0

Tax Status

We intend to continue to maintain our qualification as a RIC under Subchapter M of the Code for federal income tax purposes and also to limit certain federal excise taxes imposed on RICs. Refer to Note 10 *Federal and State Income Taxes* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus for additional information regarding our tax status.

Recent Accounting Pronouncements

Refer to Note 2 *Summary of Significant Accounting Policies* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus for a description and our application of recent accounting pronouncements.

Quantitative and Qualitative Disclosures About Market Risk (Dollar Amounts in Thousands, Unless Otherwise Indicated)

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

The primary risk we believe we are exposed to is interest rate risk. Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We use a

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combination of debt and equity capital to finance our investing activities. We may use interest rate risk management techniques from time to time to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

Table of Contents

All of our variable-rate debt investments have rates generally associated with either the current LIBOR or prime rate. As of September 30, 2017, our portfolio of debt investments on a principal basis consisted of the following:

91.6%	Variable rates with a LIBOR or prime rate floor
8.4	Fixed rates

100.0%	total
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To illustrate the potential impact of changes in market interest rates on our net increase in net assets resulting from operations, we have performed the following hypothetical analysis, which assumes that our balance sheet and contractual interest rates remain constant as of September 30, 2017 and no further actions are taken to alter our existing interest rate sensitivity.

Basis Point Change (A)	Increase (Decrease) in Interest Income	Increase (Decrease) in Interest Expense	Net Increase in Net Assets Resulting from Operations
Up 300 basis points	\$ 8,689	\$ 2,790	\$ 3,531
Up 200 basis points	5,470	1,860	1,785
Up 100 basis points	2,566	930	361
Down 123 basis points	(959)	(1,146)	187

(A) As of September 30, 2017, our effective average LIBOR was 1.23%, therefore, the largest decrease in basis points that could occur was 123 basis points.

Although management believes that this analysis is indicative of our existing interest rate sensitivity, it does not adjust for potential changes in credit quality, size and composition of our loan portfolio on the balance sheet and other business developments that could affect net increase in net assets resulting from operations. Accordingly, actual results could differ significantly from those in the hypothetical analysis in the table above.

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

Table of Contents**SENIOR SECURITIES**

Information about our senior securities is shown in the following table for the audited periods as of our last ten fiscal years, unless otherwise noted. The information has been derived from our audited financial statement for each respective period, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. PricewaterhouseCoopers LLP's report on the senior securities table as of September 30, 2017 is attached as an exhibit to the registration statement of which this prospectus is a part.

Class and Year	Total Amount Outstanding (1)	Asset Coverage per Unit (2)	Involuntary Liquidating Preference per Unit (3)	Average Market Value per Unit (4)
Revolving Credit Facilities				
September 30, 2017	\$ 93,000,000	\$ 3,882	\$	\$ N/A
September 30, 2016	71,300,000	4,623		N/A
September 30, 2015	127,300,000	2,946		N/A
September 30, 2014	36,700,000	3,054		N/A
September 30, 2013	46,900,000	3,410		N/A
September 30, 2012	58,800,000	2,296		N/A
September 30, 2011	99,400,000	3,150		N/A
September 30, 2010	16,800,000	14,187		N/A
September 30, 2009	83,000,000	3,963		N/A
September 30, 2008	151,030,000	2,792		N/A
Series 2016 Term Preferred Stock (5)				
September 30, 2017		N/A		N/A
September 30, 2016		N/A		N/A
September 30, 2015		N/A		N/A
September 30, 2014		N/A		N/A
September 30, 2013	\$ 38,497,050	\$ 3,410	\$ 25.00	\$ 25.49
September 30, 2012	38,497,050	2,963	25.00	25.55
Series 2021 Term Preferred Stock (6)				
September 30, 2017		N/A		N/A
September 30, 2016	\$ 61,000,000	\$ 2,495	\$ 25.00	\$ 25.55
September 30, 2015	61,000,000	1,993	25.00	25.02
September 30, 2014	61,000,000	3,054	25.00	24.45
Series 2024 Term Preferred Stock (7)				
September 30, 2017	\$ 51,750,000	\$ 2,496	\$ 25.00	\$ 25.09

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) Asset coverage ratio for a class of our senior securities representing indebtedness means the ratio of the value of our total assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness and asset coverage ratio for a class of our senior securities that are stock means the ratio of the value of our total assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness plus the aggregate involuntary liquidation preference of a class of senior security that is stock. Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Only applicable to our Term Preferred Stock because the other senior securities are not registered for public trading. Average market value per unit (with the exception our Series 2024 Term Preferred Stock) is the average of the closing prices of the shares on the Nasdaq during the last 10 trading days of the period. Average market value per unit for our Series 2024 Term Preferred Stock is the average of the closing prices of the shares on the Nasdaq during the last 7 trading days of the period as the stock started trading on September 21, 2017.
- (5) In November 2011, we issued 1,539,882 shares of Series 2016 Term Preferred Stock through a public offering and subsequent exercise of an over-allotment option. In May 2014, we voluntarily redeemed all outstanding shares of our Series 2016 Term Preferred Stock and therefore had no Series 2016 Term Preferred Stock outstanding at September 30, 2015.
- (6)

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In May 2014, we issued 2,440,000 shares of Series 2021 Term Preferred Stock through a public offering and subsequent exercise of an overallotment option. In September 2017, we voluntarily redeemed all outstanding shares of our Series 2021 Term Preferred Stock and therefore had no Series 2021 Term Preferred Stock outstanding at September 30, 2017.

- (7) In September 2017, we issued 2,070,000 shares of Series 2024 Term Preferred Stock through a public offering and subsequent exercise of an overallotment option. In addition to other redemption provisions discussed more fully in Note 6 *Mandatorily Redeemable Preferred Stock* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus, we may be required to mandatorily redeem some or all of the shares of our Series 2024 Term Preferred Stock early, at the Redemption Price, if we fail to maintain an asset coverage ratio of at least 200.0% on our senior securities that are stock and the failure remains for a period of 30 days following the filing date of our next SEC quarterly or annual report.

Table of Contents**BUSINESS****Overview*****Organization***

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

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

Investment Adviser and Administrator

We are externally managed by our investment adviser, Gladstone Management Corporation (the Adviser), an affiliate of ours, under an investment advisory and management agreement (the Advisory Agreement) and another of our affiliates, Gladstone Administration, LLC, (the Administrator together with the Adviser and the Affiliated Public Funds (defined below), the Gladstone Companies)) provides administrative services to us pursuant to a contractual agreement (the Administration Agreement). Each of the Adviser and Administrator are privately-held companies that are indirectly owned and controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone and Terry Lee Brubaker, our vice chairman and chief operating officer, also serve on the board of directors of the Adviser, the board of managers of the Administrator, and serve as executive officers of the Adviser and the Administrator. The Administrator employs, among others, our chief financial officer and treasurer, chief valuation officer, chief compliance officer, general counsel and secretary (who also serves as the president of the Administrator) and their respective staffs. The Adviser and Administrator have extensive experience in our lines of business and also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to: Gladstone Commercial Corporation (Gladstone Commercial), a publicly-traded real estate investment trust; Gladstone Investment Corporation (Gladstone Investment), a publicly-traded BDC and RIC; and Gladstone Land Corporation, a publicly-traded real estate investment trust (Gladstone Land, with Gladstone Commercial, and Gladstone Investment, collectively the Affiliated Public Funds). In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a U.S. Securities and Exchange Commission (the SEC) registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C.

Investment Objectives and Strategy

Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established lower middle market companies (which we generally define as companies with annual earnings before interest, taxes, depreciation and amortization (EBITDA) of \$3 million to \$15 million) in the United States (U.S.) that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our primary investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from \$8 million to \$30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We lend to borrowers that need funds for growth capital, to finance acquisitions, or to recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises. Our targeted portfolio companies are generally considered too small for the larger capital marketplace. We intend for our investment portfolio to consist of approximately 90.0% debt investments and 10.0% equity investments, at cost. As of September 30, 2017, our investment portfolio was made up of approximately 90.1% debt investments and 9.9% equity investments, at cost.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

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In July 2012, the SEC granted us an exemptive order (the Co-Investment Order) that expands our ability to co-invest with certain of our affiliates under certain circumstances and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser, or any combination of the foregoing, subject to the conditions in the SEC s order.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the one month London Interbank Offered Rate (LIBOR)) and, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, and which may include a yield enhancement, such as a success fee or deferred interest provision and are primarily interest only with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due

Table of Contents

upon a change of control of the business. Some debt securities have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called paid-in-kind (PIK) interest. Typically, our equity investments take the form of preferred or common stock, limited liability company interests, or warrants or options to purchase the foregoing. Often, these equity investments occur in connection with our original investment, recapitalizing a business, or refinancing existing debt.

As of September 30, 2017, our investment portfolio consisted of investments in 47 companies located in 22 states in 19 different industries with an aggregate fair value of \$352.4 million. Since our initial public offering in 2001 through September 30, 2017, we have invested in over 217 different companies, while making 176 consecutive monthly or quarterly cash distributions to common stockholders totaling approximately \$297.8 million, or \$17.77 per share. We expect that our investment portfolio will primarily include the following four categories of investments in private companies operating in the U.S.:

Senior Secured Debt Securities: We seek to invest a portion of our assets in senior secured debt securities also known as senior loans, secured first lien loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses senior debt to cover a substantial portion of the funding needs of its business. The senior secured debt security usually takes the form of first priority liens on all, or substantially all, of the assets of the business. Senior secured debt securities may include investments sourced from the syndicated loan market.

Senior Secured Subordinated Debt Securities: We seek to invest a portion of our assets in secured second lien debt securities, also known as senior subordinated loans and senior subordinated notes. These secured second lien debts rank junior to the borrowers senior debt and may be secured by a first priority lien on a portion of the assets of the business and may be designated as second lien notes (including our participation and investment in syndicated second lien loans). Additionally, we may receive other yield enhancements, such as success fees, in connection with these senior secured subordinated debt securities.

Junior Subordinated Debt Securities: We seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior subordinated debts may be secured by certain assets of the borrower or unsecured loans. Additionally, we may receive other yield enhancements in addition to or in lieu of success fees, such as warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.

Preferred and Common Equity/Equivalents: In some cases we will purchase equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of the businesses in which we invest.

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

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered higher risk, as compared to investment-grade debt instruments. In addition, many of the debt securities we hold typically do not amortize prior to maturity.

Investment Policies

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

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

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

Table of Contents

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

Investment Concentrations

Year over year, our investment concentration as a percentage of fair value and of cost has remained relatively unchanged. As of September 30, 2017, our portfolio allocation is approximately 90.1% debt investments and 9.9% equity investments, at cost. Our portfolio consists primarily of proprietary investments; however, we continue to invest in syndicated investments where we participate with a group of other lenders. As of September 30, 2017, we held 12 syndicated investments totaling \$41.3 million at cost and \$33.8 million at fair value, or 10.0% and 9.6% of our total aggregate portfolio at cost and at fair value, respectively. We held 13 syndicated investments totaling \$38.9 million at cost and \$30.8 million at fair value, or 10.2% and 9.6% of our total aggregate portfolio at cost and at fair value, respectively, as of September 30, 2016.

The following table outlines our investments by security type at September 30, 2017 and 2016:

	September 30, 2017				September 30, 2016			
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Secured first lien debt	\$ 198,942	48.4%	\$ 173,896	49.4%	\$ 227,439	59.6%	\$ 198,721	61.7%
Secured second lien debt	168,247	40.9	155,249	44.1	113,796	29.8	100,320	31.2
Unsecured debt	3,324	0.8	3,324	0.9	2,995	0.8	3,012	0.9
Total debt investments	370,513	90.1	332,469	94.4	344,230	90.2	302,053	93.8
Preferred equity	18,794	4.5	6,561	1.9	22,988	6.0	10,262	3.2
Common equity/equivalents	22,128	5.4	13,343	3.7	14,583	3.8	9,799	3.0
Total equity investments	40,922	9.9	19,904	5.6	37,571	9.8	20,061	6.2
Total Investments	\$ 411,435	100.0%	\$ 352,373	100.0%	\$ 381,801	100.0%	\$ 322,114	100.0%

Our five largest investments at fair value as of September 30, 2017, totaled \$110.9 million, or 31.5% of our total aggregate portfolio, as compared to our five largest investments at fair value as of September 30, 2016, totaling \$112.1 million, or 34.8% of our total aggregate portfolio.

Table of Contents

Our investments at fair value consisted of the following industry classifications at September 30, 2017 and 2016:

Industry Classification	September 30, 2017		September 30, 2016	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Diversified/Conglomerate Service	\$ 80,723	22.9%	\$ 48,898	15.2%
Healthcare, education and childcare	46,288	13.1	70,577	21.9
Diversified/Conglomerate Manufacturing	40,843	11.6	50,106	15.6
Oil and gas	34,712	9.9	31,279	9.7
Telecommunications	31,350	8.9	5,790	1.8
Automobile	20,082	5.7	14,837	4.6
Diversified natural resources, precious metals and minerals	18,949	5.4	14,821	4.6
Beverage, food and tobacco	14,103	4.0	15,022	4.7
Cargo Transportation	13,081	3.7	13,000	4.0
Home and Office Furnishings, Housewares and Durable Consumer Products	10,100	2.9		
Leisure, Amusement, Motion Pictures, Entertainment	9,225	2.6	8,769	2.7
Hotels, Motels, Inns, and Gaming	7,136	2.0		
Personal and non-durable consumer products	7,035	2.0	7,858	2.4
Machinery	5,114	1.4	5,597	1.7
Textiles and leather	4,879	1.4	3,836	1.2
Printing and publishing	3,628	1.0	6,033	1.9
Buildings and real estate	3,004	0.9	11,223	3.5
Broadcast and entertainment			4,682	1.5
Finance			3,000	0.9
Electronics			2,980	0.9
Other, < 2.0%	2,121	0.6	3,806	1.2
Total Investments	\$ 352,373	100.0%	\$ 322,114	100.0%

Our investments at fair value were included in the following U.S. geographic regions at September 30, 2017 and 2016:

Geographic Region	September 30, 2017		September 30, 2016	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	\$ 150,727	42.8%	\$ 131,181	40.8%
West	116,302	33.0	57,786	17.9
Midwest	58,915	16.7	100,142	31.1
Northeast	26,429	7.5	33,005	10.2
Total Investments	\$ 352,373	100.0%	\$ 322,114	100.0%

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

Investment Process***Overview of Investment and Approval Process***

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

Table of Contents

Prospective Portfolio Company Characteristics

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

Value-and-Income Orientation and Positive Cash Flow. Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value-and-income orientation. In seeking value, we focus on established companies in which we can invest at relatively low multiples of EBITDA, and that have positive operating cash flow at the time of investment. In seeking income, we typically invest in companies that generate relatively stable to growing sales and cash flow to provide some assurance that they will be able to service their debt. We do not expect to invest in start-up companies or companies with what we believe to be speculative business plans.

Experienced Management. We typically require that the businesses in which we invest have experienced management teams. We also require the businesses to have proper incentives in place to induce management teams to succeed and act in concert with our interests as an investor, including having significant equity or other interests in the financial performance of their respective companies.

Strong Competitive Position in an Industry. We seek to invest in businesses that have developed strong market positions within their respective markets and that we believe are well-positioned to capitalize on growth opportunities. We seek businesses that demonstrate significant competitive advantages versus their competitors, which we believe will help to protect their market positions and profitability.

Enterprise Collateral Value. The projected enterprise valuation of the business, based on market based comparable cash flow multiples, is an important factor in our investment analysis in determining the collateral coverage of our debt securities.

Extensive Due Diligence

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

a review of the prospective portfolio company's historical and projected financial information, including a quality of earnings analysis;

visits to the prospective portfolio company's business site(s);

interviews with the prospective portfolio company's management, employees, customers, and vendors;

review of loan documents and material contracts;

background checks and a management capabilities assessment on the prospective portfolio company's management team; and

research on the prospective portfolio company's products, services or particular industry and its competitive position therein. Upon completion of a due diligence investigation and a decision to proceed with an investment, the Adviser's investment professionals who have primary responsibility for the investment present the investment opportunity to the Adviser's investment committee. The investment committee then determines whether to pursue the potential investment. Prior to the closing of an investment, additional due diligence may be conducted on our behalf by attorneys, independent accountants, and other outside advisers, as appropriate.

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

Investment Structure

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

Table of Contents

seeking collateral or superior positions in the portfolio company's capital structure where possible;

negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility as possible in managing their businesses, consistent with preserving our capital;

holding board seats or securing board observation rights at the portfolio company;

incorporating put rights and call protection into the investment structure where possible; and

making investments with an expected total return (including both interest and potential equity appreciation) that it believes compensates us for the credit risk of the investment.

We expect to hold most of our debt investments until maturity or repayment, but may sell our investments (including our equity investments) earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company. Occasionally, we may sell some or all of our investment interests in a portfolio company to a third party in a privately negotiated transaction to manage our credit or sector exposures or to enhance our portfolio yield.

Competitive Advantages

A large number of entities compete with us and make the types of investments that we seek to make in lower middle market privately-owned businesses. Such competitors include BDCs, non-equity based investment funds, and other financing sources, including traditional financial services companies such as commercial banks. Many of our competitors are substantially larger than we are and have considerably greater funding sources or are able to access capital more cost effectively. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, serve a broader customer base, and establish a greater market share. Furthermore, many of these competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC or the regulatory requirements we must comply with as a publicly traded company. However, we believe that we have the following competitive advantages over other providers of financing to lower middle market companies.

Management Expertise

Our Adviser has a separate investment committee for the Company and each of the Affiliated Public Funds. The Adviser's investment committee for the Company is comprised of Messrs. Gladstone, Brubaker and Marcotte, each of whom have a wealth of experience in our area of operation. Mr. Gladstone and Mr. Brubaker also serve on the Adviser's investment committee for the other Affiliated Public Funds. Mr. Gladstone has been the chairman and chief executive officer of each of the Gladstone Companies since their founding. Mr. Gladstone and Mr. Marcotte both have over 25 years of experience in investing in middle market companies and with operating in the BDC marketplace in general. Mr. Brubaker has over 25 years of experience in acquisitions and operations of companies. Messrs. Gladstone and Brubaker also have principal management responsibility for the Adviser as its executive officers. These three individuals dedicate a significant portion of their time to managing our investment portfolio. Our senior management has extensive experience providing capital to lower middle market companies and Messrs. Gladstone and Brubaker have worked together at the Gladstone Companies for more than ten years. In addition, we have access to the resources and expertise of the Adviser's investment professionals and support staff who possess a broad range of transactional, financial, managerial and investment skills.

Increased Access to Investment Opportunities Developed Through Extensive Research Capability and Network of Contacts

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

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

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

focusing on companies with sustainable market positions and cash flow;

Table of Contents

investing in businesses with experienced and established management teams;

engaging in extensive due diligence from the perspective of a long-term investor;

investing at low price-to-cash flow multiples; and

adopting flexible transaction structures by drawing on the experience of the investment professionals of the Adviser and its affiliates.

Longer Investment Horizon

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

Flexible Transaction Structuring

We believe our management team's broad expertise and years of combined experience enables the Adviser to identify, assess, and structure investments successfully across all levels of a company's capital structure and manage potential risk and return at all stages of the economic cycle. We are not subject to many of the regulatory limitations that govern traditional lending institutions, such as banks. As a result, we are flexible in selecting and structuring investments, adjusting investment criteria and transaction structures and, in some cases, the types of securities in which we invest. We believe that this approach enables the Adviser to craft a financing structure which best fits the investment and growth profile of the underlying business and yields attractive investment opportunities that will continue to generate current income and capital gain potential throughout the economic cycle, including during turbulent periods in the capital markets.

Ongoing Management of Investments and Portfolio Company Relationships

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

Monitoring

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

monthly analysis of financial and operating performance;

assessment of the portfolio company's performance against its business plan and our investment expectations;

attendance at and/or participation in the portfolio company's board of directors or management meetings;

assessment of portfolio company management, sponsor, governance, and strategic direction;

assessment of the portfolio company's industry and competitive environment; and

review and assessment of the portfolio company's operating outlook and financial projections.

Relationship Management

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

management;

Table of Contents

boards of directors;

financial sponsors;

capital partners; and

advisers and consultants.

Managerial Assistance and Services

As a BDC, we make available significant managerial assistance, as defined in the 1940 Act, to our portfolio companies and provide other services (other than such managerial assistance) to such portfolio companies. Neither we, nor the Adviser, currently receive fees in connection with the managerial assistance we make available. At times, the Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) taking a primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser voluntarily, unconditionally, and irrevocably credits 100% of these fees against the base management fee that we would otherwise be required to pay to the Adviser as discussed below in *Transactions with Related Parties Investment Advisory and Management Agreement Base Management Fee*. However, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser, primarily for the valuation of portfolio companies.

In February 2011, Gladstone Securities started providing other services (such as investment banking and due diligence services) to certain of our portfolio companies; see *Transactions with Related Parties Other Transactions* below.

Valuation Process

The following is a general description of the Policy (which has been approved by our Board of Directors) that the professionals of the Adviser and Administrator, with oversight and direction from our chief valuation officer, an employee of the Administrator who reports directly to our Board of Directors, (collectively, the Valuation Team) use each quarter to determine the value of our investment portfolio. In accordance with the 1940 Act, our Board of Directors has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on the Policy. The Valuation Team values our investments in accordance with the requirements of the 1940 Act and accounting principles generally accepted in the U.S. (GAAP). Fair value (especially for investments in privately-held businesses) depends upon the specific facts and circumstances of each individual investment. Each quarter, our Board of Directors, including the Valuation Committee of our Board of Directors (the Valuation Committee), which is comprised entirely of independent directors, reviews the Policy to determine if changes thereto are advisable and assesses whether the Valuation Team has applied the Policy consistently. With respect to the valuation of our investment portfolio, the Valuation Team performs the following steps each quarter:

Each investment is initially assessed by the Valuation Team using the Policy, which may include:

obtaining fair value quotes or utilizing input from third party valuation firms; and

using techniques, such as total enterprise value, yield analysis, market quotes and other factors, including but not limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates.

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Preliminary valuation conclusions are then discussed amongst the Valuation Team and with our management and documented for review by the Valuation Committee and Board of Directors. Written valuation recommendations and supporting material are sent to the Board of Directors in advance of the quarterly meetings.

Next, the Valuation Committee meets to review this documentation and discuss the information provided by our Valuation Team, determines whether the Valuation Team has followed the Policy, and determines whether the Valuation Team's recommended fair value is reasonable in light of the Policy and reviews other facts and circumstances. Then, the Valuation Committee and chief valuation officer present the Valuation Committee's findings to the entire Board of Directors, so that the full Board of Directors may review and approve, with a vote, to accept or reject the fair value recommendations in accordance with the Policy.

Fair value measurements of our investments may involve subjective judgment and estimates. Due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate, from period to period. Our valuation policies, procedures and processes are more fully described in Note 2 *Summary of Significant Accounting Policies* in our accompanying *Notes to Consolidated Financial Statements* included elsewhere in this prospectus.

Table of Contents

Transactions with Related Parties

Investment Advisory and Management Agreement

In 2006, we entered into the Advisory Agreement, which was subsequently amended in October 2015, as approved unanimously by our Board of Directors, including the unanimous approval of our independent directors, to reduce the base management fee payable to the Adviser effective July 1, 2015, as discussed further below. In accordance with the Advisory Agreement, we pay the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee. On July 11, 2017, our Board of Directors, including a majority of the directors who are not parties to the agreement or interested person of any such party, unanimously approved the annual renewal of the Advisory Agreement with the Adviser through August 31, 2018. Mr. Gladstone, our chairman and chief executive officer, controls the Adviser. The Board of Directors considered the following factors as the basis for its decision to renew the Advisory Agreement: (1) the nature, extent and quality of services provided by the Adviser to our shareholders; (2) the investment performance of the Company and the Adviser; (3) the costs of the services to be provided and profits to be realized by the Adviser and its affiliates from the relationship with the Company; (4) the extent to which economies of scale will be realized as the Company and the Affiliated Public Funds grow and whether the fee level under the Advisory Agreement reflects the economies of scale for the Company's investors; (5) the fee structure of the advisory and administrative agreements of comparable funds; (6) indirect profits to the Adviser created through the Company; and (7) in light of the foregoing considerations, the overall fairness of the advisory fee paid under the Advisory Agreement.

Based on the information reviewed and the considerations detailed above, our Board of Directors, including all of the directors who are not interested persons as that term is defined in the 1940 Act, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and approved the Advisory Agreement, as being in the best interests of our stockholders.

Base Management Fee

The base management fee is payable quarterly to the Adviser pursuant to our Advisory Agreement and is assessed at an annual rate of 1.75%, computed on the basis of the value of our average total assets at the end of the two most recently-completed quarters (inclusive of the current quarter), which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings and adjusted appropriately for any share issuances or repurchases during the period. Prior to July 1, 2015, the annual rate was 2.0%. Our Board of Directors may (as it has for the years ended September 30, 2017, 2016 and 2015) accept an unconditional and irrevocable credit from the Adviser to reduce the annual 1.75% (or prior to July 1, 2015, 2.0%) base management fee on syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations.

Additionally, as stated above, pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance, as specifically discussed above in *Ongoing Management of Investments and Portfolio Company Relationships Managerial Assistance and Services*. The Adviser voluntarily, unconditionally, and irrevocably credits 100% of these fees against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser, primarily for the valuation of portfolio companies. Loan servicing fees that are payable to the Adviser pursuant to our Fifth Amended and Restated Credit Agreement, with KeyBank National Association (KeyBank), as administrative agent, lead arranger and a lender, as amended (our Credit Facility), are also 100% credited against the base management fee as discussed below *Loan Servicing Fee Pursuant to Credit Agreement*.

Incentive Fee

The incentive fee consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate). The income-based incentive fee with respect to our pre-incentive fee net investment income is generally payable quarterly to the Adviser and is computed as follows:

no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);

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100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized); and

20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized).

Table of Contents***Quarterly Incentive Fee Based on Net Investment Income***

Pre-incentive fee net investment income

(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income

allocated to income-related portion of incentive fee

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20.0% of our realized capital gains, less any realized capital losses and unrealized depreciation, as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the entire portfolio's aggregate unrealized capital depreciation, if any and excluding any unrealized capital appreciation, as of the date of the calculation. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since inception. The entire portfolio's aggregate unrealized capital depreciation, if any, equals the sum of the difference, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable fiscal year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less the entire portfolio's aggregate unrealized capital depreciation, if any. If this number is positive at the end of such fiscal year, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded or paid from our inception through September 30, 2017, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate unrealized capital appreciation plus the aggregate unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such period. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded or paid from our inception through September 30, 2017.

Our Board of Directors accepted non-contractual, unconditional and irrevocable credits from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100.0% of distributions to common stockholders for the years ended September 30, 2017, 2016, and 2015, which credits totaled \$2.3 million, \$1.4 million and \$1.4 million, respectively.

Loan Servicing Fee Pursuant to Credit Agreement

The Adviser also services the loans held by Gladstone Business Loan, LLC ("Business Loan") (the borrower under our Credit Facility), in return for which the Adviser receives a 1.5% annual fee payable monthly based on the monthly aggregate outstanding balance of loans pledged under our Credit Facility. Since Business Loan is a consolidated subsidiary of ours, and the total base management fee paid to the Adviser pursuant to the Advisory Agreement cannot exceed 1.75% of total assets (as reduced by cash and cash equivalents pledged to creditors and adjusted appropriately for any share issuances or repurchases during the period) during any given calendar year, we treat payment of the loan servicing fee pursuant to our line of credit as a pre-payment of the base management fee under the Advisory Agreement. Accordingly, for the years ended September 30, 2017, 2016, and 2015, these loan servicing fees were 100% voluntarily, unconditionally, and irrevocably credited back to us by the Adviser.

Administration Agreement

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In 2006, we entered into the Administration Agreement, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator's expenses incurred while performing services to us, which are primarily rent and salaries and benefits expenses of the Administrator's employees, including our chief financial officer and treasurer, chief compliance officer, chief valuation officer and general counsel and secretary (who also serves as the Administrator's president). Prior to July 1, 2014, our allocable portion of the expenses were derived by multiplying that portion of the Administrator's expenses allocable to all funds managed by the Adviser by the percentage of our total assets at the beginning of each quarter in comparison to the total assets at the beginning of each quarter of all funds managed by the Adviser.

Table of Contents

Effective July 1, 2014, our allocable portion of the Administrator's expenses are generally derived by multiplying the Administrator's total expenses by the approximate percentage of time during the current quarter the Administrator's employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator under contractual agreements. These administrative fees are accrued at the end of the quarter when the services are performed and generally paid the following quarter. On July 11, 2017, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of such party, approved the annual renewal of the Administration Agreement through August 31, 2018.

Other Transactions

Mr. Gladstone also serves on the board of managers of our affiliate, Gladstone Securities, LLC (Gladstone Securities), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority (FINRA) and insured by the Securities Investor Protection Corporation. Gladstone Securities is 100% indirectly owned and controlled by Mr. Gladstone and has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee. Any such fees paid by portfolio companies to Gladstone Securities do not impact the fees we pay to the Adviser or the voluntary, unconditional, and irrevocable credits against the base management fee or incentive fee. Specifically, Gladstone Securities may be paid an investment banking fee in an amount not greater than 1% of our investment in a portfolio company at the closing of such investment. For additional information refer to Note 4 *Related Party Transactions* of our accompanying *Notes to Consolidated Financial Statements*.

Material U.S. Federal Income Tax Considerations

Regulated Investment Company Status

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

Business Development Company status. At all times during the taxable year, we must maintain our status as a BDC.

Income source requirements. At least 90.0% of our gross income for each taxable year must be from dividends, interest, payments with respect to securities, loans, gains from sales or other dispositions of securities or other income derived with respect to our business of investing in securities, and net income derived from an interest in a qualified publicly traded partnership.

Asset diversification requirements. As of the close of each quarter of our taxable year: (1) at least 50.0% of the value of our assets must consist of cash, cash items, U.S. government securities, the securities of other regulated investment companies and other securities to the extent that (a) we do not hold more than 10.0% of the outstanding voting securities of an issuer of such other securities, and (b) such other securities of any one issuer do not represent more than 5.0% of our total assets; and (2) no more than 25.0% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities or the securities of other regulated investment companies), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships.

Failure to Qualify as a RIC

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

Qualification as a RIC

If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90.0% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and gains we distribute to stockholders. We would, however, be subject to a 4.0% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, an amount at least equal to the sum of (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gains in excess of capital losses for preceding years that were not distributed during such years. For the years ended December 31, 2016, 2015 and 2014, we did not incur any excise taxes.

Table of Contents

The federal excise tax would apply only to the amount by which the required distributions exceed the amount of income we distribute, actually or on a deemed basis, to stockholders. We will be subject to regular corporate income tax (at rates up to a maximum of 35.0% for 2017), on any undistributed income, including both ordinary income and capital gains.

If we acquire debt obligations that (i) were originally issued at a discount, (ii) bear interest at rates that are not either fixed rates or certain qualified variable rates or (iii) are not unconditionally payable at least annually over the life of the obligation, we will be required to include in taxable income each year a portion of the original issue discount (OID) that accrues over the life of the obligation. Additionally, PIK interest, which is computed at the contractual rate specified in a loan agreement and is added to the principal balance of a loan, is also a non cash source of income that we are required to include in taxable income each year. Both OID and PIK income will be included in our investment company taxable income even though we receive no cash corresponding to such amounts. As a result, we may be required to make additional distributions corresponding to such OID and PIK amounts in order to satisfy the annual distribution requirement and to continue to qualify as a RIC or to avoid the imposition of federal income and excise taxes. In this event, we may be required to sell investments or other assets to meet the RIC distribution requirements. For the year ended September 30, 2017, we recorded \$0.3 million of OID income and the unamortized balance of OID investments (which are primarily all syndicated loans) as of September 30, 2017 totaled \$0.4 million. As of September 30, 2017, we had six investments which had a PIK interest component and we recorded PIK interest income of \$5.0 million during the year ended September 30, 2017.

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

For any period during which we qualify as a RIC for federal income tax purposes, distributions to our stockholders attributable to our investment company taxable income generally will be taxable as ordinary income to stockholders to the extent of our current or accumulated earnings and profits. We first allocate our earnings and profits to distributions to our preferred stockholders and then to distributions to our common stockholders based on priority in our capital structure. Any distributions in excess of our current and accumulated earnings and profits will first be treated as a return of capital to the extent of the stockholder's adjusted basis in his or her shares of common stock and thereafter as gain from the sale of shares of our common stock. Distributions of our long-term capital gains, reported by us as such, will be taxable to stockholders as long-term capital gains regardless of the stockholder's holding period for its common stock and whether the distributions are paid in cash or invested in additional common stock. Corporate stockholders are generally eligible for the 70.0% dividends received deduction with respect to dividends received from us, other than capital gains dividends, but only to the extent such amount is attributable to dividends received by us from taxable domestic corporations. Certain U.S. stockholders who are individuals, estates and trusts generally are subject to a 3.8% Medicare tax on dividends on shares of our stock.

Any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it were paid by us and received by the stockholders on December 31 of the previous year. In addition, we may elect (in accordance with Section 855(a) of the Code) to relate a dividend back to the prior taxable year if we (1) declare such dividend prior to the later of the due date for filing our return for that taxable year or the 15th day of the ninth month following the close of the taxable year, (2) make the election in that return, and (3) distribute the amount in the 12-month period following the close of the taxable year but not later than the first regular dividend payment of the same type following the declaration. Any such election will not alter the general rule that a stockholder will be treated as receiving a dividend in the taxable year in which the distribution is made, subject to the October, November, December rule described above.

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

Sale of Our Shares

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our common or preferred stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. Under

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the tax laws in effect as of the date of this filing, individual U.S. stockholders are subject to a maximum federal income tax rate of 20.0% on their net capital gain (*i.e.* the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is

Table of Contents

lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the same rates applied to their ordinary income (at rates up to a maximum of 35.0% for 2017). Capital losses are subject to limitations on use for both corporate and non-corporate stockholders. Certain U.S. stockholders who are individuals, estates or trusts generally are subject to a 3.8% Medicare tax on capital gain from the sale or other disposition of, shares of our common stock.

Backup Withholding or Other Required Withholding

We may be required to withhold federal income tax, or backup withholding (at a rate of 28.0% for 2017), from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the Internal Revenue Service (IRS) notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual s taxpayer identification number is generally his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder s federal income tax liability, provided that proper information is provided to the IRS.

The Foreign Account Tax Compliance Act imposes a federal withholding tax on certain types of payments made to foreign financial institutions and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligation requirements are satisfied. Under delayed effective dates provided for in the Treasury Regulations and other IRS guidance, such required withholding will not begin until January 1, 2019 with respect to gross proceeds from a sale or other disposition of our stock.

Possible Legislative or Other Actions Affecting Tax Consequences

You should recognize that the current federal income tax treatment of an investment in our securities may be modified by legislative, judicial or administrative action at any time and that any such action may affect an investment in our securities adversely. Legislators, the U.S. Treasury Department and the IRS regularly review the federal income tax laws, including the Code, Treasury Regulations, rulings, administrative interpretations and practices of the IRS. Revisions to the federal income tax laws, including pursuant to the Tax Cuts and Jobs Act of 2017 bill actively being considered by the U.S. Congress, could make an investment in our securities less attractive, including as compared to other investments, from a federal income tax standpoint. Consequently, you should consult your own tax advisors regarding the effect of potential changes to the federal income tax laws on an investment in our securities.

Regulation as a BDC

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

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

Qualifying Assets

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

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

- (a) is organized under the laws of, and has its principal place of business in, any State or States in the U.S.;
- (b) is not an investment company (other than a small business investment company wholly owned by the BDC or otherwise excluded from the definition of investment company); and

Table of Contents

- (c) satisfies one of the following:
 - (i) it does not have any class of securities with respect to which a broker or dealer may extend margin credit;
 - (ii) it is controlled by the BDC and for which an affiliate of the BDC serves as a director;
 - (iii) it has total assets of not more than \$4.0 million and capital and surplus of not less than \$2 million;
 - (iv) it does not have any class of securities listed on a national securities exchange; or
 - (v) it has a class of securities listed on a national securities exchange, with an aggregate market value of outstanding voting and non-voting equity of less than \$250.0 million.
- (2) Securities received in exchange for or distributed on or with respect to securities described in (1) above, or pursuant to the exercise of options, warrants or rights relating to such securities.
- (3) Cash, cash items, government securities or high quality debt securities maturing in one year or less from the time of investment.

Asset Coverage

Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that is stock. In either case, we may only issue such senior securities if such class of senior securities, after such issuance, has an asset coverage, as defined in Section 18(h) of the 1940 Act, of at least 200%.

In addition, our ability to pay dividends or distributions (other than dividends payable in our stock) to holders of any class of our capital stock would be restricted if our senior securities representing indebtedness fail to have an asset coverage of at least 200% (measured at the time of declaration of such distribution and accounting for such distribution). The 1940 Act does not apply this limitation to privately arranged debt that is not intended to be publicly distributed, unless this limitation is specifically negotiated by the lender. In addition, our ability to pay dividends or distributions (other than dividends payable in our common stock) to our common stockholders would also be restricted if our senior securities that are stock fail to have an asset coverage of at least 200% (measured at the time of declaration of such distribution and accounting for such distribution). If the value of our assets declines, we might be unable to satisfy these asset coverage requirements. To satisfy the 200% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to our stockholders. If we are unable to regain the requisite asset coverage through these methods, we may be forced to suspend the payment of such dividends.

Significant Managerial Assistance

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

Code of Ethics

We, and all of the Gladstone companies, have adopted a code of ethics and business conduct applicable to all of the officers, directors and employees of such companies that complies with the guidelines set forth in Item 406 of Regulation S-K of the Securities Act of 1933 (the Securities Act) and Rule 17j-1 of the 1940 Act. As required by the 1940 Act, this code establishes procedures for personal investments, restricts certain transactions by such personnel and requires the reporting of certain transactions and holdings by such personnel. This code of ethics and business conduct is publicly available on our website under Corporate Governance at www.GladstoneCapital.com or at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-202-942-8090. In addition, this code of ethics and business conduct is attached as an exhibit to the registration statement of which this prospectus is a part and is also available on the EDGAR Database on the SEC's website at www.sec.gov. You may also obtain copies of the code of ethics and business conduct, after paying a duplication fee, by electronic request to publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102. We intend to provide any required disclosure of any amendments to or waivers of the provisions of this code by posting information regarding any such amendment or waiver to our website or in a Current Report on Form 8-K.

Compliance Policies and Procedures

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

Table of Contents**Staffing**

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of the Adviser and the Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. No employee of the Adviser or the Administrator will dedicate all of his or her time to us. However, we expect that 25 to 30 full time employees of the Adviser and the Administrator will spend substantial time on our matters during the remainder of calendar year 2017 and all of calendar year 2018. As of December 18, 2017, the Adviser and the Administrator collectively had 64 full-time employees. A breakdown of these employees is summarized by functional area in the table below:

Number of Individuals	Functional Area
12	Executive management
17	Accounting, administration, compliance, human resources, legal and treasury
35	Investment management, portfolio management and due diligence

Available Information

Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments, if any, to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) are available free of charge through our website at www.GladstoneCapital.com as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. Information on our website should not be considered part of this prospectus. A request for any of these reports may also be submitted to us by sending a written request addressed to Investor Relations, Gladstone Capital Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102, or by calling our toll-free investor relations line at 1-866-366-5745. The public may read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Competition

A large number of entities compete with us and make the types of investments that we seek to make in lower middle market privately-owned businesses. Such competitors include private equity funds, leveraged buyout funds, venture capital funds, investment banks and other equity and non-equity based investment funds, and other financing sources, including traditional financial services companies such as commercial banks. Many of our competitors are substantially larger than we are and have considerably greater funding sources that are not available to us, although our ability to co-invest with other funds advised by the Adviser may lessen this disparity. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many of these competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. There is no assurance that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. In addition, because of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that we will be able to identify and make investments that satisfy our investment objective or that we will be able to meet our investment goals. Recently we have seen an increase in our competition such that terms and rates for proposed loans have been reduced. However, we believe that our extensive loan referral network and flexible transaction structuring enable us to compete effectively for opportunities in the current market environment.

Properties

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

Legal Proceedings

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

Table of Contents**PORTFOLIO COMPANIES**

The following table sets forth certain information as of September 30, 2017, regarding each portfolio company in which we had a debt or equity security as of such date. All such investments have been made in accordance with our investment policies and procedures described in this prospectus. Under the 1940 Act, we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2017, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 0.7% of total investments, at fair value, as of September 30, 2017.

(Dollars in thousands)

Company	Industry	Investment	Percentage of Class		Cost (Dollar amounts in thousands)	Fair Value (Dollar amounts in thousands)
			Held on a Fully Diluted Basis			
(unaudited)						
NON-CONTROL/NON-AFFILIATE INVESTMENTS						
Proprietary Investments:						
AG Transportation Holdings, LLC 2430 Lincolnway East Goshen, IN 46526	Cargo Transportation	Secured Second Lien Debt			\$ 13,000	\$ 13,081
		Member Profit Participation	18.00%		1,000	
		Profit Participation Warrants	12.00%		244	
Alloy Die Casting Co. 6550 Caballero Blvd. Buena Park, CA 90620	Diversified / conglomerate manufacturing	Secured First Lien Debt			5,235	3,272
		Secured First Lien Debt			75	47
		Secured First Lien Debt			390	246
		Preferred Stock	29.50%		2,192	
		Common Stock	25.83%		18	
Belnick, Inc. 4350 Ball Ground Hwy Canton, GA 30114	Home and Office Furnishings, Housewares and Durable Consumer Products	Secured Second Lien Debt			10,000	10,100
B+T Group Acquisition Inc. 1717 Boulder Ave #3000 Tulsa, OK 74119	Telecommunications	Secured First Lien Debt	30.00%		6,000	5,955
		Preferred Stock			1,799	140
Canopy Safety Brands, LLC 322 Industrial Court Concord, NC 28025	Personal and non-durable consumer products	Secured First Lien Line of Credit			6,600	6,616
		Secured First Lien Debt			500	259
		Participation Warrant	6.74%			
Chinese Yellow Pages Company 9550 Flair Drive Suite 200	Printing and publishing	Secured First Lien Line of Credit			107	

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El Monte, CA 91731

EL Academies, Inc. 1650 Tysons Blvd Suite 630 McLean, VA 22102	Healthcare, Education, and Childcare	Secured First Lien Line of Credit			
		Secured First Lien Debt		12,000	12,000
		Secured First Lien Delayed Draw Term Loan			
		Common Stock	4.01%	500	500
FedCap Partners, LLC 11951 Freedom Drive, 13th Fl Reston, VA 20190	Private equity fund	Class A Membership Units	6.67%	1,634	751
Flight Fit N Fun 7200 Fullerton Road Springfield, VA 22150	Leisure, Amusement, Motion Pictures, Entertainment	Secured First Lien Debt	28.00%	7,800	7,800
				700	1,425
		Preferred Stock			
Francis Drilling Fluids, Ltd. 240 Jasmine Road Crowley, LA 70526	Oil and gas	Secured Second Lien Debt		16,611	8,626
				7,673	3,931
		Secured Second Lien Debt		1,215	
		Preferred Equity Units	4.57%	1	
Frontier Financial Group, Inc. 1990 M Street NW Washington, DC 20036	Diversified/conglomerate service	Common Equity Units	3.90%		
		Preferred Stock	15.38%	500	500
		Preferred Stock Warrant			
Funko Acquisition Holdings, LLC 1202 Shuksan Way Everett, WA 98203	Personal and non-durable consumer products	Preferred Equity Units	0.10%	167	159
		Common Stock	0.40%		
GFRC Holdings, LLC 3615 Miller Park Dr. Garland, TX 75042	Buildings and real estate	Secured First Lien Line of Credit		1,180	1,180
				1,000	1,000
				1,025	824
		Secured First Lien Debt			
		Preferred Stock	100.00%		
		Common Stock Warrants	45.00%		
HB Capital Resources 2999 Oak Road Suite 710 Walnut Creek, CA 94597	Diversified/conglomerate service	Secured Second Lien Debt		22,000	22,110
IA Tech, LLC 1690 Roberts Blvd, Suite 108 Kennesaw, GA 30144	Diversified/conglomerate service	Secured First Lien Debt		23,000	23,633
Leeds Novamark Capital I, L.P. 350 Park Avenue, 23rd Floor New York, NY 10022	Private equity fund healthcare, education and childcare	Limited Partnership Interest	3.46%	1,628	1,645

Table of Contents

Meridian Rack & Pinion, Inc. 6740 Cobra Way San Diego, CA 92121	Automobile	Secured First Lien Debt	23.30%	4,140	3,643
		Preferred Stock		1,449	133
Merlin International, Inc 8219 Leesburg Pike, Suite 400 Vienna, VA 22182	Healthcare, Education, and Childcare	Secured Second Lien Debt		10,000	10,150
The Mochi Ice Cream Company 5563 Alcoa Avenue Vernon, CA 90058	Beverage, Food and Tobacco	Secured Second Lien Debt	2.49%	6,750	6,809
		Common Stock		450	
NetFortris Corp. 800 S Michigan St Seattle, WA 98108	Telecommunications	Secured First Lien Line of Credit			24,240
		Secured First Lien Debt		24,000	
		Common Stock Warrant	0.00%	1	
Precision International, LLC 435 Burt Street Sistersville, WV 26175	Machinery	Secured First Lien Debt	33.33%	808	798
		Membership Unit Warrant			
Sea Link International IRB, Inc. 13151 66th St N Largo, FL 33773	Automobile	Secured Second Lien Delayed Draw Term Loan			
		Secured Second Lien Debt		4,975	
		Common Equity Units	1.78%	495	5,025 362
Travel Sentry, Inc 110 SE 6th Street, Suite 1754 Fort Lauderdale, FL 33301	Diversified/ conglomerate service	Secured First Lien Debt		8,902	9,170
Triple H Food Processor 5821 Wilderness Avenue Riverside, CA 92504	Beverage, Food and Tobacco	Secured First Lien Line of Credit Secured First Lien Debt			6,928 366
		Common Stock		6,800	
			7.11%	250	
TWS Acquisition Corporation 120 N. 44th Street, Suite 230 Phoenix, AZ 85034	Healthcare, Education, and Childcare	Secured First Lien Line of Credit			9,609
		Secured First Lien Debt		9,432	
United Flexible, Inc 815 Forestwood Drive Romeoville, IL 60446	Diversified/conglomerate manufacturing	Secured Second Lien Debt		17,909	17,903 554
		Preferred Stock	1.19%	538	
		Common Stock	1.10%	148	
Vacation Rental Pros Property Management, LLC 200 Executive Way #200 Ponte Vedra, FL 32082	Hotels, Motels, Inns, and Gaming	Secured Second Lien Debt		7,145	7,136
Vision Government Solutions 44 Bearfoot Road Northboro, MA 01532	Diversified/conglomerate services	Secured First Lien Line of Credit		1,450	1,420 8,390
		Secured First Lien Delayed Draw Term Loan		9,000	
		Secured First Lien Debt		1,600	1,485

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WadeCo Specialties, Inc. 480 Frelinghuysen Avenue Newark, NJ 07114	Oil and gas	Secured First Lien Line of Credit	2,575	2,575
			10,427	10,440
			7,000	7,000
		Secured First Lien Debt		2,000
			618	
		Secured First Lien Debt		
		Preferred Stock	3.13%	

**Subtotal Non-Control/Non-Affiliate
Proprietary Investments**

\$ 282,656 \$ 261,936

Syndicated Investments:

DataPipe, Inc 10 Exchange Place Jersey City, NJ 07302	Diversified/conglomerate service	Secured Second Lien Debt	1,966	2,005
Keystone Acquisition Corp. 3204 McKnight E Drive Pittsburgh, PA 15237	Diversified/conglomerate service	Secured Second Lien Debt	3,922	3,960
LDISCOVERY, LLC 8201 Greensboro Dr #717 McLean, VA 22102	Diversified/conglomerate service	Secured Second Lien Debt	4,815	4,550
Medical Solutions Holdings, Inc. 1010 N. 102nd St Suite 300 Omaha, NE 68114	Healthcare, Education, and Childcare	Secured Second Lien Debt	2,956	2,970
NetSmart Technologies, Inc 4950 College Boulevard Overland Park, KS 66211	Healthcare, Education and Childcare	Secured Second Lien Debt	3,609	3,678

Table of Contents

Neustar, Inc. 21575 Ridgetop Circle Sterling, VA 20166	Telecommunications	Secured Second Lien Debt		1,000	1,015
New Trident Holdcorp, Inc. 920 Ridgebrook Road, 2 nd Floor Sparks, MD 21152	Healthcare, Education and Childcare	Secured Second Lien Debt		4,000	2,412
Edmentum 5600 W 83 rd Street Bloomington, MN 55437	Healthcare, Education and Childcare	Secured Second Lien Debt	2.09%	3,324	3,324
		Common Stock		2,636	
PSC Industrial Holdings Corp 5151 San Felipe, Suite 1100 Houston, TX 77056	Diversified/conglomerate service	Secured Second Lien Debt		3,452	3,500
Vertellus Holdings LLC 1500 S Tibbs Ave Indianapolis, IN 46241	Chemicals, Plastics and Rubber	Secured Second Lien Debt	0.88%	1,099	929
		Common Equity		3,018	442
W3, Co. 11111 Wilcrest Green Drive #300 Houston, TX 77042	Oil and gas	Common Equity	0.09%	499	139
Subtotal Non-Control / Non-Affiliate Syndicated Investments				\$ 36,296	\$ 28,924
Total Non-Control/Non-Affiliate Investments (represented 82.5% of total investments at fair value)				\$ 318,952	\$ 290,860

AFFILIATE INVESTMENTS**Proprietary Investments:**

Edge Adhesives Holdings, Inc. 30 Amberwood Parkway Ashland, OH 44805	Diversified/conglomerate manufacturing	Secured First Lien Debt			5,704
		Secured First Lien Debt		6,200	1,480
		Preferred Stock	25.16%	1,600	2,516
Lignetics, Inc. 11951 Freedom Drive, 13th Fl Reston, VA 20190	Diversified/conglomerate manufacturing	Secured Second Lien Debt			
		Secured Second Lien Debt			5,998
		Secured Second Lien Debt			7,997
				6,000	3,299
		Preferred Stock	7.86%	8,000	826
LWO Acquisitions, LLC 1920 Hurd Drive Irving, TX 75038	Diversified/conglomerate manufacturing	Common Stock	10.62%	3,300	
				800	828
		Secured First Lien Line of Credit Secured First Lien Debt		1,855	2,336
			2,746	9,301	
		Common Stock	9.99%	10,921	
				921	
Subtotal Affiliate Proprietary Investments				44,859	37,769

Syndicated Investments:

Targus Cayman HoldCo, Ltd. 1211 North Miller Street Anaheim, CA 92806	Textiles and leather	Common Stock	6.68%	5,009	4,879
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Total Affiliate Investments (represented 12.1% of total investments at fair value)	\$ 49,868	\$ 42,648
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