

GLADSTONE CAPITAL CORP  
Form 497  
January 31, 2008

[QuickLinks](#) -- Click here to rapidly navigate through this document

Filed Pursuant to Rule 497  
Registration No. 333-143027

PROSPECTUS SUPPLEMENT  
(To Prospectus dated January 23, 2008)

## GLADSTONE CAPITAL CORPORATION

### 3,000,000 Shares

### Common Stock

This is a public offering of common stock of Gladstone Capital Corporation. We are offering an aggregate of 3,000,000 Shares of our Common Stock, \$0.001 par value per share. Our common stock is listed on the Nasdaq Global Select Market under the symbol "GLAD." We are a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. On January 30, 2008, the last reported sale price of our common stock on the Nasdaq Global Select Market was \$17.28 per share.

**Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.**

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

	Per Share	Total
Public offering price	\$ 17.00	\$ 51,000,000
Underwriting discount (sales load)	\$ 0.935	\$ 2,805,000
Proceeds, before expenses, to us (1)	\$ 16.065	\$ 48,195,000

(1) Before deducting estimated expenses payable by us of \$360,000.

The underwriters may also purchase up to an additional 450,000 shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement solely to cover over-allotments. If the over-allotment option is exercised in full, the total public offering price will be \$58,650,000 and the total underwriting discount (sales load) will be \$3,225,750. The proceeds to us would be \$55,424,250, before deducting estimated expenses payable by us of \$360,000.

The underwriters expect to deliver the shares to purchasers on or about February 5, 2008.

**Deutsche Bank Securities**

**Oppenheimer & Co.**

**Robert W. Baird & Co.**

The date of this prospectus supplement is January 30, 2008.

---

**PROSPECTUS SUPPLEMENT  
SUMMARY**

*This summary highlights some information from this prospectus supplement and the accompanying prospectus, and it may not contain all of the information that is important to you. To understand the terms of the common stock offered hereby, you should read this prospectus supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the shares we are offering. You should carefully read the section titled "Risk Factors" in the accompanying prospectus and the documents identified in the section "Additional Information." 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; and "Gladstone Companies" refers to the Adviser and its affiliated companies. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters' over-allotment option.*

**Overview**

We are a specialty finance company that provides capital to small and medium sized U.S. businesses. 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, or the 1940 Act. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended.

We seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are substantially backed by leveraged buyout funds, venture capital funds or others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans.

We seek to invest in small and medium-sized private U.S. businesses that meet certain criteria, including some but not all of the following: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower's cash flow, reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds) and the potential to realize appreciation and gain liquidity in our equity positions, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering of the borrower's stock or by exercising our right to require the borrower to repurchase our warrants, though there can be no assurance that we will always have these rights. We seek to lend to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control.

We seek to invest primarily in three categories of debt of private companies:

*Senior Subordinated Notes.* We seek to invest a portion of our assets in senior subordinated notes. Holders of senior subordinated notes are subordinated to the rights of holders of senior debt in their right to receive principal and interest payments or, in the case of last out tranches of senior debt, liquidation proceeds from the borrower. As a result, senior subordinated notes are riskier than senior notes. Although such loans are sometimes secured by significant collateral, the lender is largely dependent on the borrower's cash flow for repayment. Additionally, lenders may receive warrants to acquire shares of stock in borrowers or other yield enhancements in connection with

these loans. Senior subordinated notes include second lien loans and syndicated second lien loans.

*Senior Notes.* We seek to invest a portion of our assets in senior notes of borrowers. Using its assets and cash flow as collateral, the borrower typically uses senior notes to cover a substantial portion of the funding needed to operate. Senior lenders are exposed to the least risk of all providers of debt because they command a senior position with respect to scheduled interest and principal payments. However, unlike senior subordinated and junior subordinated lenders, these senior lenders typically do not receive any stock, warrants to purchase stock of the borrowers or other yield enhancements. As such, they generally do not participate in the equity appreciation of the value of the business. Senior notes may include revolving lines of credit, senior term loans, senior syndicated loans and senior last-out tranche loans.

*Junior Subordinated Notes.* We also seek to invest a small portion of our assets in junior subordinated notes. Holders of junior subordinated notes are subordinated to the rights of the holders of senior debt and senior subordinated debt in their rights to receive principal and interest payments from the borrower. The risk profile of junior subordinated notes is high, which permits the junior subordinated lender to obtain higher interest rates and more equity and equity-like compensation.

Our loans typically range from \$5 million to \$15 million, although this investment size may vary proportionately as the size of our capital base changes, generally mature in no more than seven years, and accrue interest at fixed or variable rates that exceed the prime rate. Because the majority of the loans in our portfolio consist of term debt of private companies who typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Accordingly, we cannot accurately predict what ratings these loans might receive if they were in fact rated, and thus cannot determine whether or not they could be considered "investment grade" quality.

We hold our loan investment portfolio through our wholly-owned subsidiary, Gladstone Business Loan LLC.

#### **Portfolio Composition**

Approximately 68% of the aggregate cost value of our investment portfolio as of September 30, 2007 was senior debt, approximately 32% was senior subordinated debt and there were no investments in junior subordinated debt. As of September 30, 2007, we had approximately \$355.8 million invested at cost in 56 portfolio companies. The aggregate fair value of our investments as of September 30, 2007 was approximately \$349.8 million.

## Edgar Filing: GLADSTONE CAPITAL CORP - Form 497

The table below sets forth, as of September 30, 2007, the fair value and percentage of total investments of our investment portfolio by industry classifications.

	September 30, 2007	
Industry Classification	Fair Value	% of Total Investments
Aerospace & Defense	\$ 4,615,750	1.3%
Automobile	6,245,938	1.8%
Broadcast (TV, Radio & Cable)	30,151,019	8.6%
Cargo Transport	15,685,197	4.5%
Chemicals, Plastics & Rubber	25,110,192	7.2%
Diversified/Conglomerate Manufacturing	3,710,700	1.1%
Electronics	31,351,318	9.0%
Farming & Agriculture	11,537,833	3.3%
Finance	2,460,125	0.7%
Healthcare, Education & Childcare	36,927,299	10.5%
Home & Office Furnishings	17,057,109	4.9%
Leisure, Amusement, Movies & Entertainment	9,508,750	2.7%
Machinery	9,883,350	2.8%
Mining, Steel, Iron & Non-precious Metals	27,057,277	7.7%
Personal & Non-durable Consumer Products	8,977,500	2.6%
Printing, Publishing & Broadcasting	83,973,941	24.0%
Retail Stores	14,986,500	4.3%
Textiles & Leather	10,604,732	3.0%
<b>Total</b>	<b>\$ 349,844,530</b>	<b>100.0%</b>

The portfolio depreciated approximately 1% from September 30, 2007 to December 31, 2007, representing a change in the fair value of the portfolio as a percentage of cost from 98.3% to 97.3%, respectively. This valuation information is subject to final review by our independent registered public accounting firm. We currently have no basis to believe that this valuation information will materially change based on this review. Our Board of Directors approved the aggregate fair value of our portfolio of investments at December 31, 2007, based in part on its acceptance of opinions of value submitted by Standard & Poors Securities Evaluation Services, Inc. ("SPSE") regarding certain debt securities, and on input from our Adviser, in accordance with our quarterly valuation process as more particularly described in the accompanying prospectus under "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investment Valuation."

### Our Investment Adviser and Administrator

Our Adviser is our affiliate and investment adviser and is led by a management team which has extensive experience in our lines of business. Our Adviser's wholly-owned subsidiary, our Administrator, employs our chief financial officer, chief compliance officer, controller, treasurer and their respective staffs. All of our executive officers serve as either directors or executive officers, or both, of Gladstone Commercial, a publicly traded real estate investment trust; Gladstone Investment, a publicly traded business development company; our Adviser; and our Administrator.

Our Adviser and our Administrator also provide investment advisory and administrative services to our affiliates Gladstone Commercial, Gladstone Investment and Gladstone Land Corporation, a private agricultural real estate company owned by Mr. Gladstone. In the future, our Adviser may provide investment advisory and administrative services to other funds, both public and private, of which it is the sponsor.

## Edgar Filing: GLADSTONE CAPITAL CORP - Form 497

We have been externally managed by our Adviser pursuant to an investment advisory and management agreement since October 1, 2004. Our Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Our Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington D.C., and our Adviser also has offices in the states of New York, New Jersey, Pennsylvania, Illinois, Texas and Washington.

### **Our Investment Objectives and Our Strategy**

Our strategy is to make loans at favorable interest rates to small and medium-sized businesses that we believe have traditionally been underserved by conventional lenders. Our Adviser uses the loan referral networks of Messrs. Gladstone, Stelljes and Brubaker and of its managing directors to identify and make senior and subordinated loans to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control. We believe that our business strategy will enable us to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes of established private businesses that are backed by leveraged buyout funds, venture capital funds or others. In addition, from time to time we might acquire existing loans that meet this profile from leveraged buyout funds, venture capital funds and others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we might receive when we make loans.

We target small and medium-sized private businesses that meet certain criteria, including the potential for growth, adequate assets for loan collateral, and experienced management teams with significant ownership interest in the business, adequate capitalization, and profitable operations based on cash flow and potential opportunities for us to realize appreciation and gain liquidity in our various equity positions. We may achieve liquidity in an equity position through a merger or acquisition of the borrower, a public offering of the borrower's stock or by exercising our right to require the borrower to repurchase our warrants, although we cannot assure you that we will always have these rights. We can also achieve a similar effect by requiring the borrower to pay us conditional interest, which we refer to as a success fee, upon the occurrence of certain events. Success fees are dependent upon the success of the borrower and the occurrence of a triggering event, and are paid in lieu of warrants to own common stock of the borrower.

### **RECENT DEVELOPMENTS**

#### *Portfolio Matters*

Subsequent to September 30, 2007, we have invested approximately \$87.9 million in new investments, which consisted of approximately \$71.5 million of new portfolio company investments and approximately \$16.4 million of revolver draws and term loan commitments to existing portfolio companies.

In addition, since September 30, 2007, we were not repaid in full on any investments, however, we did receive revolver repayments and scheduled amortization payments of an aggregate of approximately \$4.7 million.

During the third quarter of our 2007 fiscal year, in connection with our media portfolio acquisition, we acquired a senior term debt investment in U.S. Healthcare Communications, LLC. The loan was non-performing at the time of purchase and, as a result, we purchased the loan at a discount and immediately placed the loan on non-accrual. In January 2008, we initiated foreclosure proceedings with respect to this investment. On January 30, 2008, we offered at public sale certain assets of the company, consisting generally of all the fixtures and all tangible and intangible personal property. We acquired these assets in the sale, through a newly formed subsidiary, and we will continue the business of U.S. Healthcare under our control.

**THE OFFERING**

Common Stock offered by us	3,000,000 shares
Common Stock outstanding after this offering (1)(2)	20,637,574 shares
Use of proceeds	We expect to use all of the net proceeds of this offering to repay outstanding indebtedness under our line of credit. See "Use of Proceeds."
Nasdaq Global Select Market Symbol	GLAD
Risk Factors	See "Risk Factors" in the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Current distribution rate	We currently make distributions to stockholders on a monthly basis at the rate of \$0.14 per share. Our distribution rate is subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

---

(1) Excludes 450,000 shares of common stock issuable pursuant to the over-allotment option granted to the underwriters exercisable within 30 days from the date of this prospectus supplement.

(2) Based on the number of shares outstanding as of January 30, 2008.

## 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 supplement 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 were calculated based on net assets as of September 30, 2007.

	<b>Current</b>
<b>Stockholder Transaction Expenses</b>	
Sales load (as a percentage of offering price) (1)	5.5%
Dividend reinvestment plan expenses (2)	None
<b>Estimated annual expenses (as a percentage of net assets attributable to common stock)</b>	
Management fees (3)	3.25%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (4)	2.09%
Interest Payments on Borrowed Funds (5)	3.39%
Other expenses	1.03%
<b>Total annual expenses (3)(6)</b>	<b>9.76%</b>

### Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in this offering. In calculating the following expense amounts, we have assumed that our annual expenses would remain at the levels set forth in the table above and that you would pay a sales load of 5.5% (the underwriting discount to be paid by us with respect to the common stock being sold by us in this offering).

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 127	\$ 264	\$ 394	\$ 690

While the example assumes, as required by the Securities and Exchange Commission, which we refer to as 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 and unrealized capital depreciation) on our investments, nor do we expect to realize positive capital gains in the foreseeable future. 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 the above example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments. Additionally, because we have not historically realized positive capital gains (computed net of all realized capital losses and unrealized capital depreciation) on our investments, we have assumed that we will not trigger the payment of any capital gains-based incentive fee in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our

investors after such expenses, would be higher than reflected in the example. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, 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 market price per share of our common stock at the close of trading on the valuation date for the dividend. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

This example 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 and incentive fees, if any, and other expenses) may be greater or less than those shown. As noted in the Fees and Expenses table above, we estimate that annual incentive fees payable under the investment advisory and management agreement will be 2.09% of net assets attributable to common stock.

- (1) Represents the underwriting discount with respect to our common stock being sold in this offering, a one-time fee we will pay to the underwriters in connection with this offering and is the only sales load to be paid in connection with this offering.
- (2) The expenses of the reinvestment plan are included in stock record expenses, a component of "Other expenses." We do not have a cash purchase plan. The participants in the dividend reinvestment plan will bear a pro rata share of brokerage commissions incurred with respect to open market purchases, if any. See "Dividend Reinvestment Plan" in the accompanying prospectus for information on the dividend reinvestment plan.
- (3) Our annual base management fee is 2.0% (0.5% quarterly) of our average gross assets, which is defined as total assets of Gladstone Capital, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents pledged to creditors. See "Management Certain Transactions Advisory and Administration Agreements" in the accompanying prospectus and footnote 4 below.
- (4) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee will be payable quarterly in arrears, and will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate, subject to a "catch-up" provision measured as of the end of each calendar quarter. The "catch-up" provision requires us to pay 100% 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% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide our Adviser with 20% 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% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee will be 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 incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 3 above). In the fiscal year ended September 30, 2007, we recorded an incentive fee of \$4,607,688, of which \$3,829,805 was offset by a voluntary waiver issued by our Adviser, for a net incentive fee of \$777,883. After giving effect to credits against the incentive fee, the annualized incentive fee was 0.35% of net assets as of September 30, 2007. There can be no assurance that our Adviser will give any credits against the incentive fee in the future. The capital gains-based portion of the fee did not have an effect on the incentive fee for purposes of this calculation since we have not realized overall net capital gains to date.

Examples of how the incentive fee would be calculated (exclusive of any credits) 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:

$$= 100\% \times (2.00\% - 1.75\%)$$

$$= 0.25\%$$



## Edgar Filing: GLADSTONE CAPITAL CORP - Form 497

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:

$$= 20\% \times (6\% - 1\%)$$

$$= 20\% \times 5\%$$

$$= 1\%$$

For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Certain Transactions Advisory and Administration Agreements" in the accompanying prospectus.

(5)

We have entered into a revolving credit facility, under which our borrowing capacity is \$220 million, effective May 29, 2007. We have drawn down on this credit facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of our senior securities. Assuming that we borrowed \$220 million at the current interest rate of 4.33% plus an additional fee related to borrowings of 0.95%, for an aggregate rate of 5.28%, interest payments on borrowed funds would have been 5.26% of our net assets as of September 30, 2007.

(6)

Includes our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under the administration agreement. See "Management Certain Transactions Advisory and Administration Agreements" in the accompanying prospectus.

### USE OF PROCEEDS

We estimate that the net proceeds of this offering will be approximately \$47,835,000 (\$55,064,250 if the underwriters exercise their over-allotment option in full) after deducting the underwriting discount and estimated offering expenses payable by us. We expect to use all of the net proceeds of this offering to repay amounts outstanding under our line of credit, which matures on May 23, 2008 and, as of January 24, 2008, was accruing interest at a rate of 4.33%, plus an additional fee related to borrowings of 0.95%, for an aggregate rate of approximately 5.28% per year.

## CAPITALIZATION

The following table sets forth our actual capitalization at September 30, 2007:

on a historical basis;

on a pro forma as adjusted basis to reflect (i) the sale of 2,875,000 shares of common stock at \$18.70 per share, in a public offering subsequent to September 30, 2007, and (ii) the application of the net proceeds from such offering, after deducting the underwriting discount and offering expenses payable by us of an aggregate of \$3,240,590, to repay an aggregate of \$50,521,910 of outstanding borrowings under our line of credit; and

on a pro forma as further adjusted basis to give effect to (i) the sale of 3,000,000 shares of common stock in this offering at the public offering price of \$17.00 per share; and (ii) the application of the net proceeds from the offering, after deducting the underwriting discount and estimated offering expenses payable by us of an aggregate of \$3,165,000, to repay an aggregate of \$47,835,000 of outstanding borrowings under our line of credit as described in "Use of Proceeds."

## As of September 30, 2007

	Actual	Pro Forma As Adjusted	Pro Forma As Further Adjusted (1)
		(unaudited)	(unaudited)
<b>Assets</b>			
Cash and cash equivalents	\$ 8,838,658	\$ 8,838,658	\$ 8,838,658
<b>Borrowings</b>			
Borrowings under line of credit	144,440,000	93,918,090	46,083,090
<b>Net Assets</b>			
Common stock, \$0.001 par value; 50,000,000 shares authorized; 14,762,574 shares issued and outstanding, actual, 17,637,574 shares issued and outstanding, pro forma as adjusted, and 20,637,574 shares issued and outstanding, pro forma as further adjusted	\$ 14,763	\$ 17,638	\$ 20,638
Capital in excess of par value	235,906,665	286,425,700	334,257,700
Notes receivable-officers	(9,230,502)	(9,230,502)	(9,230,502)
Net unrealized depreciation on investments	(5,914,670)	(5,914,670)	(5,914,670)
Unrealized depreciation on derivative	(291,686)	(291,686)	(291,686)
Accumulated undistributed net investment income	474,165	474,165	474,165
<b>Total Net Assets</b>	<b>\$ 220,958,735</b>	<b>\$ 271,480,645</b>	<b>\$ 319,315,645</b>
<b>Total Capitalization</b>	<b>\$ 365,398,735</b>	<b>\$ 365,398,735</b>	<b>\$ 365,398,735</b>

(1)

Assumes no exercise of the underwriters' over-allotment option to purchase 450,000 shares.



## UNDERWRITING

Subject to the terms and conditions of an underwriting agreement dated January 30, 2008, the underwriters named below through their representative, Deutsche Bank Securities Inc., have severally agreed to purchase from us the number of shares of common stock indicated in the following table.

Underwriters	<b>Number of Shares</b>
<b>Deutsche Bank Securities Inc.</b>	1,800,000
<b>Oppenheimer &amp; Co. Inc.</b>	750,000
<b>Robert W. Baird &amp; Co. Incorporated</b>	450,000
Total	3,000,000

The underwriting agreement provides that the obligation of the underwriters to purchase the shares of common stock offered hereby is subject to certain conditions precedent and that the underwriters will purchase all of the shares of common stock offered by this prospectus supplement, other than those covered by the over-allotment option described below, if any of these shares are purchased.

The underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus supplement. If all the shares are not sold at the public offering price, the underwriters may change the offering price. Any shares sold by the underwriters to securities dealers will be sold at the public offering price less a selling concession not to exceed \$0.56 per share. The underwriters may allow, and these selected dealers may re-allow, a concession of not more than \$0.10 per share to other brokers and dealers.

The underwriters have the option to purchase up to 450,000 additional shares of common stock from us at the same price they are paying for the 3,000,000 shares offered hereby. The underwriters may purchase additional shares only to cover over-allotments made in connection with this offering and only within 30 days after the date of this prospectus supplement. The underwriters will offer any additional shares that they purchase on the terms described in the preceding sections.

The underwriting discount per share is equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. These amounts are shown assuming either no exercise or full exercise by the underwriters of the underwriters' over-allotment option:

	<b>Total Fees</b>	
Fee Per Share	Without Exercise of Over-Allotment Option	With Full Exercise of Over-Allotment Option
<b>Underwriting Discount</b>	\$0.935	\$2,805,000
		\$3,225,750

We estimate that the total expenses of this offering, which will be paid by us, excluding the underwriting discount, will be approximately \$360,000.

We have agreed to indemnify the underwriters against some specified types of liabilities, including liabilities under the Securities Act of 1933, as amended, or the Securities Act, and to contribute to payments the underwriters may be required to make in respect of these liabilities.

We and certain of our executive officers and all of our directors have agreed not to offer, sell, contract to sell or otherwise dispose of, or to engage in certain hedging and derivative

transactions with respect to, our common stock for a period of 60 days after the date of this prospectus supplement, without first obtaining the written consent of Deutsche Bank Securities Inc. as representative of the underwriters. This consent may be given at any time without public notice. The 60 day lock-up period will automatically be extended if (1) during the last 17 days of the 60 day lock-up period we issue an earnings release or material news or a material event relating to us occurs, or (2) prior to the expiration of the 60 day lock-up period we announce that we will release earnings results during the 16-day period following the last day of the 60 day lock-up period. Such period will continue until the expiration of the 18-day period beginning on the issuance of the news release or the occurrence of the material news or material event, as applicable, unless the underwriters waive, in writing, such extension.

The European Union's prospectus directive provides that, in relation to each member state of the European Economic Area that has implemented the prospectus directive (each, a "relevant member state"), from and including the date on which the prospectus directive is implemented in the relevant member state (the "relevant implementation date"), no offeror of securities may make an offer of securities to the public in that relevant member state prior to the publication of a prospectus in relation to such securities that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the prospectus directive, except that such offeror may, with effect from and including the relevant implementation date, make an offer of securities to the public in that relevant member state at any time:

to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to article 3 of the prospectus directive.

For the purposes of the above, the expression an "offer of securities to the public" in relation to any securities in any member state means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that member state by any measure implementing the prospectus directive in that member state and the expression "prospectus directive" means European Union Directive 2003/71/EC and includes any relevant implementing measure in that member state.

The underwriters have represented and agreed that (i) they have not offered or sold and, prior to the expiration of the period of six months from the closing date of this offering, will not offer or sell any shares of our common stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) they have complied with and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom; and (iii) they have only issued or

passed on and will only issue or pass on in the United Kingdom, any document received by it in connection with the issue of the shares of our common stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

No prospectus (including any amendment, supplement or replacement thereto) nor any offering material relating to the shares of common stock described in this prospectus supplement has been submitted to the clearance procedures of the Autorité des Marchés Financiers or by the competent authority of another member state of the European Economic Area and notified to the Autorité des Marchés Financiers. The shares of common stock have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement, the accompanying prospectus nor any other materials related to the offering or information contained therein relating to the shares of common stock has been or will be released, issued, distributed or caused to be released, issued or distributed to the public in France or used in connection with any offer for subscription or sale of the shares to the public in France. Such offers, sales and distributions will be made in France only

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, as defined in, and in accordance with, Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French *Code Monétaire et Financier* and applicable regulations thereunder; or

to investment services providers authorized to engage in portfolio management on behalf of third parties; or

in a transaction that, in accordance with article L.411-2-II-1<sup>o</sup>-or-2<sup>o</sup>-or 3<sup>o</sup> of the French *Code monétaire et Financier* and Article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The shares of common stock may be resold directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code Monétaire et Financier*.

The shares of common stock described in this prospectus supplement have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and the underwriter has agreed that it will not offer or sell any shares of our common stock, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

The units offered by this prospectus have not been approved or disapproved by the Israeli Securities Authority, or the ISA. The units may not be offered or sold, directly or indirectly, to the public in Israel. The ISA has not issued permits, approvals or licenses in connection with the offering of the units or publishing the prospectus; nor has it authenticated the details included herein, confirmed their reliability or completeness, or rendered an opinion as to the quality of the units being offered. Any resale, directly or indirectly, to the public of the units

offered by this prospectus is subject to restrictions on transferability and must be effected only in compliance with the Israeli securities laws and regulations.

The representative of the underwriters has advised us that the underwriters do not intend to confirm sales to any account over which they exercise discretionary authority.

In connection with this offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include stabilizing transactions, short sales and purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. Covered short sales are sales made in an amount not greater than the underwriters' over-allotment option to purchase additional shares in this offering. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned there may be downward pressure on the price of shares in the open market prior to the completion of this offering.

Stabilizing transactions consist of various bids for or purchases of our common stock made by the underwriters in the open market prior to the completion of this offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of our common stock. Additionally, these purchases may stabilize, maintain or otherwise affect the market price for our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq Global Select Market, in the over-the-counter market or otherwise. These transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M promulgated by the SEC pursuant to which these persons may bid for or purchase securities for the purpose of stabilizing their market price.

In the ordinary course of business, the underwriters or their affiliates have engaged and may in the future engage in various financing, commercial banking and investment banking services with, and provide financial advisory services to, us and our affiliates, for which they have received or may receive customary fees and expenses.

Through our wholly-owned subsidiary, Gladstone Business Loan, LLC, we have a \$220 million revolving credit facility (the "DB Facility") with Deutsche Bank AG, an affiliate of one of our underwriters, as administrative agent. The DB Facility is scheduled to mature on May 23, 2008 and, as of January 24, 2008, was accruing interest at a rate of 4.33%, plus an additional fee related to borrowings of 0.95%, for an aggregate rate of approximately 5.28% per year. We expect to use all of the net proceeds of this offering to repay amounts outstanding under the DB Facility.

This offering is being conducted in compliance with Rule 2810 of the Conduct Rules of the National Association of Securities Dealers, Inc.

The principal business addresses of the underwriters are: Deutsche Bank Securities Inc., 60 Wall Street, New York, NY 10005; Oppenheimer & Co. Inc., 125 Broad Street, New York, NY 10004; and Robert W. Baird & Co. Incorporated, 777 East Wisconsin Avenue, Milwaukee, WI 53202.

## LEGAL MATTERS

The validity of the issuance of the common stock offered hereby will be passed upon for us by Cooley Godward Kronish LLP, Reston, Virginia. The validity of the shares of common stock offered hereby will be passed upon for the underwriters by Bass, Berry & Sims PLC, Memphis, Tennessee.

## EXPERTS

The financial statements as of September 30, 2007 and 2006 and for each of the three years in the period ended September 30, 2007 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of September 30, 2007 included in the accompanying prospectus and the senior securities data included in the consolidated selected financial data included in the accompanying prospectus have been so included in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## ADDITIONAL INFORMATION

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

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. Such reports, proxy statements and other information, as well as the registration statement of which this prospectus supplement and the accompanying prospectus are a part and the 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 1-202-551-8090. The SEC maintains a web site that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on The Nasdaq Global Select Market and our corporate website is located at <http://www.gladstonecapital.com>. The information contained on, or accessible through, our website is not a part of this prospectus supplement.

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.

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" in the accompanying prospectus for more information.



**FORWARD-LOOKING STATEMENTS**

All statements contained herein, other than historical facts, may constitute "forward-looking statements." These statements may relate to, among other things, future events or our future performance or financial condition.

These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward- looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) adverse changes in interest rates; (2) our failure or inability to establish or maintain referral arrangements with leveraged buyout funds and venture capital funds to generate loan opportunities; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, or George Stelljes III; (4) our inability to extend, refinance, or maintain our credit facilities on terms reasonably acceptable to us, if at all, in future equity capital resources; (5) our inability to successfully securitize our loan portfolio on terms reasonably acceptable to us, if at all; (6) the decision of our competitors to aggressively seek to make senior and subordinated loans to small and medium-sized businesses on terms more favorable than we intend to provide; and (7) those factors listed under the caption "Risk Factors" in the accompanying prospectus. 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 supplement.

PROSPECTUS

**GLADSTONE CAPITAL CORPORATION**  
**\$300,000,000**

**COMMON STOCK**  
**DEBT SECURITIES**

We may offer, from time to time, up to \$300 million aggregate initial offering price of our common stock, \$0.001 par value per share, or debt 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 set forth in one or more supplements to this prospectus. In the case of our common stock, the offering price per share, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time we make the offering. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

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, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will 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 under the symbol "GLAD." As of January 22, 2008, the last reported sales price for our common stock was \$17.51.

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

**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 9. Shares of closed-end investment companies frequently trade at a discount to their net asset value and this may increase the risk of loss of purchasers of our Securities. You should carefully consider these risks together with all of the other information contained in this prospectus and any prospectus supplement before making a decision to purchase our Securities.**

**The Securities being offered have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

January 23, 2008

---

## TABLE OF CONTENTS

	<b>Page</b>
Prospectus Summary	1
Additional Information	8
Risk Factors	9
Special Note Regarding Forward-Looking Statements	20
Use of Proceeds	20
Price Range of Common Stock and Distributions	21
Consolidated Selected Financial Data	22
Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Business	46
Portfolio Companies	60
Management	68
Control Persons and Principal Stockholders	79
Dividend Reinvestment Plan	81
Material U.S. Federal Income Tax Considerations	83
Regulation as a Business Development Company	86
Description of Our Securities	89
Certain Provisions of Maryland Law and of Our Articles of Incorporation and Bylaws	90
Plan of Distribution	92
Share Repurchases	93
Custodian, Transfer and Dividend Paying Agent and Registrar	94
Brokerage Allocation and Other Practices	94
Legal Matters	95
Experts	95
Financial Statements	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.**

## PROSPECTUS SUMMARY

The following summary contains basic information about this offering. It likely does not contain all the information that is important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred. 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; and "Gladstone Companies" refers to our Adviser and its affiliated companies.

## GLADSTONE CAPITAL CORPORATION

### General

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. We seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are substantially owned by leveraged buyout funds, venture capital funds, individual investors or are family-owned businesses. In addition, we may acquire existing loans, which meet this profile from leveraged buyout funds, venture capital funds and others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans. We operate as a closed-end, non-diversified management investment company, and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, which we refer to in this prospectus as the 1940 Act.

We seek to invest in small and medium-sized private U.S. businesses that meet certain criteria, including some but not all of the following: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower's cash flow, reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds) and the potential to realize appreciation and gain liquidity in our equity positions, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering of the borrower's stock or by exercising our right to require the borrower to repurchase our warrants,