

HIGHWOODS PROPERTIES INC
 Form 5
 February 12, 2010

FORM 5

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

OMB APPROVAL

OMB Number: 3235-0362
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).
 Form 3 Holdings Reported Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

1. Name and Address of Reporting Person *
STEVENS TERRY L

2. Issuer Name and Ticker or Trading Symbol
**HIGHWOODS PROPERTIES INC
 [HIW]**

5. Relationship of Reporting Person(s) to Issuer
 (Check all applicable)
 Director 10% Owner
 Officer (give title below) Other (specify below)
 VP, CFO

(Last) (First) (Middle)

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
 12/31/2009

C/O HIGHWOODS PROPERTIES, INC., 3100 SMOKETREE COURT, SUITE 600

(Street)

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

6. Individual or Joint/Group Reporting (check applicable line)

RALEIGH, NC 27604

Form Filed by One Reporting Person
 Form Filed by More than One Reporting Person

(City) (State) (Zip)

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

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock				(A) Amount (D) Price	95,009 (1)	D	

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

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

SEC 2270 (9-02)

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

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

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
STEVENS TERRY L C/O HIGHWOODS PROPERTIES, INC. 3100 SMOKETREE COURT, SUITE 600 RALEIGH, NC 27604	Â	Â	Â VP, CFO	Â

Signatures

/s/Willis B. Howard Attorney-in-fact for Terry L. Stevens 02/12/2010

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 - ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Includes 755 shares purchased in 2009 through the Company's ESPP

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number, and the Administration Agreement were being satisfactorily performed.

Ethics, Nominating and Corporate Governance Committee: Our Ethics Committee manages risks associated with the independence of our Board and potential conflicts of interest.

Valuation Committee: Our Valuation Committee manages risks associated with valuation of our investment portfolio and other assets. In addition the Valuation Committee facilitates communication between the Board, our senior and financial management and our independent public accountants related to valuation matters.

While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the committees each report to our Board on a regular basis to apprise our Board regarding the status of remediation efforts

of known risks and of any new risks that may have arisen since the previous report.

Table of Contents**PROPOSAL 2****RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC****ACCOUNTING FIRM**

The Audit Committee of our Board has selected PwC as the Company's independent registered public accounting firm, which will audit the Company's financial statements for the fiscal year ending September 30, 2017 and the Board has further directed that management submit the selection of PwC as the Company's independent registered public accounting firm for ratification by the stockholders at the annual meeting. PwC has audited the Company's financial statements since its fiscal year ended September 30, 2003. Representatives of PwC are expected to be present at the annual meeting, will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our Bylaws nor other governing documents or law require stockholder ratification of the selection of PwC as the Company's independent registered public accounting firm. However, the Board is submitting the selection of PwC to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee, in its discretion and subject to approval by our Board in accordance with the 1940 Act, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of a majority of the votes cast at the annual meeting will be required to ratify the selection of PwC. Abstentions and broker non-votes will be considered present and entitled to vote for the purpose of determining whether a quorum exists, although they will not be counted for any purpose in determining whether this matter has been approved.

Independent Registered Public Accounting Firm Fees

The following table represents the aggregate amount of fees capitalized or expensed by the Company for the fiscal years ended September 30, 2016 and September 30, 2015 that were billed by PwC, our principal independent registered public accounting firm.

	2016	2015
Audit Fees	\$ 617,339(1)	\$ 537,411(2)
Audit-related Fees	\$ 0	\$ 0
Tax Fees	\$ 0	\$ 0
All Other Fees	\$ 0	\$ 0
Total	\$ 617,339	\$ 537,411

- (1) Includes approximately \$41,500 in fees in connection with the preparation of our universal shelf registration statement on Form N-2, approximately \$33,000 in fees related to our ATM program, and \$56,000 in fees related to common offerings.

Table of Contents

(2) Includes approximately \$17,500 in fees in connection with the preparation of our universal shelf registration statement on Form N-2 and approximately \$55,000 in fees related to our ATM program.

Audit Fees. Audit fees include fees for services that normally would be provided by the accountant in connection with statutory and regulatory filings or engagements and that generally only the independent accountant can provide. In addition to fees for the audit of our annual financial statements, the audit of the effectiveness of our internal control over financial reporting and the review of our quarterly financial statements in accordance with generally accepted auditing standards, this category contains fees for comfort letters, statutory audits, consents, and assistance with and review of documents filed with the SEC.

Audit Related Fees. Audit related fees are assurance related services that traditionally are performed by the independent accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. These types of assurance services include attest services that are not required by statute or regulation.

Tax Fees. Tax fees include corporate and subsidiary compliance and consulting.

All Other Fees. Fees for other services would include fees for products and services other than the services reported above, including any non-audit fees.

During the fiscal years ended September 30, 2016 and September 30, 2015, the aggregate non-audit fees paid to PwC for services rendered to our Adviser and any entity controlling, controlled by or under common control with our Adviser that provides ongoing services to the Company were \$37,750 and \$0.2 million, respectively. These fees were for primarily for tax and compliance services. The Audit Committee has considered whether, and believes that, the rendering of these services to our Adviser and the entities controlling, controlled by or under common control with our Adviser is compatible with maintaining the independent registered public accounting firm's independence.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm, PwC. The policy generally pre-approves specified services in the defined categories of audit services, audit-related services, and tax services up to specified amounts. Pre-approval may also be given as part of the Audit Committee's approval of the scope of the engagement of the independent registered public accounting firm or on an individual explicit case-by-case basis before the independent registered public accounting firm is engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision must be reported to the full Audit Committee at its next scheduled meeting.

The Audit Committee has determined that the rendering of the services other than audit services currently being provided by PwC is compatible with maintaining the independent registered public accounting firm's independence.

Table of Contents

During fiscal years 2015 and 2016, 100% of our audit fees associated with our independent registered public accounting firm were pre-approved by our Audit Committee.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2017.

Report of the Audit Committee of the Board of Directors¹

The Audit Committee has reviewed and discussed the Company s audited financial statements with management and PricewaterhouseCoopers LLP (PwC), the Company s independent registered public accounting firm, with and without management present. The Audit Committee included in its review results of the independent registered public accounting firm s examinations, the Company s internal controls, and the quality of the Company s financial reporting. The Audit Committee also reviewed the Company s procedures and internal control processes designed to ensure full, fair and adequate financial reporting and disclosures, including procedures for certifications by the Company s chief executive officer and chief financial officer that are required in periodic reports filed by the Company with the Securities and Exchange Commission. The Audit Committee further reviewed with the independent registered public accounting firm their opinion on the effectiveness of the internal control over financial reporting of the Company. The Audit Committee is satisfied that the Company s internal control system is adequate and that the Company employs appropriate accounting and auditing procedures.

Management represented to the Audit Committee that the Company s consolidated financial statements for the year ended September 30, 2016 were prepared in accordance with generally accepted accounting principles. The Audit Committee discussed with the independent registered public accounting firm the matters required to be discussed under Statement on Auditing Standards No. 16, as amended, which addresses communication between audit committees and independent registered public accounting firms. The Audit Committee has also received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent registered public accounting firm s communications with the audit committee concerning independence and has discussed with the independent registered public accounting firm the independent registered public accounting firm s independence (Communications with Audit Committees). The Audit Committee discussed and reviewed with PricewaterhouseCoopers LLP the Company s critical accounting policies and practices, internal controls, other material written communications to management, and the scope of PricewaterhouseCoopers LLP s audits and all fees paid to PricewaterhouseCoopers LLP during the fiscal year. The Audit Committee adopted guidelines requiring review and pre-approval by the Audit Committee of audit and non-audit services performed by PricewaterhouseCoopers LLP for the Company.

¹ The material in this report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any of our filings under the 1933 Act or the 1934 Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

Table of Contents

The Audit Committee has reviewed and considered the compatibility of PricewaterhouseCoopers LLP's performance of non-audit services with the maintenance of PricewaterhouseCoopers LLP's independence as the Company's independent registered public accounting firm and has concluded that independence has been maintained.

Based on the Audit Committee's review and discussions referred to above, the Audit Committee recommended to our Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K, for the fiscal year ended September 30, 2016, for filing with the Securities and Exchange Commission. In addition, the Audit Committee has engaged PwC to serve as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2017.

Submitted by the Audit Committee

Anthony W. Parker, Chairperson

Caren D. Merrick

Michela A. English

John H. Outland

Table of Contents

**SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the ownership of the common and preferred stock of the Company as of November 14, 2016, by: (i) each current director; (ii) each of our named executive officers; (iii) all of our executive officers and directors as a group; and (iv) all those known by us to be beneficial owners of more than 5% of our common stock. None of our executive officers or directors own shares of our 6.75% Series 2021 Term Preferred Stock (Term Preferred Stock), and, to our knowledge, no person beneficially owns more than 5% of our Term Preferred Stock. Except as otherwise noted, the address of the individuals below is c/o Gladstone Capital Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102. As of November 14, 2016, no independent director (or his/her immediate family members) owned securities of our Adviser.

Name and Address	Number of Common Shares	Percent of Total Common Shares
Beneficial Ownership of Common Stock (1)(2)		
Directors:		
David Gladstone	1,195,794	4.72%
Terry Lee Brubaker	93,334	*
Paul W. Adelgren	7,893	*
Michela A. English	1,589	*
Caren D. Merrick	1,835	*
John H. Outland	2,246	*
Anthony W. Parker	0	*
Walter H. Wilkinson, Jr.	6,758	*
Named Executive Officers (that are not also Directors):		
Melissa Morrison (3)	375	*
Nicole Schaltenbrand (3)	0	*
All executive officers and directors as a group (11 persons) (4)	1,633,993	6.45%

* Less than 1%

- (1) This table is based upon information supplied by executive officers, directors and principal stockholders. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and sole investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 25,344,422 shares of common stock outstanding on November 14, 2016. No executive officers or directors held shares of our preferred stock as of November 14, 2016, nor was anyone a principal stockholder of our preferred stock on such date.
- (2) Ownership calculated in accordance with Rule 13d-3 of the 1934 Act.

Table of Contents

- (3) Ms. Schaltenbrand replaced Ms. Morrison as chief financial officer and treasurer of the Company effective March 14, 2016.
- (4) There are no employees compensated by the Company. All the employees are compensated by the Adviser and/or Administrator.

The following table sets forth, as of November 14, 2016, the dollar range of equity securities that are beneficially owned by each of our directors in the Company and in both the Company and Gladstone Investment Corporation in the aggregate. Gladstone Investment Corporation is our affiliate and a business development company that is also externally managed by our Adviser.

Name	Dollar Range of Equity Securities of the Company Owned by Directors or Nominees (1)(2)		Aggregate Dollar Range of Equity Securities in All Funds Overseen or to be Overseen by Director or Nominee in Family of Investment Companies (1)(2)	
Interested Directors:				
David Gladstone	Over \$100,000		Over \$100,000	
Terry Lee Brubaker	\$50,001	\$100,000	Over \$100,000	
Independent Directors:				
Paul W. Adelgren	\$50,001	\$100,000	Over \$100,000	
Michela A. English	\$10,001	\$50,000	\$10,001	\$50,000
Caren D. Merrick	\$10,001	\$50,000	\$10,001	\$50,000
John H. Outland	\$10,001	\$50,000	\$10,001	\$50,000
Anthony W. Parker	None		\$50,001	\$100,000
Walter H. Wilkinson, Jr.	\$50,001	\$100,000	Over \$100,000	

(1) Ownership is calculated in accordance with Rule 16a-1(a)(2) of the 1934 Act.

(2) The dollar range of equity securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Select Market as of November 14, 2016, by the number of shares of the respective class so beneficially owned and aggregated accordingly.

Gladstone Commercial Corporation, our affiliate and a real estate investment trust, is also managed by our Adviser. The following table sets forth certain information regarding the ownership of the common and preferred stock of Gladstone Commercial as of November 14, 2016, by each independent incumbent director and nominee. As of November 14, 2016, none of our independent directors owns any class of stock of Gladstone Commercial Corporation, other than those classes listed below.

Name	Number of Common Shares	Percentage of Class of Common Shares	Value of Securities (\$ (1))
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Independent Directors:			
Paul W. Adलगren	8,506	*	\$ 154,042
Michela A. English	2,111	*	\$ 38,232
Caren D. Merrick	2,816	*	\$ 50,998
John H. Outland	2,076	*	\$ 37,596
Anthony W. Parker	26,235	*	\$ 475,117
Walter H. Wilkinson, Jr.	7,032	*	\$ 127,344

Table of Contents

* Less than 1%

- (1) Ownership calculated in accordance with Rule 16a-1(a)(2) of the 1934 Act. The value of securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Select Market as of November 14, 2016, by the number of shares of the respective class so beneficially owned and aggregated accordingly.

Gladstone Land Corporation, our affiliate and a real estate investment company, is also managed by our Adviser. The following table sets forth certain information regarding the ownership of the common stock of Gladstone Land as of November 14, 2016, by each independent incumbent director and nominee. As of November 14, 2016, none of our independent directors owns any preferred stock of Gladstone Land Corporation.

Name	Number of Common Shares	Percent of Class of Common Shares	Value of Securities (\$ (1))
Independent Directors:			
Paul W. Adलगren	8,151	*	\$ 86,406
Michela A. English	1,030	*	\$ 10,919
Caren D. Merrick	4,432	*	\$ 46,979
John H. Outland	1,680	*	\$ 17,808
Anthony W. Parker	5,282	*	\$ 55,986
Walter H. Wilkinson, Jr.	4,828	*	\$ 51,176

* Less than 1%

- (1) Ownership calculated in accordance with Rule 16a-1(a)(2) of the 1934 Act. The value of securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Market as of November 14, 2016, by the number of shares of the respective class so beneficially owned and aggregated accordingly.

Table of Contents

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the 1934 Act requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and our other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms and amendments they file.

To our knowledge, based solely on a review of the copies of such reports and amendments furnished to us and written representations that no other reports were required, during the fiscal year ended September 30, 2016, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements, with the exception of a late Form 4 filed on August 25, 2016 by Robert L. Marcotte for the purchases of 2,000 and 4,000 shares of common stock on August 19, 2016 and August 22, 2016, respectively.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

None of our executive officers receive direct compensation from us. We do not currently have any employees and do not expect to have any employees in the foreseeable future. The services necessary for the operation of our business are provided to us by our officers and the other employees of our Adviser and Administrator, pursuant to the terms of the Advisory and Administration Agreements, respectively. Mr. Gladstone, our chairman, chief executive officer and president and Mr. Brubaker, our vice chairman, chief operating officer and assistant secretary, are both employees of and compensated directly by our Adviser. Ms. Schaltenbrand, our chief financial officer and treasurer, is an employee of our Administrator. Ms. Morrison, an employee of our Administrator, served as our chief financial officer from April 2013 until March 2016 and as treasurer from January 2015 to March 2016. Under the Administration Agreement, we reimburse our Administrator for our allocable portion of the salary of our chief financial officer and treasurer. During our last fiscal year, our allocable portion of Ms. Morrison's compensation paid by our Administrator was approximately \$28,851.26 of her salary, \$6,525.00 of her bonus, and \$9,184.62 of the cost of her benefits. During our last fiscal year, our allocable portion of Ms. Schaltenbrand's compensation paid by our Administrator was approximately \$36,954.50 of her salary, \$10,701.00 of her bonus, and \$5,281.79 of the cost of her benefits.

During the fiscal year ended September 30, 2016, we incurred total fees of approximately \$8.8 million to our Adviser under the Advisory Agreement, \$1.2 million to our Administrator under the Administration Agreement. For a discussion of the terms of our Advisory and Administration Agreement, see Certain Transactions.

Table of Contents**DIRECTOR COMPENSATION FOR FISCAL YEAR 2016**

The following table shows for the fiscal year ended September 30, 2016 certain information with respect to the compensation of all directors that are not also executive officers. Our executive officers do not receive any compensation for their service as directors:

Name	Aggregate Compensation from Fund	Total Compensation from Fund and Fund Complex Paid to Directors (1)
Paul W. Adलगren	\$ 35,000	\$ 140,000
Michela A. English	\$ 34,000	\$ 133,000
Caren D. Merrick	\$ 41,000	\$ 156,000
John H. Outland	\$ 49,000	\$ 192,000
Anthony W. Parker	\$ 41,000	\$ 164,500
Walter H. Wilkinson, Jr.	\$ 38,000	\$ 148,000

(1) Includes compensation the director received from Gladstone Investment Corporation, as part of our Fund Complex. Also includes compensation the director received from Gladstone Commercial Corporation, our affiliate and a real estate investment trust, and Gladstone Land Corporation, our affiliate and a real estate investment trust, although not part of our Fund Complex.

For our fiscal year ended September 30, 2016, as compensation for serving on our Board, each of our independent directors received an annual fee of \$20,000, an additional \$1,000 for each Board meeting attended, and an additional \$1,000 for each committee meeting attended if such committee meeting took place on a day other than when the full Board met. In addition, the chairpersons of the Audit, Compensation and Valuation Committees received an annual fee of \$3,000, and the chairperson of the Ethics Committee received an annual fee of \$1,000 for their additional services in these capacities. We also reimburse our directors for their reasonable out-of-pocket expenses incurred in attending Board and committee meetings.

Effective October 1, 2016, (i) the annual fee received by all independent directors for their services on our Board increased from \$20,000 to \$25,000 and (ii) the annual fee received by the chairperson of the Audit Committee increased from \$3,000 to \$7,500.

We do not pay any compensation to directors who also serve as our officers, or as officers or directors of our Adviser or our Administrator, in consideration for their service to us. Our Board may change the compensation of our independent directors in its discretion. None of our independent directors received any compensation from us during the fiscal year ended September 30, 2016, other than for Board or committee service and meeting fees.

Table of Contents

Compensation Committee Report²

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis (CD&A) contained in this Proxy Statement. Based on this review and discussion, the Compensation Committee has recommended to our Board of Directors that the CD&A be included in this Proxy Statement and incorporated into our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

Submitted by the Compensation Committee

John H. Outland, Chairperson

Paul W. Adलगren

Walter H. Wilkinson, Jr.

² The material in this report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended (the 1933 Act) or the 1934 Act, other than our Annual Report on Form 10-K, where it shall be deemed to be furnished, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

Table of Contents

CERTAIN TRANSACTIONS

Advisory and Administration Agreements

Under the Advisory Agreement, our Adviser is responsible for our day-to-day operations and administration, record keeping and regulatory compliance functions. Specifically, these responsibilities included (i) identifying, evaluating, negotiating and consummating all investment transactions consistent with our investment objectives and criteria; (ii) providing us with all required records and regular reports to our Board concerning our Adviser's efforts on our behalf; and (iii) maintaining compliance with all regulatory requirements applicable to us. The base management fee pursuant to the Advisory Agreement is assessed at an annual rate of 1.75% computed on the basis of the average value of our gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. The Advisory Agreement also provides for an incentive fee, which consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. The income-based incentive fee rewards our Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate). We pay our Adviser an income-based incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7% annualized);

100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to our Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the entire portfolio's net unrealized capital depreciation, if any, as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio.

Under the Administration Agreement, we pay separately for administrative services including record keeping and regulatory compliance functions. Payments under the Administration Agreement are equal to our allocable portion of our Administrator's overhead expenses in performing its obligations under the Administration Agreement, including rent for the space occupied by our Administrator, and our allocable portion of the salaries, bonuses, and benefits expenses of our chief financial officer, treasurer, chief compliance officer, general counsel and secretary and their respective staffs. Our allocable portion of the Administrator's expenses are generally derived by multiplying our Administrator's total expenses by the approximate amount of time the Administrator's employees perform services for us in relation to their time spent performing services of all companies serviced by our Administrator under contractual agreements.

Table of Contents

Our Adviser and Administrator are 100% indirectly owned and controlled by David Gladstone, the chairman of our Board and our chief executive officer. Mr. Gladstone is also the chairman of the board of directors and chief executive officer of our Adviser. Terry Lee Brubaker, our vice chairman, chief operating officer and assistant secretary, is a member of the board of directors of our Adviser and its vice chairman, chief operating officer and assistant secretary. Although we believe that the terms of the Advisory Agreement and Administration Agreement are no less favorable to us than those that could be obtained from unaffiliated third parties in arms length transactions, our Adviser and Administrator, their officers and their directors have a material interest in the terms of these agreements.

The principal executive office of each of the Adviser and the Administrator is located at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102.

Loan Servicing Fee

The Adviser also services the loans held by Gladstone Business Loan, LLC (Business Loan), the borrower under our line of credit, in return for which the Adviser receives a 1.5% annual fee payable monthly based on the aggregate outstanding balance of loans pledged under our line of credit. 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) 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, these loan servicing fees are 100% voluntarily, irrevocably and unconditionally credited back to us by the Adviser. Loan servicing fees of approximately \$3.9 million were incurred for the fiscal year ended September 30, 2016, all of which were directly credited against the amount of the base management fee due to our Adviser under the Advisory Agreement.

Investment Banking Services

Gladstone Securities, LLC, an affiliated broker dealer which is 100% indirectly owned and controlled by Mr. Gladstone, provides investment banking services to most our portfolio companies for which it receives a fee (paid by such portfolio companies) in an amount not greater than 1% of each investment at closing. Messrs. Gladstone, LiCalsi and Dellafiora serve on the board of managers of Gladstone Securities, LLC and certain of the employees of the Adviser, who are also registered representatives of Gladstone Securities, perform the investment banking services on behalf of Gladstone Securities. Such investment banking fees are outside of the scope of the Advisory Agreement and the Administration Agreement. Therefore, they are not credited back to the Company and are entirely retained by Gladstone Securities, LLC.

Conflict of Interest Policy

We have adopted written policies to reduce potential conflicts of interest. In addition, our directors are subject to certain provisions of Maryland law (as we are a Maryland corporation) that are designed to minimize conflicts. Under our current conflict of interest policy, without the approval of a required

Table of Contents

majority, as defined under the 1940 Act, which means both a majority of directors who have no financial interest in the transaction and a majority of directors who are not interested persons of ours, we will not:

acquire from or sell to any of our officers, directors or employees, or any entity in which any of our officers, directors or employees has an interest of more than 5%, any assets or other property;

borrow from any of our directors, officers or employees, or any entity in which any of our officers, directors or employees has an interest of more than 5%; or

engage in any other transaction with any of our directors, officers or employees, or any entity in which any of our directors, officers or employees has an interest of more than 5% (except that our Adviser may lease office space in a building that we own, provided that the rental rate under the lease is determined by our independent directors to be at a fair market rate).

Where allowed by applicable rules and regulations, from time to time we may enter into transactions with our Adviser or one or more of its affiliates. A required majority of our directors, as defined under the 1940 Act, must approve all such transactions with our Adviser or its affiliates.

Indemnification

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

Each of the Advisory and Administration Agreements provide that, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations (as the same may be determined in accordance with the 1940 Act and any interpretations or guidance by the SEC or its staff thereunder), our Adviser, our Administrator and their respective officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with them are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of our Adviser's or Administrator's services under the Advisory or Administration Agreements or otherwise as an investment adviser of ours.

Table of Contents

PROXY VOTING POLICIES AND PROCEDURES

We have delegated our proxy voting responsibility to the Adviser. The proxy voting policies and procedures of the Adviser are set out below. The guidelines are reviewed periodically by the Adviser and our directors who are not interested persons, and, accordingly, are subject to change.

Introduction

As an investment adviser registered under the Investment Advisers Act of 1940, as amended (the Advisers Act), the Adviser has a fiduciary duty to act solely in our best interests. As part of this duty, the Adviser recognizes that it must vote our securities in a timely manner free of conflicts of interest and in our best interests.

The Adviser's policies and procedures for voting proxies for its investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy Policies

The Adviser votes proxies relating to our portfolio securities in what it perceives to be the best interest of our stockholders. The Adviser reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its effect on the portfolio securities we hold. In most cases the Adviser will vote in favor of proposals that the Adviser believes are likely to increase the value of the portfolio securities we hold.

Although the Adviser will generally vote against proposals that may have a negative effect on our portfolio securities, the Adviser may vote for such a proposal if there exist compelling long-term reasons to do so.

Our proxy voting decisions are made by our Adviser's portfolio managers. To ensure that the Adviser's vote is not the product of a conflict of interest, the Adviser requires that (1) anyone involved in the decision-making process disclose to our Adviser's investment committee any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision-making process or vote administration are prohibited from revealing how the Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, the Adviser will disclose such conflicts to us, including our independent directors and may request guidance from us on how to vote such proxies.

Proxy Voting Records

You may obtain information without charge about how the Adviser voted proxies by making a written request for proxy voting information to:

Michael LiCalsi, General Counsel and Secretary

c/o Gladstone Capital Corporation

1521 Westbranch Dr., Suite 100

McLean, VA 22102

Table of Contents

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for annual meeting materials with respect to two or more stockholders sharing the same address by delivering a single set of annual meeting materials addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are Gladstone Capital Corporation stockholders will be householding our proxy materials. A single set of annual meeting materials will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate set of annual meeting materials, please notify your broker. Direct your written request to Investor Relations at 1521 Westbranch Drive, Suite 100, McLean, Virginia, 22102 or call our toll-free investor relations line at 1-866-366-5745. Stockholders who currently receive multiple copies of the annual meeting materials at their addresses and would like to request householding of their communications should contact their brokers.

PRIVACY NOTICE

We are committed to maintaining the privacy of our stockholders and to safeguarding their nonpublic personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

From time to time, we may receive nonpublic personal information relating to our stockholders. We do not disclose nonpublic personal information about our stockholders or former stockholders to anyone, except as required by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third-party administrator).

We restrict access to nonpublic personal information about our stockholders to employees of our Administrator, its affiliates or authorized service providers that have a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our stockholders.

Table of Contents

OTHER MATTERS

Our Board of Directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

Michael LiCalsi
General Counsel and Secretary

December 9, 2016

Table of Contents

GLADSTONE CAPITAL CORPORATION 1521 WESTBRANCH DRIVE, SUITE 100 MCLEAN, VA 22102 Proxy Card For Preferred Stockholders VOTE BY INTERNET - www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Standard Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years. VOTE BY PHONE - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Standard Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: E15347-P83714 KEEP THIS PORTION FOR YOUR RECORDS THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY GLADSTONE CAPITAL CORPORATION The Board of Directors recommends you vote FOR the following: 1. Election of Directors Nominees: 01) Michela A. English 02) Anthony W. Parker For All Withhold All Except For All To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below. The Board of Directors recommends you vote FOR the following proposal: 2. To ratify our Audit Committee's selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for our fiscal year ending September 30, 2017. For Against Abstain NOTE: To transact such other business as may properly come before the meeting or any adjournment or postponement thereof. Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer. Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date V.1.1

Table of Contents

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com. E15348-P83714 GLADSTONE CAPITAL CORPORATION Annual Meeting of Stockholders February 9, 2017 - 11:00 a.m. Local Time
This proxy is solicited by the Board of Directors PROXY FOR PREFERRED SHARES The undersigned hereby appoints Nicole Schaltenbrand and Michael LiCalsi, and each of them acting individually, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of Gladstone Capital Corporation which the undersigned may be entitled to vote at the 2017 Annual Meeting of Stockholders of Gladstone Capital Corporation to be held at the corporate headquarters of The Gladstone Companies, 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, on Thursday, February 9, 2017 at 11:00 a.m. Local Time, and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the matters on the reverse side, and in accordance with the instructions, with discretionary authority as to any and all other matters that may properly come before the meeting. Unless a contrary direction is indicated, this proxy will be voted in favor of each of the nominees listed in Proposal 1 and in favor of Proposal 2 as more specifically described in the proxy statement. If specific instructions are indicated, this proxy will be voted in accordance therewith. For address change/comments, please contact Investor Relations at 1-866-366-5745 or send an email to info@gladstonecompanies.com.
Continued and to be signed on reverse side V.1.1

Table of Contents

GLADSTONE CAPITAL CORPORATION 1521 WESTBRANCH DRIVE, SUITE 100 MCLEAN, VA 22102 Proxy Card For Common Stockholders VOTE BY INTERNET - www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Standard Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years. VOTE BY PHONE - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Standard Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: E15349-P83714 KEEP THIS PORTION FOR YOUR RECORDS THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY GLADSTONE CAPITAL CORPORATION The Board of Directors recommends you vote FOR the following: 1. Election of Directors Nominees: 01) Michela A. English 02) Anthony W. Parker For All Withhold All Except For All To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below. The Board of Directors recommends you vote FOR the following proposal: 2. To ratify our Audit Committee's selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for our fiscal year ending September 30, 2017. For Against Abstain NOTE: To transact such other business as may properly come before the meeting or any adjournment or postponement thereof. Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer. Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date V.1.1

Table of Contents

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com. E15350-P83714 GLADSTONE CAPITAL CORPORATION Annual Meeting of Stockholders February 9, 2017 - 11:00 a.m. Local Time
This proxy is solicited by the Board of Directors PROXY FOR COMMON SHARES The undersigned hereby appoints Nicole Schaltenbrand and Michael LiCalsi, and each of them acting individually, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of Gladstone Capital Corporation which the undersigned may be entitled to vote at the 2017 Annual Meeting of Stockholders of Gladstone Capital Corporation to be held at the corporate headquarters of The Gladstone Companies, 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, on Thursday, February 9, 2017 at 11:00 a.m. Local Time, and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the matters on the reverse side, and in accordance with the instructions, with discretionary authority as to any and all other matters that may properly come before the meeting. Unless a contrary direction is indicated, this proxy will be voted in favor of each of the nominees listed in Proposal 1 and in favor of Proposal 2 as more specifically described in the proxy statement. If specific instructions are indicated, this proxy will be voted in accordance therewith. For address change/comments, please contact Investor Relations at 1-866-366-5745 or send an email to info@gladstonecompanies.com. Continued and to be signed on reverse side V.1.1