As filed with the Securities and Exchange Commission on July 27, 2001

Registration No. 333-63700

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

[X] PRE-EFFECTIVE AMENDMENT NO. 1
[ ] POST-EFFECTIVE AMENDMENT NO.

GLADSTONE CAPITAL CORPORATION
(Exact Name of Registrant as Specified in Charter)

1750 Tysons Blvd., 4th Floor
McLean, VA 22102
(703) 744-1165

(Address and Telephone Number, including Area Code, of Principal Executive Offices)

David Gladstone
Chairman of the Board and Chief Executive Officer
Gladstone Capital Corporation
1750 Tysons Blvd., 4th Floor
McLean, VA 22102
(703) 744-1165

(Name, Address and Telephone Number of Agent for Service)

Copies of information to:

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Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

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

If appropriate, check the following box:

/ / This [post-effective amendment] designates a new effective date for a previously filed [post-effective amendment][registration statement]

/ / This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION

8(a), MAY DETERMINE.

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Gladstone Capital Corporation
Cross Reference Sheet

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No.	Description	Location
<S>	<C>	<C>
PART A--INFORMATION REQUIRED IN A PROSPECTUS		
Item 1.	Outside Front Cover	Outside Front Cover
Item 2.	Inside Front and Outside Back Cover	Inside Front and Outside Back Cover
Item 3.	Fee Table and Synopsis	Fees and expenses
Item 4.	Financial Highlights	Not Applicable
Item 5.	Plan of Distribution	Underwriting
Item 6.	Selling Shareholders	Not Applicable
Item 7.	Use of Proceeds	Use of proceeds
Item 8.	General Description of the Registrant	Outside Front Cover Page; Prospectus summary; Business; Risk factors
Item 9.	Management	Management; Executive Officers and Directors
Item 10.	Capital Stock, Long-Term Debt and Other Securities	Description of our capital stock; Distributions; Dividend reinvestment plan
Item 11.	Defaults and Arrears on Senior Securities	Not Applicable
Item 12.	Legal Proceedings	Not Applicable
Item 13.	Table of Contents of the Statement of Additional Information	Not Applicable
PART B--INFORMATION REQUIRED IN A STATEMENT OF ADDITIONAL INFORMATION*		
Item 14.	Cover Page	Not Applicable
Item 15.	Table of Contents	Not Applicable
Item 16.	General Information and History	Prospectus summary; Business
Item 17.	Investment Objective and Policies	Prospectus summary; Investment objectives and policies; Risk Factors; Business; Material US federal income tax considerations; Regulation
Item 18.	Management	Management
Item 19.	Control Persons and Principal Holders of Securities	Control persons and principal stockholders
Item 20.	Investment Advisory and Other Services	Investment advisor
Item 21.	Brokerage Allocation and Other Practices	Fees and expenses; Prospectus summary; Underwriting; Brokerage allocation and other practices
Item 22.	Tax Status	Distributions; Material US federal income tax considerations
Item 23.	Financial Statements	Balance Sheet

</TABLE>

* PURSUANT TO THE GENERAL INSTRUCTIONS TO FORM N-2, ALL INFORMATION REQUIRED TO BE SET FORTH IN PART B "STATEMENT OF ADDITIONAL INFORMATION" HAS BEEN INCLUDED IN THE PROSPECTUS AND, ACCORDINGLY NO STATEMENT OF ADDITIONAL INFORMATION HAS BEEN FILED AS PART OF THIS REGISTRATION STATEMENT.

PART C--OTHER INFORMATION

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

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION July 27, 2001

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

12,400,000 Shares

[LOGO]

Gladstone Capital Corporation

Common Stock

- ---

Gladstone Capital Corporation is a newly organized closed-end, non-diversified management investment company that, prior to completion of this offering, will elect to be treated as a business development company under the Investment Company Act of 1940. Our investment objectives are 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, with a particular emphasis on senior subordinated notes. We will 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. At times, we may use leverage through borrowings from banks and other financial institutions. The use of leverage can create special risks which are discussed in greater detail in this prospectus.

Up to 400,000 shares will be reserved for sale by the underwriters to our directors, officers and employees and certain persons associated with us at the public offering price net of the sales concession.

Because we are newly organized, our shares have no history of public trading. We have applied to list our shares on the Nasdaq National Market under the symbol "GLAD."

This prospectus contains important information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference.

Investing in our common stock involves risks that are described in the "Risk factors" section beginning on page 7 of this prospectus. Shares of closed-end investment companies frequently trade at a discount to their net asset value and this may increase the risk of loss of purchasers in this offering.

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

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	Per Share	Total
<S>	<C>	<C>
Public offering price	$15.00	$186,000,000
Underwriting discount (sales load)	$	$
Proceeds to us(1)	$	$

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(1) BEFORE DEDUCTING EXPENSES PAYABLE BY US OF $.

The underwriters may also purchase up to an additional 1,860,000 shares at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments. If the over-allotment option is exercised in full, the total public offering price will be $213,900,000 and the total sales load will be $. The proceeds to us would be $, less expenses of $.

The shares will be ready for delivery on or about , 2001.

UBS Warburg First Union Securities, Inc.

Robertson Stephens

BB&T Capital Markets Ferris, Baker Watts

Incorporated

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

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Until , 2001 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Prospectus summary

THIS SUMMARY HIGHLIGHTS SOME OF THE INFORMATION IN THIS PROSPECTUS. IT IS NOT COMPLETE AND MAY NOT CONTAIN ALL OF THE INFORMATION THAT YOU MAY WANT TO CONSIDER. YOU SHOULD READ CAREFULLY THE MORE DETAILED INFORMATION SET OUT IN THIS PROSPECTUS INCLUDING "RISK FACTORS." EXCEPT WHERE THE CONTEXT SUGGESTS OTHERWISE, WHEN WE USE THE TERMS "WE," "US" OR "GLADSTONE CAPITAL CORPORATION," WE ARE REFERRING SOLELY TO GLADSTONE CAPITAL CORPORATION AND NOT TO ITS WHOLLY-OWNED SUBSIDIARY GLADSTONE ADVISERS, INC.

General

We are a specialty finance company that was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. After this offering, we plan to invest 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, with a particular emphasis on senior subordinated notes. In addition, we may acquire existing loans that meet this profile from leveraged buyout funds, venture capital funds and others. We will 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. During June 2001, we entered into separate non-binding loan commitments with five potential borrowers. Following completion of this offering, we intend to fulfill these commitments from the net proceeds of this offering. These loans are subject to, among other things, the satisfactory completion of our due diligence investigation of each borrower, acceptance of terms and structure and necessary consents. Our headquarters are in McLean, Virginia, a suburb of Washington, DC. We also plan to open an office in New York, New York.

Our Structure and Our Management

We are a closed-end, non-diversified management investment company under the Investment Company Act of 1940, which we refer to as the 1940 Act. Our investment objectives are 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, with a particular emphasis on senior subordinated notes. We will 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.

Prior to completion of this offering, we will elect to be treated as a business development company registered under the 1940 Act. In addition, we will elect to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986. As a RIC, we generally will not have to pay corporate level tax on any income we distribute to our stockholders as dividends, allowing us to substantially reduce or eliminate our corporate level tax liability. For further information, see "Regulation," "Material US federal income tax considerations" and "Dividend reinvestment plan."

We will be internally managed by our officers and directors. We will not have a separate investment advisor and, therefore, we will not pay an investment advisory fee. We have established a wholly-owned subsidiary that will conduct our daily operations. It is currently estimated that our annual operating expenses will be approximately 1% of our total assets. There can be no assurance that our actual annual operating expenses will not exceed 1% of our total assets.

We have assembled a management team which has extensive experience in our lines of business. Our executive officers include David Gladstone, chairman and chief executive officer, and Terry Lee Brubaker, president and chief operating officer. Mr. Gladstone has a total of over 25 years of debt and equity financing experience at Allied Capital Corporation (NYSE: ALD) and American Capital Strategies Ltd. (NASDAQ: ACAS). Mr. Brubaker has over 25 years of operational expertise in acquiring and managing companies, much of it at James River Corporation. Our management, including Messrs. Gladstone and Brubaker, will make available significant managerial assistance to the businesses in which we invest, including operational, financial and strategic advice.

Our Investment Objectives and Our Strategy

Our investment objectives are 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, with a particular emphasis on senior subordinated notes. We will also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans. There can be no assurance that we will realize our investment objectives. We will seek to invest primarily in three categories of debt of private companies:

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

- - SENIOR SUBORDINATED DEBT. We will seek to invest a majority of our assets in senior subordinated debt. Senior subordinated debt is subordinated in its rights to receive its principal and interest payments from the borrower to the rights of the holders of senior debt. As a result, senior subordinated debt is riskier than senior debt. Although such loans are sometimes secured by significant collateral, many of these lenders principally rely on the borrower's cash flow for repayment. Additionally, lenders often receive warrants to acquire shares of stock in borrowers in connection with these loans.

- - JUNIOR SUBORDINATED DEBT. We will also seek to invest a small portion of our assets in junior subordinated debt. Junior subordinated debt is subordinated in its rights to receive its principal and interest payments from the borrower to the rights of the holders of senior debt and senior subordinated debt. The risk profile of junior subordinated debt is high, which permits the junior subordinated lender to obtain higher interest rates and warrants to purchase a greater portion of the borrower's stock.

We plan to use the established loan referral network of Messrs. Gladstone and Brubaker and our principals to identify and make senior and subordinated loans to selected businesses that we do not believe have sufficient access to traditional sources of lending.

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

We expect that our loans typically will range from $5 million to $15 million, mature in no more than seven years, and accrue interest at a fixed rate or an annualized variable rate that exceeds the prime rate. Because these loans will generally be subordinated debt of private companies, we expect that most if not all of the debt securities we acquire will be unrated.

OFFERING

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Common stock offered by us (1)(2).....	12,400,000 shares
Common stock to be outstanding after this offering (1).....	13,052,631 shares
Use of proceeds.....	We intend to use approximately $57 million of the net proceeds from this offering to fulfill non-binding commitments to make five loans. We will use the remainder of the net proceeds to invest in portfolio

	companies in accordance with our investment objectives and strategies. Pending such investment, we will primarily invest the net proceeds in money market instruments.
Listing.....	Currently, there is no public market for our common stock. However, we have applied to list our common stock on the Nasdaq National Market under the symbol "GLAD."
Distributions.....	We intend to distribute quarterly cash dividends to our stockholders of at least 90% of our ordinary income and short-term capital gains.
Trading.....	Shares of closed-end funds frequently trade at a discount to their net asset value. Shares of comparable business development companies, such as Allied Capital Corporation and American Capital Strategies Ltd., trade at a premium to net asset value. Potential purchasers of our common stock should not assume that our shares will trade at a premium to net asset value and there can be no assurance that our shares will not trade at a discount to their net asset value.
Risk factors.....	See "Risk factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Available Information.....	After this offering, we will be subject to the Securities Exchange Act of 1934 and will be required to file reports, proxy statements and other information with the SEC. This information will be available at the SEC's public reference room in Washington, DC and on the SEC's Internet site at http://www.sec.gov.

(1) EXCLUDES 1,860,000 SHARES OF COMMON STOCK ISSUABLE PURSUANT TO THE OVER-ALLOTMENT OPTION GRANTED TO THE UNDERWRITERS.

(2) UP TO 400,000 SHARES OF COMMON STOCK WILL BE RESERVED FOR SALE BY THE UNDERWRITERS TO OUR DIRECTORS, OFFICERS AND EMPLOYEES AND CERTAIN ASSOCIATED PERSONS AT THE PUBLIC OFFERING PRICE NET OF THE SALES CONCESSION.

Fees and expenses

The purpose of the following table is to assist a prospective investor in understanding the various costs and expenses that an investor in this offering will bear directly or indirectly.

STOCKHOLDER TRANSACTION EXPENSES	
Sales Load (as a percentage of offering price).....	%(1)
Dividend Reinvestment Plan Fees.....	None(2)
Total Stockholder Transaction Expenses.....	%
ANNUAL EXPENSES (as a percentage of net assets attributable to common stock)	
Management Fees.....	None
Interest Payments on Borrowed Funds.....	0.0%(3)
Other Expenses.....	1.0%(3)
Total Annual Expenses (estimated).....	1.0%

(1) THE UNDERWRITING DISCOUNT WITH RESPECT TO OUR COMMON STOCK SOLD IN THIS OFFERING, WHICH IS A ONE TIME FEE WE PAID TO THE UNDERWRITERS IN CONNECTION WITH THIS OFFERING, IS THE ONLY SALES LOAD PAID IN CONNECTION WITH THIS OFFERING.

(2) THE EXPENSES OF THE DIVIDEND REINVESTMENT PLAN ARE INCLUDED IN STOCK RECORD EXPENSES, A COMPONENT OF OTHER EXPENSES. WE HAVE NO CASH PURCHASE PLAN.

(3) ESTIMATES OF INTEREST PAYMENTS ON BORROWED FUNDS, OTHER EXPENSES AND TOTAL ANNUAL EXPENSES HAVE BEEN BASED ON OUR PROJECTED OPERATING EXPENSES (INCLUDING INTEREST COSTS) DIVIDED BY OUR TOTAL ASSETS SUBSEQUENT TO THIS

OFFERING. THE PERCENTAGE IN THE TABLE ASSUMES THAT WE HAVE NOT ISSUED ANY SECURITIES THAT ARE SENIOR TO OUR EQUITY SECURITIES. IN FACT, WE DO NOT EXPECT THE NET OFFERING PROCEEDS TO BE FULLY INVESTED FOR THE FIRST YEAR. SEE "USE OF PROCEEDS." ONCE THE PROCEEDS OF THIS OFFERING ARE SUBSTANTIALLY FULLY INVESTED, WE INTEND TO BORROW FUNDS UP TO AN AMOUNT SO THAT THE ASSET COVERAGE, AS DEFINED IN THE 1940 ACT, IS AT LEAST 200% IMMEDIATELY AFTER EACH ISSUANCE OF SENIOR SECURITIES. WE EXPECT THAT OUR INTEREST PAYMENTS ON BORROWED FUNDS AND TOTAL ANNUAL EXPENSES WOULD BE HIGHER THAN THE LEVELS SET FORTH IN THE TABLE WHEN AND IF WE BORROW FUNDS OR ISSUE SENIOR SECURITIES. FOR ADDITIONAL INFORMATION ABOUT OUR PROPOSED BORROWINGS, SEE "BUSINESS--LEVERAGE."

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 our common stock. These amounts are based upon payment by an investor of a % sales load (the underwriting discount paid by us with respect to our common stock sold in this offering) and our payment of annual operating expenses at the levels set forth in the table above which, as indicated above, does not include leverage or related expenses.

<TABLE>
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	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return.....	$95	$149	$209	$386

</TABLE>

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

Risk factors

The purchase of our shares in this offering involves a number of significant risk and other factors relating to our structure and investment objectives. As a result, there can be no assurance that we will achieve our investment objectives. In addition to the other information contained in this prospectus, you should consider carefully the following information before making an investment in our common stock.

RISKS RELATING TO OUR BUSINESS AND STRUCTURE

We are a new company with no operating history

We were incorporated in May 2001 and to date, we have only entered into non-binding commitments to make loans and have not made any loans or conducted any significant operations as a lender to small and medium sized companies. In addition, we are subject to all of the business risks and uncertainties associated with any new business enterprise. We may not meet our investment objectives and the value of your investment in us may decline substantially or be reduced to zero.

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

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

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

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

We operate in a highly competitive market for investment opportunities

A large number of entities will compete with us and make the types of investments that we plan to make in small and medium sized privately-owned businesses. We will compete with a large number of private equity funds, leveraged buyout funds and venture capital companies, investment banks and other equity and non-equity based investment funds, and other sources of financing, including traditional financial services companies such as commercial banks. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. Furthermore, many of our potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition

and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that we will be able to identify and make investments that satisfy our investment objectives or that we will be able to fully invest our available capital.

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

We expect that we will be dependent upon informal relationships with leveraged buyout funds and venture capital funds to provide us with deal flow. The five non-binding loan commitments that we have made to date are all to portfolio companies of Three Cities Fund II, L.P. and Three Cities Fund III, L.P., that are managed by Three Cities Research Inc., a manager of leveraged buyout funds. If we fail to maintain our relationship with funds such as Three Cities, or if we fail to establish strong referral relationships with other funds, we will not be able to grow our portfolio of loans and fully execute our business plan.

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

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

- - SMALL AND MEDIUM SIZED BUSINESSES MAY HAVE LIMITED FINANCIAL RESOURCES AND MAY BE UNABLE TO REPAY OUR LOANS TO THEM. Our strategy includes providing financing to borrowers that typically is not readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the borrowers to repay their loans to us upon maturity. A borrower's ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. A deterioration in a borrower's financial condition and prospects usually will be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guarantees we may have obtained from the borrower's management. Although we will sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral for a loan would, accordingly, likely be subordinate to another lender's security interest.

- - SMALL AND MEDIUM SIZED BUSINESSES TYPICALLY HAVE NARROWER PRODUCT LINES AND SMALLER MARKET SHARES THAN LARGE BUSINESSES. Because our expected target borrowers are smaller businesses, they will tend to be more vulnerable to

competitors' actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and other capabilities, and a larger number of qualified managerial and technical personnel.

- - THERE IS GENERALLY NO PUBLICLY AVAILABLE INFORMATION ABOUT THESE BUSINESSES. Because we expect to make loans to privately owned businesses, there will generally be little or no publicly available operating and financial information about our borrowers. As a result, we will rely on our officers, other employees and consultants to perform "due diligence" investigations about these borrowers, their operations and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigation.

- - SMALL AND MEDIUM SIZED BUSINESSES GENERALLY HAVE LESS PREDICTABLE OPERATING RESULTS. We expect that our borrowers may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position or

may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders. A borrower's failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower's ability to repay our loan would be jeopardized.

- - SMALL OR MEDIUM SIZED BUSINESSES ARE MORE LIKELY TO BE DEPENDENT ON ONE OR TWO PERSONS. Typically, the success of a small or medium sized business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our borrower and, in turn, on us.

- - SMALL AND MEDIUM SIZED BUSINESSES ARE LIKELY TO HAVE GREATER EXPOSURE TO ECONOMIC DOWNTURNS THAN LARGER BUSINESSES. We expect that our borrowers will have fewer resources than larger businesses and an economic downturn is more likely to have a material adverse effect on them. If one of our borrowers is adversely impacted by an economic downturn, its ability to repay our loan would be diminished.

- - SMALL AND MEDIUM SIZED BUSINESSES MAY HAVE LIMITED OPERATING HISTORIES. While we intend to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Borrowers with limited operating histories will be exposed to all of the operating risks that are faced by new businesses and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

We may not realize gains from our equity investments

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

Because our loans and equity securities are not publicly traded, there will be uncertainty regarding the value of our privately held securities which could adversely affect our determination of our net asset value

None of our portfolio loans or equity securities, at least initially, will be publicly traded or have a readily determinable market value. We will value these securities based on a determination of their fair value made in good faith by management and approved by our board of directors. Due to the uncertainty inherent in valuing these securities, as set forth in our financial statements, our determinations of fair value may differ materially from the values that would exist if a ready market for these securities existed. Our net asset value could be materially affected if our determinations regarding the fair value of our investments are materially different from the values that we ultimately

realize on our disposal of such securities.

The lack of liquidity of our privately held securities may adversely affect our business

Most of our investments will consist of loans and warrants acquired in private transactions directly from borrowers or from the originators of loans to such borrowers. Substantially all of these securities will be subject to restrictions on resale, including, in some instances, legal restrictions, or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important business opportunities. In addition, if we are required to quickly liquidate all or a portion of

our portfolio, we may realize significantly less than the value at which we have previously recorded our investments.

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

We intend to have outstanding loans to approximately 20 to 40 companies at any given time. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such loans or a substantial writedown of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry diversification, and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the value of our portfolio companies change, one industry or a group of industries may comprise in excess of 25% of the value of our total assets. As a result, a downturn in an industry in which we have made multiple loans could have a materially adverse effect on us.

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

Our business will require a substantial amount of cash to operate in addition to the proceeds of this offering. We may acquire such additional capital from the following sources:

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

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

- - SECURITIZATION. In addition to issuing securities to raise capital as described above, we anticipate that in the future, we will securitize our loans to generate cash for funding new investments. An inability to successfully securitize our loan portfolio could limit our ability to grow

our business, fully execute our business strategy and impact our profitability. For a detailed description of our securitization strategy, see "Management's discussion and analysis of financial condition and results of operations--Financial Condition, Liquidity and Capital Resources" and "Business--Securitization."

Risk factors

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

A portion of our income will depend upon the difference between the rate at which we borrow funds and the rate at which we loan these funds. We anticipate using a combination of equity and long-term and short-term borrowings to finance our lending activities. Certain of our borrowings may be at fixed rates and others at variable rates. Currently, we expect approximately 50% of the loans in our portfolio to be at fixed rates and approximately 50% to be at variable rates determined on the basis of a benchmark prime rate. We will typically seek to hedge against the risk of adverse movement in interest rates on our borrowings relative to our portfolio of assets. We expect to hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts. While hedging activities may insulate us against adverse fluctuations in interest rates, they may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to obtain a credit facility on terms that are acceptable to us

Once the proceeds of this offering are substantially invested, we will have a continuing need for capital to finance our loans. In order to maintain RIC status, we will be required to distribute to our stockholders at least 90% of our ordinary income and short-term capital gains on an annual basis. Accordingly, such earnings will not be available to fund additional loans. Therefore, we will need to raise additional capital which, as noted above, we expect to finance through a credit facility. A credit facility is an agreement with a bank or other traditional lending institution which would allow us to borrow funds, either through a term loan or a line of credit, to make investments. We can not assure you that, once we have substantially fully invested the proceeds of this offering, we will be able to obtain a credit facility on terms that we find acceptable, if at all. The unavailability of funds from commercial banks or other sources on favorable terms could inhibit the growth of our business and have a material adverse effect on us. See "Management's discussion and analysis of financial condition and results of operations--Financial Condition, Liquidity and Capital Resources" and "Distributions."

Our expected credit facility will likely impose certain limitations on us

While there can be no assurance that we will be able to borrow from banks and other financial institutions, we expect that we will at some time in the future obtain a credit facility. The lender or lenders under this credit facility will have fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets. We also expect our credit facility to contain customary default provisions such as a minimum net worth amount, a profitability test, a restriction on changing our business and loan quality standards. An event of default under our expected credit facility would likely result, among other things, in termination of further funds availability under that facility and an accelerated maturity date for all amounts outstanding under the facility which would likely disrupt the portfolio companies whose loan we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our facility until the lender has been paid in full, reduce our liquidity and cash flow.

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

We expect that it will take approximately one year for the net proceeds of this offering to be substantially invested. Since we generally intend to make five to seven year term loans and to hold our loans and related warrants until the loans mature, you should not expect realization events, if any, to occur over the near term. In addition, we expect that our warrants may require several years to appreciate in value and no assurance can be given that such appreciation will occur.

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

To maintain our qualification as a RIC, we must meet income source, asset diversification and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. Because we intend to use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create "original issue discount," which we must recognize as ordinary income, increasing the amounts we are required to distribute to maintain RIC status. Because such warrants will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we will need to use cash from other sources to satisfy such distribution requirements. The asset diversification requirements must be met at the end of each calendar quarter. Failure to meet these tests may result in our having to quickly dispose of certain investments in order to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our shares. For additional information regarding asset coverage ratio and RIC requirements, see "Business--Leverage," "Material US federal income tax considerations" and "Regulation."

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

Our executive officers and directors serve or may serve as officers and directors of entities who operate in the same line of business as we do. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, David Gladstone, our chairman and chief executive officer, is, and following this offering will continue to be, the vice chairman of American Capital Strategies, Ltd., a leveraged buyout fund and mezzanine debt lender. It is possible that new investment opportunities that meet our investment objectives may come to the attention of one of our executive officers or directors, such as Mr. Gladstone, in his role as an officer or director of another entity, and, if so, such opportunity might not be offered to or otherwise made available to us. However, Mr. Gladstone is under no obligation to offer any opportunity to American Capital that comes to his attention outside of his role as vice chairman of American Capital.

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

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

We may experience fluctuations in our quarterly results

We could experience fluctuations in our quarterly operating results due to a number of factors including, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

RISKS RELATING TO THIS OFFERING

There is a risk that you may not receive dividends or that our dividends may not grow over time

Our current intention is to distribute at least 90% of our ordinary income and

short-term capital gains to our stockholders on a quarterly basis. We currently expect to retain net realized long-term capital gains to supplement our equity capital and support the growth of our portfolio, although our board of directors may determine in certain cases to make a distribution of long-term capital gains. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. For a discussion of the tax consequences to you of net realized long-term capital gains that we retain, see "Material US federal income tax considerations."

Provisions of our articles of incorporation and bylaws could deter takeover attempts and adversely impact the price of our common stock

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

The market price of our common stock may fluctuate significantly

The market price and marketability of shares of our common stock may from time to time be significantly affected by numerous factors, including many over which we have no control and that may not be directly related to us. These factors include the following:

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

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

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

- - loss of RIC status;

- - changes in earnings or variations in operating results;

- - changes in the value of our portfolio of investments;

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

- - departure of key personnel;

- - operating performance of companies comparable to us;

- - general economic trends and other external factors; and

- - loss of a major funding source.

Fluctuations in the trading price of our common stock may adversely affect the liquidity of the trading market for our common stock and, in the event that we seek to raise capital through future equity financings, our ability to raise such equity capital.

Prior to this offering, there has been no public market for our common stock and we can not assure you that the market price of our shares will not decline following the offering

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price will be determined through negotiations between us and the underwriters. See "Underwriting" for a discussion of factors to be considered in determining the initial public offering price. We can not assure you that a regular trading market for our common stock will develop after this offering or, if one develops, that a public trading market can be sustained. The initial public offering price will not

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

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

Upon consummation of this offering, we will have 13,052,631 shares of common stock outstanding (or 14,912,631 shares of common stock, if the over-allotment option is fully exercised). Following this offering, sales of substantial amounts of our common stock in the public market, pursuant to Rule 144 or otherwise, or the availability of such shares for sale, could adversely affect the prevailing market prices for our common stock. If this occurs, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so. Following this offering, 12,400,000 shares of our common stock will be freely transferable (or 14,260,000 shares of common stock if the over-allotment option is fully exercised), except to the extent that shares are purchased in this offering by our affiliates. For additional information on the transferability of our shares, see "Shares eligible for future sale."

Use of proceeds

We estimate that the net proceeds of this offering will be approximately $ ($ 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 approximately $57 million of the net proceeds of this offering to fulfill our non-binding commitments to make five loans as described under "Prospective portfolio companies." Each of our non-binding loan commitments is conditioned upon the closing of this offering and, among other things, the satisfactory completion of our due diligence investigations of each borrower, acceptance of the terms and structure and receipt of necessary consents. We will invest the remainder of the net proceeds in accordance with our investment objectives and policies. See "Business--Strategy" and "Investment objectives and policies" for additional information regarding our investment objectives and policies. We estimate that it will take approximately one year for us to substantially invest the net proceeds of this offering, depending on the availability of appropriate opportunities and market conditions. Pending such investment, we will primarily invest the net proceeds in money market instruments. There can be no assurance that we will be able to achieve our targeted investment pace. See "Business--Temporary Investments" for additional information about temporary investments we may make while waiting to make loans.

Distributions

We intend to distribute quarterly 90% or more of our ordinary income and short-term capital gains, if any. We intend to declare our first distribution approximately 90 days after the date of this prospectus. While we currently intend to retain any net realized long-term capital gains to make additional loans, we may distribute them annually as a special distribution. For a discussion of the consequences to you of net realized long-term capital gains that we retain, see "Material US federal income tax considerations." There can be no assurance that we will achieve results that will permit the payment of any cash distributions and, if we incur debt, we will be prohibited from making distributions if doing so causes us to fail to maintain asset coverage ratios stipulated by the 1940 Act.

All cash distributions will be distributed to you unless you elect to have your dividends reinvested under our dividend reinvestment plan in additional whole and fractional shares. If you hold your shares in the name of a broker or other nominee, you should contact the broker or nominee regarding participation in the dividend reinvestment plan on your behalf. See "Risk factors--Risks Relating to Our Business and Structure--We will be subject to corporate level tax if we are unable to satisfy Internal Revenue Code requirements for RIC qualification" and "Dividend reinvestment plan" for additional information regarding distributions.

Capitalization

The following table sets forth (1) our actual capitalization at May 30, 2001 and (2) our capitalization at May 30, 2001, as adjusted to reflect the effects of the sale of our common stock offered in this offering at an assumed public offering price of $15.00. This table should be read in conjunction with "Use of proceeds" and our balance sheet included elsewhere in this prospectus.

<TABLE>
<CAPTION>

	Actual	As Adjusted(1) (Unaudited)
<S>	<C>	<C>
Assets:		
Stock Subscription Receivable	$ 652,631	
Total Assets	$ 652,631	
Stockholders' equity:		
Common Stock, $0.001 par value per share; 10,000,000 shares authorized, 652,631 shares outstanding, actual; 50,000,000 shares authorized, 13,052,631 shares outstanding, as adjusted	$ 653	
Capital in excess of par value	651,978	
Total Stockholders' Equity	$ 652,631	

</TABLE>

(1) DOES NOT INCLUDE THE UNDERWRITERS' OVER-ALLOTMENT OPTION OF 1,860,000 SHARES.

Management's discussion and analysis of financial condition and results of operations

We are a newly formed company and have only recently commenced operations. Therefore, we do not have any meaningful operations to discuss. Please see "Risk factors--Risks Relating to Our Business and Structure--We are a new company with no operating history" for a discussion of risks relating to our lack of historical operations. The following analysis of our financial condition should be read in conjunction with our balance sheet and the notes thereto and the other financial data included elsewhere in this prospectus.

OVERVIEW

Gladstone Capital Corporation was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. Our investment objectives are 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, with a particular emphasis on senior subordinated notes. In addition, we may acquire existing loans that meet this profile from leveraged buyout funds, venture capital funds and others. We will 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 will operate as a closed-end, non-diversified management investment company and, prior to completion of this offering, we will elect to be treated as a business development company under the 1940 Act. This offering will significantly increase our capital resources.

We will target small and medium sized businesses that meet certain criteria, including, (1) the potential for growth in cash flow, (2) adequate assets for loan collateral, (3) experienced management teams with significant ownership interest in the borrower, (4) profitable operations based on the borrower's cash flow, (5) reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds) and (6) the potential for us to realize appreciation and gain liquidity in our equity position. We anticipate that this

liquidity will be achieved through a merger or acquisition of the borrower, a public offering by the borrower or by our exercise of a right to require the borrower to buy back our warrants. We expect to make loans to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control.

As a business development company, we will make available significant managerial assistance to our portfolio companies. Such assistance will typically involve closely monitoring the operations of each company, participating in its board and management meetings, being available for consultation with its officers and providing organizational and financial guidance.

We expect that our loans typically will range from $5 million to $15 million, mature in no more than seven years, and accrue interest at a fixed rate or an annualized variable rate that exceeds the prime rate. We expect that most if not all of the debt securities we acquire will be unrated. To the extent possible, our loans generally will be collateralized by a security interest in the borrower's assets. Interest payments will generally be made monthly or quarterly with amortization of principal generally being deferred for several years. The principal amount of the loans and any accrued but unpaid interest will generally become due at maturity at five to seven years. We will focus on making loans accompanied by warrants to purchase stock in the borrowers. These warrants will typically have a nominal exercise price and entitle us to purchase a modest percentage of the borrower's stock.

Management's discussion and analysis of financial condition and results of operations

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Our sources of funds will primarily be the net proceeds of this offering, operating cash flows and borrowings. Immediately after this offering, we expect to have cash resources in excess of $ million and no indebtedness. For additional information regarding the proceeds from this offering, see "Use of proceeds."

Following completion of this offering, we expect to fulfill our non-binding commitments to make five loans in an aggregate amount of approximately $57 million. Each non-binding loan commitment is conditioned upon the closing of this offering and, among other things, the satisfactory completion of our due diligence investigations of each borrower, the acceptance of terms and structure and receipt of necessary consents. In many instances, the loans will also require prior approval of the borrower's other lenders. For a description of the material terms of these commitments, see "Prospective portfolio companies."

We currently intend to pursue a strategy of securitizing our loan portfolio 12 to 18 months after completion of this offering. We would use the cash we receive upon the sale of interests in our loans to repay bank borrowings and make additional loans. There can be no assurance that this securitization strategy will be successful. For additional information on our securitization strategy, see "Business--Securitization."

In order to qualify as a regulated investment company and to avoid corporate level tax on the income we distribute to our stockholders, under Subchapter M of the Internal Revenue Code we are required to distribute at least 90% of our ordinary income and short-term capital gains on an annual basis. While we will provide stockholders with the option of reinvesting their distributions in more of our common stock, we anticipate borrowing funds to obtain additional capital once the proceeds of this offering have been fully invested. For additional information regarding our distribution policies and requirements, see "Distributions," "Business--Leverage" and "Dividend reinvestment plan."

Business

Gladstone Capital Corporation is a specialty finance company that was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. During June 2001, we entered into separate non-binding loan commitments with five potential borrowers. Extension of these loans is conditioned upon the closing of this offering and, among other things, the

satisfactory completion of our due diligence investigations of each borrower, acceptance of the terms and structure and receipt of necessary consents. Neither we nor any of the potential borrowers are required to enter into a loan arrangement under the non-binding loan commitments. However, our intention is to enter into binding loan agreements with each of these borrowers following completion of this offering, and to fulfill our funding obligations from the proceeds of the offering. After this offering, we plan to invest 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, with a particular emphasis on senior subordinated notes. We will also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants or other equity instruments that we may receive when we make loans. Our headquarters are in McLean, Virginia, a suburb of Washington, DC. We also plan to open an office in New York, New York. Prior to the completion of this offering, we will elect to be treated as a business development company under the 1940 Act.

David Gladstone, our chairman and chief executive officer, has over 25 years experience in making loans to and investing in small and medium sized companies at Allied Capital Corporation and American Capital Strategies. Allied Capital Corporation is a publicly traded subordinated debt lender and American Capital Strategies is a publicly traded buyout and subordinated-debt lender. While either chairman or president of Allied Capital, Mr. Gladstone oversaw, during the years 1992 through 1997, in excess of $850 million of financing for many small and medium sized businesses and raised, during the years 1985 through 1997, equity capital totaling an aggregate of over $430 million for seven funds. During the past four years, as either chairman or vice chairman of American Capital Strategies, Mr. Gladstone raised the company's initial $150 million in capital and assisted in the company's subsequent capital raising. During his tenure, American Capital Strategies has invested in 46 businesses and currently has total assets of approximately $650 million. During his time at these two companies he hired over 50 professionals.

Terry Lee Brubaker, our president and chief operating officer, has over 25 years experience in acquisitions and managing companies after the acquisition. He was a co-architect and assisted in the implementation of the acquisition strategy of James River Corporation that grew the company from $200 million in revenues to over $7 billion.

Our chief financial officer, Harry Brill, brings significant experience from his role as the chief accounting officer of Allied Capital where he was responsible for the public filings of a family of five public companies and oversaw the preparation of the operating reports and financial statements of these five public companies and three private funds. In addition to Messrs. Gladstone and Brubaker, we currently have three professionals, which we call principals, who are involved in structuring and arranging financing for small and medium sized businesses. Upon completion of this offering, we plan to hire an additional four professionals with business lending experience (two in our Virginia office and two in New York) and two administrative persons. We believe that the expertise of our investing professionals will help us to be successful in lending to small and medium sized businesses.

We intend to make loans to companies that are substantially owned by leveraged buyout or venture capital funds. We believe that, through Messrs. Gladstone and Brubaker, we have an extensive referral network comprised of venture capitalists, leveraged buyout funds, investment bankers, attorneys, commercial bankers and business and financial brokers. We believe that these entities will be an important source of loan opportunities. We intend to enter into additional informal relationships with other leveraged buyout

funds and venture capital funds, but we can not assure you that we will be able to do so or that any such relationships will lead to the origination of loans.

Our five non-binding loan commitments currently constitute all of our commitments to invest. In connection with the fulfillment of these commitments, we expect to receive warrants to purchase an equity interest in each of the borrowers. For a detailed description of the proposed borrowers and our loan commitments, see "Prospective portfolio companies."

STRATEGY

We intend to make loans at favorable interest rates to small and medium sized businesses that we believe have traditionally been underserved by conventional lenders. We plan to use the established loan referral network of

Messrs. Gladstone and Brubaker, as well as our principals, to identify and make senior and subordinated loans to selected businesses that we do not believe have sufficient access to traditional sources of lending. We expect to make loans to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control, all of which we believe are typically underserved by banks and other traditional institutional lenders.

Our business strategy contemplates that (1) the net capital gains from the sale of the warrants (or stock underlying such warrants) we receive in connection with our lending activities will exceed any losses we may experience from loan defaults, and (2) the fee income we derive from our lending will provide us with a source of revenue in excess of our general and administrative expenses (excluding interest expense). We cannot assure you that we will be able to achieve our investment objectives or that our business strategy will be successful.

We believe that many opportunities exist to provide loans to small and medium sized businesses and we plan to take advantage of these opportunities. According to the US Small Business Administration, from 1982 to 1995, the number of small businesses increased by 49%. In addition, in 1999, small businesses employed 52% of the private sector work force, contributed 47% of all sales in the United States, were responsible for 51% of the private gross domestic product and produced an estimated 75% of new jobs.

We believe that the market for commercial loans to these small and medium sized businesses is underserved for a number of reasons. First, traditional lenders, such as commercial banks and savings and loans, are generally burdened with an overhead and administrative structure and operate in a regulatory environment that hinders them from lending effectively to these businesses. Second, consolidation in the banking industry during the past decade has decreased the number of banks willing to lend to small and medium sized businesses, as the larger acquiring banks have sought to limit both the credit exposure and monitoring costs associated with loans to smaller businesses. Third, the banking and savings and loan industries have experienced structural and regulatory changes that have greatly affected their ability to make funds available for loans to small and medium sized businesses. Additionally, we believe that many small and medium sized businesses prefer to obtain financing from non-bank finance companies rather than federally insured financial institutions that they perceive to be subject to regulatory pressure to demand the repayment of loans when the borrower encounters a period of economic difficulties. In October 2000, the Office of the Comptroller of the Currency released its Shared National Credit Report on syndicated loans. This report was a review of bank loans or formal loan commitments in excess of $20 million that are shared by three or more lenders subject to supervision by a federal bank regulatory agency. "Classified" loans, defined as loans that do not meet credit standards set by the US government and which include loans classified as "substandard," "doubtful" and "loss," increased to 3.3% of all loans reviewed as of March 31, 2000, up from 2.0% as of March 31, 1999 and 1.3% as of March 31, 1998. We believe that this unfavorable report has caused most banks to tighten the requirements necessary for making business loans. As a result of this tightened credit, fewer bank loans are available to medium and small businesses. We

believe that we can provide some of the loans that banks are not providing, however we cannot assure you that we will be able to fulfill this objective.

We believe that we are well positioned to provide financing to small and medium sized businesses that are undergoing a change of ownership, including management-led and third party leveraged buyouts, or have strong growth characteristics. We are not burdened with the capital and other regulatory requirements of the banking and savings and loan industries and we have relatively low overhead and administrative expenses. Moreover, our strategy of accepting warrants to purchase stock of our borrowers is intended to closely align our interests with those of our portfolio companies, thereby reducing transaction costs, conveying our commitment to the borrowers and enhancing our attractiveness as a financing source. Perhaps most importantly, we believe that we have the experience and expertise to satisfy the financing needs of such businesses. In particular, we intend to utilize Mr. Gladstone's 25 years of experience in financing small to medium sized private businesses and Mr. Brubaker's extensive experience in acquisitions and operations to realize a competitive advantage. We plan to use the established network of loan referral sources, consisting of relationships established over many years by

Messrs. Gladstone, Brubaker and our principals, to generate opportunities to identify and make senior and subordinated loans to selected businesses that satisfy our investment criteria. We intend to enter into additional informal relationships with leveraged buyout funds and venture capital funds, but no assurance can be given that we will be able to do so.

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

As a general philosophy the Company will invest in businesses that respect workers' rights and in businesses that have a commitment to partnering with workers. The Company will seek investments in businesses that create jobs rather than reduce jobs. And the Company will look more favorably on businesses that have a policy of neutrality towards unions.

As a business development company, we will make available significant managerial assistance to our portfolio companies. Such assistance will typically involve closely monitoring the operations of each borrower, participating in its board and management meetings, being available for consultation with its officers, and providing organizational and financial guidance.

We expect to invest in senior, senior subordinated and junior subordinated notes, with an emphasis on senior subordinated notes. We expect that our loans typically will range from $5 million to $15 million, mature in no more than seven years, and accrue interest at a fixed rate or an annualized variable rate that exceeds the prime rate. We expect that most if not all of the debt securities we acquire will be unrated. To the extent possible, our loans generally will be collateralized by a security interest in the borrower's assets though we may not have the first claim on these assets. Interest payments will generally be made monthly or quarterly with amortization of principal generally being deferred for several years. The principal amount of the loans and any accrued but unpaid interest will generally become due at maturity at five to seven years. We will focus on making loans accompanied by warrants to purchase stock in the borrowers. These warrants will typically have a nominal exercise price and entitle us to purchase a modest percentage of the borrower's stock.

From time to time, a portfolio company may request additional financing, providing us with additional lending opportunities. We will consider such requests for additional financing under the criteria we have

established for initial investments and we anticipate that any debt securities we acquire in such follow-on financing will have characteristics comparable to those issued in the original financing. In some situations, our failure, inability or decision not to make a follow-on investment may be detrimental to the operations or survival of a portfolio company and thus jeopardize our investment in that borrower.

As noted above, we expect to receive warrants to purchase stock in many of our borrowers. If a financing is successful, not only will our debt securities have been repaid with interest, but we will be in a position to realize a gain on the accompanying equity interests. The opportunity to realize such gain may occur if the borrower is sold to new owners or if it makes a public offering of its stock. In most cases, we will not have the right to require that a borrower undergo an initial public offering by registering securities under the Securities Act of 1933, which we refer to as the Securities Act, but we generally will have the right to sell our equity interests in any subsequent public offering by the borrower. Even when we have the right to participate in a borrower's public offering, the underwriters might insist, particularly if we own a large amount of equity securities, that we retain all or a substantial portion of our shares for a specified period of time. Moreover, we may decide not to sell an equity position even when we have the right and the opportunity to do so. Thus, although we expect to dispose of an equity interest after a certain time, situations may arise in which we hold equity securities for a longer period.

In certain cases, we may receive the right, which we refer to as a put right, to require the borrower to repurchase the warrants from us. When no public offering is available, we may exercise our put rights to dispose of our equity interest

in the borrower, although our ability to exercise put rights may be limited or nonexistent if a business is illiquid since it would be unlikely to have the cash available to honor the put right. Similarly, we anticipate that we may obtain the right, which we refer to as an unlocking right, to require that the borrower purchase our warrants or stock if it rejects a bona fide third party acquisition offer. The unlocking rights may allow us to sell our equity interests back to the borrower at the price offered by the potential acquirer.

In addition to the put rights and unlocking rights described above, when one of our portfolio companies does go public, we may undertake hedging strategies with regard to our equity interests in the portfolio company. We may mitigate risks associated with the volatility of publicly-traded securities through means such as selling securities short or writing or buying call or put options. Hedging against a decline in the value of such investments in public companies would not eliminate fluctuations in the values of such investments or prevent losses if the values of such investments decline, but would establish other investments designed to gain from those same developments. Therefore, by engaging in hedging transactions we can moderate the decline in the value of our hedged investments in public companies. However, such hedging transactions would also limit our opportunity to gain from an increase in the value of our investment in the public company. While we currently hold no securities of any publicly traded companies, and therefore have no immediate plans to undertake any such hedging activities, it may be prudent for us to do so in the future. It should be noted that hedging strategies do pose risks to us and our stockholders. However, we believe that such activities, because they will be limited to only a portion of our portfolio, are manageable.

It should also be noted that Section 12(a)(3) of the 1940 Act prohibits us "in contravention of such rules and regulations or orders as [the SEC] may prescribe as necessary or appropriate in the public interest or for the protection of investors . . . to effect a short sale of any security . . ." However, to date, the SEC has not promulgated regulations under this statute. It is possible that such regulations could be promulgated in the future in a way that would require us to change any hedging strategies that we may adopt. We will only engage in any such hedging activities in compliance with applicable law and regulations.

In an effort to increase our returns and the number of loans that we can make, we anticipate that we will seek to securitize our loans. To securitize loans, we would create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. Then we would seek to have the pool of loans in the subsidiary rated by

rating agencies. Once the pool of loans is rated, we would then sell interests in the pool of loans to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment-grade loan pools. We would use the proceeds of such sales to pay down bank debt or to make or purchase new loans. There are risks associated with this strategy since we intend to retain the non-investment grade portion of the subsidiary, rather than to securitize it, and the unrated portion of the subsidiary is the one most likely to generate losses. We do not intend to securitize any warrants that we receive in connection with any loans we make.

SELECTION OF LOAN OPPORTUNITIES

We have identified certain characteristics that we believe are important to profitably lend to small and medium sized businesses. The criteria listed below will provide a general guidepost for our lending and investment decisions, although not all of these criteria may be followed in each instance:

- - GROWTH. In addition to generating sufficient cash flow to service its debt, a potential borrower generally will be required to establish its ability to grow its cash flow. Anticipated growth will be a key factor in determining the value ascribed to the warrants we acquire in connection with many of our loans.

- - SIGNIFICANT SPONSOR. We will seek out businesses that have been invested in by leveraged buyout funds or venture capital funds. We believe that having a substantial equity sponsor that has made a meaningful investment in the business is the hallmark of a good borrowing candidate.

- - LIQUIDATION VALUE OF ASSETS. Although we do not intend to operate as an

asset-based lender, liquidation value of the assets collateralizing our loans will be an important factor in each credit decision. Emphasis will be placed both on tangible assets (accounts receivable, inventory, plant, property and equipment) as well as intangible assets such as customer lists, networks, databases and recurring revenue streams.

- - EXPERIENCED MANAGEMENT TEAM. We will generally require that each borrower have a management team that is experienced and properly incentivized through a significant ownership interest in the borrower. We generally will require that a borrower have, at a minimum, a strong chief executive officer and chief financial officer who have demonstrated the ability to accomplish the borrower's objectives and implement its business plan.

- - PROFITABLE OR NEAR PROFITABLE OPERATIONS. We will focus on borrowers that are profitable or near profitable at the operating level. We do not intend typically to lend to or invest in start-up or other early stage companies, nor do we intend typically to lend to or invest in businesses that are experiencing operating problems.

- - EXIT STRATEGY. Prior to making a loan that is accompanied by a warrant to purchase stock of the borrower, we will analyze the potential for the borrower to experience a liquidity event that will allow us to realize value for our equity position. Liquidity events include, among other things, an initial public offering, a private sale of our financial interest, a merger or acquisition of the borrower or a purchase of our equity position by the borrower or one of its stockholders.

OPERATIONS

- - ORIGINATION PROCESS. Including Messrs. Gladstone and Brubaker, we currently have five professionals responsible for originating loans and investments and providing financial assistance to small and medium sized businesses and one person responsible for loan accounting. Upon completion of this offering, we plan to hire two additional professionals with substantial business lending experience and two additional persons to handle administration. All of these employees will operate out of our headquarters in McLean, Virginia. We also plan to hire two additional loan officers in New York, New

York, with substantial business lending experience. To originate loans, our lending officers will use an extensive referral network comprised of venture capitalists, leveraged buyout funds, investment bankers, attorneys, accountants, commercial bankers and business brokers. We intend to enter into additional informal relationships with leveraged buyout funds and venture capital funds, but no assurance can be given that we will be able to do so.

- - APPROVAL PROCESS. Our lending professionals will review informational packages in search of potential financing opportunities and will conduct a due diligence investigation of each applicant that passes an initial screening process. This due diligence investigation generally will include one or more on-site visits, a review of the potential borrower's historical and projected financial information, interviews with management, employees, customers and vendors of the applicant, and background checks and research on the applicant's product, service or particular industry. Upon completion of the due diligence investigation, our financial professional will create a borrower profile summarizing the prospective borrower's historical financial statements, industry and management team and analyzing its conformity to our general investment criteria. Our lending professional will then present this profile to our credit committee, which will initially be comprised of David Gladstone and Terry Lee Brubaker. Our credit committee must unanimously approve each loan and each member of our board of directors must affirmatively review each financing.

COMPETITION

Our primary competitors will include financial institutions, leveraged buyout funds, venture capital firms, mezzanine partnerships, hedge funds, and other

nontraditional lenders. Many of these entities have greater financial and managerial resources than we will have. For additional information concerning the competitive risks we face, see "Risk factors--Risks Relating to Our Business and Structure--We operate in a highly competitive market for investment opportunities."

EMPLOYEES

We currently have five lending officers, all of whom are professionals working on financings for small and medium sized businesses. Upon completion of this offering, we intend to hire four additional professionals with business lending experience and two additional administrative personnel. We believe that our relations with our employees are excellent. We intend to maintain a relatively low level of overhead by outsourcing most job functions not directly related to marketing, underwriting our investments or our executive management.

TEMPORARY INVESTMENTS

Pending investment in other types of "qualifying assets," as described under "Regulation," we will invest our otherwise uninvested cash primarily in cash, cash items, government securities or high quality debt securities maturing in one year or less from the time of investment in such high quality debt investments, which we refer to collectively as temporary investments, so that 70% of our assets are qualifying assets. For additional information regarding regulations to which we are subject, see "Regulation." Typically, we will invest in US Treasury bills or in repurchase obligations of a "primary dealer" in government securities, as designated by the Federal Reserve Bank of New York, or of any other dealer whose credit has been established to the satisfaction of the board of directors. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an

amount that reflects an agreed-upon interest rate. Such interest rate is effective for the period of time during which the investor's money is invested in the arrangement and is related to current market interest rates rather than the coupon rate on the purchased security. Our custodian, or the correspondent in its account with the Federal Reserve/Treasury Book Entry System, will be required to constantly maintain underlying securities in an amount at least equal to the repurchase price. If the seller were to default on its repurchase obligation, we might suffer a loss to the extent that the proceeds from the sale of the underlying security were less than the repurchase price. A seller's bankruptcy could delay or prevent a sale of the underlying securities. Our board of directors has established procedures, which it will review periodically, requiring us to monitor the creditworthiness of the dealers with which we enter into repurchase agreement transactions.

LEVERAGE

For the purpose of making investments other than temporary investments and to take advantage of favorable interest rates, we intend to issue senior debt securities, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us to issue senior debt securities and preferred stock, which we refer to collectively as senior securities, in amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of senior securities. Such indebtedness may also be incurred for the purpose of effecting repurchases of our common stock. As a result of issuing senior securities, we would become exposed to the risks of leverage. For information regarding the risks associated with leverage, see "Risk factors--Risks Relating to Our Business and Structure--Our business plan is dependent upon external financing which may expose us to risks associated with leverage." We do not, however, intend to leverage ourselves so long as we hold cash or temporary investments in an amount sufficient to fund the amount of investments, other than temporary investments, we project to make in the 12 months following the completion of this offering. See "Description of our capital stock--Preferred Stock" and "Regulation." As permitted by the 1940 Act, we may, in addition, borrow amounts up to 5% of our total assets for temporary purposes.

SECURITIZATION

In an effort to increase our returns and the number of loans that we can make,

we anticipate that we will seek to securitize our loans. To securitize loans, we would create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. Then we would seek to have the pool of loans in the subsidiary rated by rating agencies. Once the pool of loans is rated, we would then sell interests in the pool of loans to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment-grade loan pools. We would use the proceeds of such sales to pay down bank debt or to make or purchase new loans. There are risks associated with this strategy since we intend to retain the non-investment grade portion of the subsidiary, rather than to securitize it, and the unrated portion of the subsidiary is the one most likely to generate losses. We do not intend to securitize any warrants that we receive in connection with any loans we make.

Investment objectives and policies

Our investment objectives are 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, with a particular emphasis on senior subordinated notes. We will 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. The following restrictions, along with these investment objectives, are our only fundamental policies, which are policies that may not be changed without the approval of the holders of the majority of our outstanding voting securities, as defined in the 1940 Act. The percentage restrictions set forth below, other than the restriction pertaining to the issuance of senior securities, as well as those contained elsewhere in this prospectus, apply at the time a transaction is effected, and a subsequent change in a percentage resulting from market fluctuations or any cause other than an action by us will not require us to dispose of portfolio securities or to take other action to satisfy the percentage restriction.

We will at all times conduct our business so as to retain our status as a business development company. In order to retain that status, we may not acquire any assets (other than non-investment assets necessary and appropriate to its operations as a business development company) if after giving effect to such acquisition the value of our "qualifying assets" amounts to less than 70% of the value of our total assets. For a summary definition of "qualifying assets," see "Regulation." We anticipate that the securities we seek to acquire (provided that we control or, through our officers or other participants in the financing transaction, make significant managerial assistance available to the issuers of these securities), as well as temporary investments, will generally be qualifying assets. Securities of public companies, on the other hand, are generally not qualifying assets unless they were acquired in a distribution, in exchange for, or upon the exercise of, a right relating to securities that were qualifying assets.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act. We may invest up to 20% of our assets in securities of a particular issuer. We may exceed this limitation in connection with bridge financings, although these bridge investments will never exceed 25% of our total assets at any time. We do not intend to concentrate our investments in any particular industry or group of industries. However, it is possible that as the value of our portfolio companies change, one industry or a group of industries may comprise in excess of 25% of the value of our total assets.

We will at all times endeavor to conduct our business so as to retain our status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986. In order to do so, we must meet income source, asset diversification and annual distribution requirements. To meet the income source requirements, at least 90% of our gross income for each taxable year must be from dividends, interest payments with respect to loans, gains from sales or other disposition of securities or other income derived with respect to our business of investing in securities. To meet the asset diversification requirements, as of the close of each quarter, at least 50% of the value of our assets must consist of cash, cash items, US government securities, the securities of other regulated investment companies and other securities to the extent that (1) we do not hold more than 10% of the voting securities of an issuer of such other securities and (2) such other securities of any one issuer do not represent more than 5% of our total assets. Finally, no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than US government securities or the securities of other regulated investment companies), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses. To meet the annual distribution requirement, we must distribute 90% or more of our ordinary

income and short-term capital gains, if any, on an annual basis.

We may issue senior securities, such as debt or preferred stock, to the extent permitted by the 1940 Act for the purpose of making investments, to fund share repurchases, or for temporary emergency or other purposes. As a business development company, we may issue senior securities up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% immediately after each issuance of senior securities. For a discussion of the risks associated with the resulting leverage, see "Risk factors--Risks Relating to Our Business and Structure--Our business plan is dependent upon external financing which may expose us to risks associated with leverage."

We will not (1) act as an underwriter of securities of other issuers (except to the extent that we may be deemed an "underwriter" of securities we purchase that must be registered under the Securities Act before they may be offered or sold to the public); (2) purchase or sell real estate or interests in real estate or real estate investment trusts (except that we may (a) purchase and sell real estate or interests in real estate in connection with the orderly liquidation of investments (b) own the securities of companies or participate in a partnership or partnerships that are in the business of buying, selling or developing real estate or (c) finance the purchase of real estate by our portfolio companies); (3) sell securities short (except with regard to managing the risks associated with publicly-traded securities issued by our portfolio companies); (4) purchase securities on margin (except to the extent that we may purchase securities with borrowed money); (5) write or buy put or call options (except (a) to the extent of warrants or conversion privileges in connection with our acquisition financing or other investments and rights to require the issuers of such investments or their affiliates to repurchase them under certain circumstances, (b) with regard to managing risks associated with publicly-traded securities issued by portfolio companies or (c) with regard to managing the risks associated with interest rate fluctuations); (6) engage in the purchase or sale of commodities or commodity contracts, including futures contracts (except where necessary in working out distressed loan or investment situations or in managing the risks associated with interest rate fluctuations); or (7) acquire more than 3% of the voting stock of, or invest more than 5% of our total assets in any securities issued by any other investment company, except as they may be acquired as part of a merger, consolidation or acquisition of assets. With regard to that portion of our investments in securities issued by other investment companies, it should be noted that such investments may subject our stockholders to additional expenses.

INVESTMENT ADVISOR

We have no investment advisor and are internally managed by our executive officers under the supervision of our board of directors.

Prospective portfolio companies

The following descriptions set forth certain information regarding each business to which we have entered into a non-binding commitment to make a loan. We currently expect that each of these non-binding commitments will be satisfied from the net proceeds of this offering, assuming the closing of this offering and, among other things, the satisfactory completion of our due diligence investigations of each borrower, acceptance of the terms and structure and receipt of necessary consents. Unless otherwise noted, the only relationship between us and each prospective borrower is our non-binding loan commitment. Following the closing of this offering and the fulfillment of these loan commitments, the investments described below will be our only investments. In the aggregate, they will represent no more than 32% of our assets and no single investment will represent more than 11% of our assets. While we may make additional loans to these businesses, we have no present plans to make any such loans or investments that would raise our investment in any one business above 20% of our total assets. Any such additional loans and investments will be made in accordance with our investment policies and procedures.

Based on our due diligence investigations conducted to date, we believe that each of our potential portfolio loans described below will satisfy our general lending criteria (i.e., growth prospects, established business, experienced management, significant equity sponsor, potential exit strategy, etc.) and that all of the loans and warrants will be qualifying assets under the 1940 Act. For each loan, one of our lending professionals, either Mr. Gladstone, Mr. Brubaker

or one of our principals, has screened the potential borrower to determine satisfaction of our general lending criteria. Subsequently, we have initiated a due diligence investigation of the potential borrower and negotiated the terms of the non-binding commitment letter. Upon consummation of a loan, the same lending professional, under the supervision of our senior management, and according to the procedures of our internal credit committee, will be responsible for monitoring and servicing the loan. Each of the proposed borrowers described below are portfolio companies of Three Cities Research and came to our attention through Mr. Gladstone's relationship with Three Cities.

With respect to each of these non-binding commitments, we will only agree to provide the loan if, among other things, the results of our due diligence investigations are satisfactory to us, the terms and structure of the loans are acceptable to us and we have received all necessary consents. If, for any reason, we do not wish to make any one of the loans, we will not be obligated to do so. Similarly, none of the borrowers are obligated to receive a loan from us. Our management has initiated its due diligence of these businesses, however, there can be no assurance that we will not discover facts in the course of our due diligence that would render these investments imprudent nor that any of the loans described below will actually be made.

Garden Ridge Corporation (Houston, TX)

We have signed a non-binding commitment letter to provide a $20 million senior subordinated loan to Garden Ridge Corporation of Houston, Texas. Garden Ridge operates 35 large retail stores that sell merchandise for the home. The stores are located in 12 states in the Southwest and Southeast United States in urban growth areas with its highest store concentration in Texas. Garden Ridge was founded in 1979, went public in 1994 and was taken private in January 2000. The expected interest rate on the loan will be 10% per annum. As part of the loan, we expect to receive a warrant to purchase 1.8% of Garden Ridge's stock for a nominal exercise price. Mr. Gladstone has previous experience with Garden Ridge in connection with a loan made to Garden Ridge by Allied Capital while Mr. Gladstone was serving as chairman and chief executive officer of Allied Capital.

If we consummate the loan to Garden Ridge, it will constitute approximately 10.8% of our assets. The size of this loan will expose us to the risks associated with Garden Ridge's business. In particular, the home merchandise retail market in which Garden Ridge competes is very competitive and certain of Garden Ridge's competitors and potential competitors have greater financial resources and brand recognition than

it does. Additionally, we believe that the home merchandise retail market is susceptible to general economic conditions. A loss of market share to its competitors or an overall decline in retail spending in the home merchandise market could have a material adverse impact on Garden Ridge and its ability to repay our loan, which would likely have an adverse impact on us.

American Remanufacturing, Inc. (Anaheim, CA)

We have signed a non-binding commitment letter to provide $15 million in subordinated debt to ARI Holdings, Inc. (ARI), headquartered in Anaheim, California, and its parent company, American Remanufacturing, Inc. This debt is structured as an $8 million senior subordinated loan and a $7 million junior subordinated loan. Founded in 1997, ARI is one of the largest remanufacturers of auto parts in the United States. The expected interest rate on each loan will be 13% per annum. In connection with the loans, we expect to receive a warrant to buy 3.2% of ARI's stock for a nominal exercise price.

If we consummate the loan to ARI, it will constitute approximately 8.1% of our assets. The size of this loan will expose us to the risks associated with ARI's business. In particular, the automotive remanufacturing market in which ARI competes is very competitive and certain of ARI's competitors and potential competitors have greater financial resources than it does. We believe that, in 2000, 57% of ARI's sales were consolidated among five customers. Any loss of a significant customer by ARI could have a materially adverse impact on ARI and its ability to repay our loan, which would likely have an adverse impact on us.

Finn Corporation (Fairfield, OH)

We have signed a non-binding commitment letter to provide a $10.5 million senior subordinated loan to Finn Corporation of Fairfield, Ohio. Finn was founded in 1932 and is a leading designer, manufacturer and marketer of landscape and erosion control equipment. Finn's product line includes HydroSeeders-TM-, straw blowers, bark blowers, compact skid steers and other related products and services. The expected interest rate on the loan will be 13% per annum and we expect to receive a warrant to purchase 3.0% of Finn's stock for a nominal exercise price.

If we consummate the loan to Finn, it will constitute approximately 5.6% of our assets. The size of this loan will expose us to the risks associated with Finn's business. In particular, the landscape and erosion control equipment market in which Finn competes is very fragmented and competitive. Certain of Finn's competitors and potential competitors have greater financial resources than it does. We believe that in 2000, less than 50% of Finn's sales were consolidated among 10 customers. Any loss of a significant customer by Finn could have a materially adverse impact on Finn and its ability to repay our loan, which would likely have an adverse impact on us.

Morning Sun, Inc. (Tacoma, WA)

We have signed a non-binding commitment letter to provide a $6 million senior subordinated loan to Morning Sun, Inc., located in Tacoma, Washington. Founded in 1986, Morning Sun designs and manufactures custom imprinted and embroidered fleece and active wear on imported blank t-shirts, sweatshirts and fleece wear. The expected interest rate on the loan will be 13% per annum and we expect to receive a warrant to purchase 5.5% of Morning Sun's stock for a nominal exercise price.

National Directory Company (Tustin, CA)

We have signed a non-binding commitment letter to provide a $5 million senior subordinated loan to National Directory Company, Inc. (NDC) of Tustin, CA. Founded in 1982, NDC was one of the first independent yellow pages directory publishers to serve multiple contiguous local markets. It now publishes 38 yellow page directories. The expected interest rate on the loan will be 13% per annum and we will expect to a warrant to purchase 2% of NDC's stock for a nominal exercise price.

Management

Our business and affairs are managed under the direction of our board of directors. Our board of directors currently consists of two members, but prior to the completion of this offering, it will be expanded to five members, three of whom will not be "interested persons" of Gladstone Capital Corporation as defined in Section 2(a)(19) of the 1940 Act, who we refer to as our independent directors. Our board of directors elects our officers who serve at the discretion of the board of directors.

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors and their positions are set forth below:

NAME	AGE	POSITIONS
David Gladstone	59	Chairman of the Board of Directors and Chief Executive Officer (1)(4)
Terry Lee Brubaker	57	President, Chief Operating Officer and Director (1)
Harry Brill	54	Chief Financial Officer and Treasurer (1)
Virginia Rollins	40	Principal
Joseph Bute	51	Principal
Buzz Cooper	44	Principal
David A.R. Dullum	55	Director (2)(3)(4)(5)
George Stelljes, III	38	Director (3)(4)(5)
Anthony W. Parker	55	Director (2)(3)(5)

(1) INTERESTED PERSON AS DEFINED IN SECTION 2(A)(19) OF THE 1940 ACT.

(2) MEMBER OF THE COMPENSATION COMMITTEE.

(3) MEMBER OF THE AUDIT COMMITTEE.

(4) MEMBER OF THE EXECUTIVE COMMITTEE.

(5) EXPECTED TO JOIN OUR BOARD OF DIRECTORS PRIOR TO THE COMPLETION OF THIS OFFERING.

The following is a summary of certain biographical information concerning our executive officers, directors and those individuals we expect to become directors prior to the completion of this offering:

David Gladstone. Mr. Gladstone is a founder of Gladstone Capital Corporation and has been our chief executive officer and chairman of our board of directors since inception. Prior to founding Gladstone Capital Corporation, Mr. Gladstone served as chairman of the board of directors of American Capital Strategies, a publicly traded leveraged buyout fund and mezzanine debt finance company, from June 1997 to August 1998, and has served as its vice chairman since August 1998. From 1974 to February 1997, Mr. Gladstone held various positions, including chairman and chief executive officer, with Allied Capital Corporation, Allied Capital Corporation II, Allied Capital Lending Corporation, Allied Capital Commercial Corporation and Allied Capital Advisors Inc. The Allied companies were the largest group of publicly traded mezzanine debt funds and were managers of two private venture capital limited partnerships. From 1992 to 1997, Mr. Gladstone served as a director, president and chief executive officer of Business Mortgage Investors, a private mortgage REIT managed by Allied Capital. Mr. Gladstone served as a director of The Riggs National Corporation (the parent of Riggs Bank) from 1993 to May 1997 and of Riggs Bank from 1991 to 1993. He has served as a trustee of The George Washington University and currently is a trustee emeritus. He is a past member of the Listings and Hearings Committee of the National Association of Securities Dealers, Inc. He is a current member of the advisory committee to the Women's Growth Capital Fund, a venture capital firm that finances women-owned small businesses. Mr. Gladstone was the managing member of The Capital Investors, a group of angel investors, and is currently a member emeritus. He is also the chairman and owner of B & G Berry Corporation, a large strawberry farming

operation in California. Mr. Gladstone is also a director of Capital Automotive REIT, a real estate investment trust. Mr. Gladstone holds a MBA degree from the Harvard Business School, a MA from American University and a BA from the University of Virginia. Mr. Gladstone has authored two books on financing for small and medium sized businesses, VENTURE CAPITAL HANDBOOK and VENTURE CAPITAL INVESTING.

Terry Lee Brubaker. Mr. Brubaker has been our president and chief operating officer and a director since May 2001. In March 1999, Mr. Brubaker was a founder, and now serves as chairman of Heads Up Systems, a company providing process industries with leading edge technology. From 1996 to 1999, Mr. Brubaker served as vice president of the paper group for the American Forest & Paper Association. From 1992 to 1995, Mr. Brubaker served as president of Interstate Resources, a pulp and paper company. From 1991 to 1992, Mr. Brubaker served as president of IRI, a radiation measurement equipment manufacturer. From 1981 to 1991, Mr. Brubaker held several management positions at James River Corporation, a forest and paper company, including vice president of strategic planning from 1981 to 1982, group vice president of the Groveton Group and Premium Printing Papers from 1982 to 1990 and vice president of human resources development in 1991. From 1976 to 1981, Mr. Brubaker was strategic planning manager and marketing manager of white papers at Boise Cascade. Previously, Mr. Brubaker was a senior engagement manager at McKinsey & Company from 1972 to 1976. Mr. Brubaker holds a MBA degree from the Harvard Business School and a BSE from Princeton University.

Harry Brill. Mr. Brill has been our treasurer and chief financial officer since May 2001. From 1995 to April 2001, Mr. Brill served as a personal financial advisor. From 1975 to 1995, Mr. Brill held various positions, including treasurer, chief accounting officer and controller, with Allied Capital Corporation where Mr. Brill was responsible for all of the accounting work for Allied Capital and its family of funds. Mr. Brill received his degree in accounting from Ben Franklin University.

Virginia Rollins. Ms. Rollins has been a principal since June 2001. From 1998 to May 2001, Ms. Rollins served as vice president and principal of American Capital Strategies where she was responsible for marketing, originations, underwriting and portfolio management for the Bethesda, Maryland office. American Capital has consented to Ms. Rollins' employment with the Company. From 1993 to 1997, Ms. Rollins served as managing director and deputy managing director of Bulgarian American Enterprise Fund, a private investment firm which focuses on making loans to and investments in Bulgaria. Ms. Rollins holds a Masters of International Management from the American Graduate School of International Management and a BA from the University of North Carolina, Chapel Hill.

Joseph Bute. Mr. Bute has been a principal since June 2001. From 1996 to April 2001, Mr. Bute served as principal and vice president of American Capital Strategies, where he was responsible for marketing, originations, underwriting and portfolio management for the Pittsburgh, Pennsylvania office. American Capital has consented to Mr. Bute's employment with the Company. During that

period, he invested $35 million for American Capital in four companies and served as a director of each. From 1992 to 1996, Mr. Bute was director of manufacturing services of the Steel Valley Authority where he established and developed a nationally recognized manufacturing retention program for the Commonwealth of Pennsylvania. Mr. Bute holds a BS from the University of San Francisco.

Buzz Cooper. Mr. Cooper has been a principal since June 2001. From 1986 to 2000, Mr. Cooper served as a principal of Allied Capital Corporation. At Allied Capital, Mr. Cooper was responsible for identifying, sourcing, underwriting, managing, financing and servicing all forms of commercial real estate. During his time at Allied Capital, Mr. Cooper also administered an investment portfolio of over $250 million. Mr. Cooper holds a BA from Washington and Lee University.

David A.R. Dullum. Mr. Dullum is to become a director prior to the completion of this offering. From 1995 to the present, Mr. Dullum has been a partner of New England Partners, a venture capital firm focused on investments in small and medium sized businesses in the Mid-Atlantic and New England regions. From 1973 to 1990, Mr. Dullum was the managing general partner of Frontenac Company, a Chicago-based venture capital firm. Mr. Dullum holds a MBA from Stanford Graduate School of Business and a BME from the Georgia Institute of Technology.

George Stelljes, III. Mr. Stelljes is to become a director prior to the completion of this offering. In 1999, Mr. Stelljes was a co-founder, and has since been the managing member of Camden Partners, a private equity firm which finances high growth companies in the communications, healthcare and business services sectors. From 1997 to 1999, Mr. Stelljes was a partner of Columbia Capital, a venture capital firm focused on investments in communications and information technology. Prior to joining Columbia, Mr. Stelljes was a principal at Allied Capital Corporation from 1989 to 1997. Mr. Stelljes currently serves on the boards of directors of Agilquest, Dominion Digital and Virginia Capital. He is also a former board member and regional president of the National Association of Small Business Investment Companies. Mr. Stelljes holds a MBA from the University of Virginia and a BA in Economics from Vanderbilt University.

Anthony W. Parker. Mr. Parker is to become a director prior to the completion of this offering. In 1997, Mr. Parker founded Medical Funding Corporation, a company which purchases medical receivables. In the summer of 2000, Medical Funding Corporation purchased a Snelling Personnel Agency franchise in Washington, DC which provides full staffing services for the local business community. Mr. Parker currently serves as chairman of Medical Funding Corporation. From 1992 to 1996, Mr. Parker was chairman of, and a 50% stockholder of, Capitol Resource Funding, Inc. ("CRF"), a commercial finance company with offices in Dana Point, California and Arlington, Virginia. Mr. Parker joined CRF shortly after its inception and was instrumental in growing the company from a startup to one that by 1996 was purchasing receivables at the rate of $150 million per year, with over 40 employees. Mr. Parker practiced corporate and tax law for over 15 years--from 1980 to 1983 at Verner, Liipfert, Bernhard & McPherson, and from 1983 to 1992 in private practice. From 1973 to 1977 Mr. Parker served as executive assistant to the administrator of the US Small Business Administration. Mr. Parker received his J. D. and Masters in Tax Law from Georgetown Law Center and his undergraduate degree from Harvard College.

COMPENSATION OF EXECUTIVE OFFICERS

We have entered into employment agreements with Messrs. Gladstone and Brubaker, who we refer to as our senior executive officers. The employment agreement of each of the senior executive officers provides for a three-year term. However, one year before the expiration of each agreement, its term will be automatically renewed for an additional year, unless either party has given three months advance written notice that the automatic extensions are to cease.

Upon the completion of this offering, the base salary under the employment agreements of Messrs. Gladstone and Brubaker will be $200,000 per year. Our board of directors will have the right to increase the base salary during the term and also, generally, to decrease it, but not below $200,000.

The employment agreements provide that each of the senior executive officers is entitled to receive a cash bonus of up to 100% of his base salary based upon a determination by the compensation committee of our board of directors.

Each senior executive officer will also be contractually entitled to participate in our 2001 Equity Incentive Plan, described below, effective with the completion of this offering. The employment agreements provide that Mr. Gladstone and Mr. Brubaker will receive options to purchase 100,000 shares and 200,000 shares, respectively, of our common stock upon completion of this offering. These options will have an exercise

price equal to the fair market value of our common stock on the date of grant. These stock options will fully vest over one year following the date of grant, with half of the granted options vesting on the date of grant and the remainder vesting on the first anniversary of the date of grant. However, each senior executive officer may exercise his option before it is fully vested. If a senior executive officer elects to exercise his option early, the stock he receives upon such exercise will be restricted stock that is subject to the same vesting schedule that was applicable to the option. Until he satisfies these vesting requirements, the senior executive officer will not be allowed to sell, assign or convey the shares. If a senior executive officer's employment is terminated, we will have the right to repurchase any early exercised shares that have not vested, by paying the exercise price to the senior executive officer.

If we should terminate a senior executive officer's employment by reason of his disability, he would be entitled to receive from us, for two years, the difference between his then current base salary plus annual bonus and any long-term disability benefits. Additionally, the senior executive officer's unvested options which would have vested within two years of the termination date would immediately vest. All vested options would expire unless exercised (and all outstanding loans resulting from the prior exercise of any options would have to be repaid) within 18 months of the termination date. If we should terminate a senior executive officer's employment for any reason other than disability or cause, the senior executive officer would be entitled to receive his base salary and annual bonus for a period of two years from the date of termination, although he could choose to forgo the payments and thus obtain a release from non-compete provisions applicable during this period. These payments would also be made if the senior executive officer resigned for good reason, which generally includes our materially and adversely changing his responsibilities and duties or a material breach by us of our compensation obligations under the employment agreement. The senior executive officer will also receive severance if he is terminated in connection with a change of control or if he is not notified that the employment agreement will be continued upon a change in control. Mr. Gladstone's employment agreement also defines "good reason" as a determination by him of a material difference with our board of directors. Additionally, a senior executive officer's unvested stock options would generally vest if his employment were terminated for any reason other than a disability or cause or if he resigned with good reason.

If a senior executive officer dies, his estate will be entitled to receive an amount equal to any bonus received in the year prior to the executive's death. Additionally, he will be considered to have vested on the date of death in those options which would vest within one year of the date of death, and would forfeit any unvested options scheduled to vest after one year from the date of death. All such vested options would expire unless exercised (and all outstanding loans resulting from the prior exercise of any options would have to be repaid) within 18 months of the date of death.

In the event that we should terminate a senior executive officer's employment for cause or in the event that the senior executive officer voluntarily terminates his employment for other than good reason, all unvested stock options would be forfeited and he would have no more than 90 days to exercise any vested but unexercised options (and to repay any outstanding loans resulting from the prior exercise of any options).

Upon termination of employment, each senior executive officer would be subject to certain non-compete covenants. In the case of Mr. Brubaker, these covenants would generally apply for two years, although should Mr. Brubaker resign for good reason, the covenants would apply for only one year following the date of resignation. The covenants applicable to Mr. Gladstone are generally shorter, although in essentially all cases Mr. Gladstone would be prohibited from competing with us for at least one year from the completion of this offering. As noted above, during periods when the senior executive officers are receiving severance payments from us, they may terminate these covenants prohibiting competition by foregoing such severance payments.

Each of the employment agreements also provides that the senior executive officer will maintain the confidentiality of our confidential information during and after the period of his employment.

Other than as described above, we have not entered into any employment agreements. None of our executive officers are expected to receive compensation during the fiscal year ending September 30, 2001 in excess of $60,000.

BOARD OF DIRECTORS

Pursuant to the terms of our bylaws, following the closing of this offering, our directors will be divided into three classes. One class will hold office initially for a term expiring at the annual meeting of stockholders to be held in 2002, a second class will hold office initially for a term expiring at the annual meeting of stockholders to be held in 2003 and a third class will hold office initially for a term expiring at the annual meeting of stockholders to be held in 2004. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualified. Mr. Parker's term will expire in 2002, the term of Messrs. Brubaker and Dullum will expire in 2003, and the term of Messrs. Gladstone and Stelljes will expire in 2004. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

COMMITTEES OF THE BOARD OF DIRECTORS

- - EXECUTIVE COMMITTEE. Our board of directors has authorized the creation of an executive committee to be established immediately prior to the completion of this offering. Membership of our executive committee initially will be comprised of Messrs. Gladstone, Dullum and Stelljes. The executive committee has the authority to exercise all powers of the board of directors except for actions that must be taken by the full board of directors under the Maryland General Corporation Law.

- - AUDIT COMMITTEE. Our board of directors has authorized the creation of an audit committee to be established immediately prior to the completion of this offering. Membership of the audit committee initially will be comprised of Messrs. Dullum, Stelljes and Parker, each of whom is an independent director. The audit committee will make recommendations concerning the engagement of independent public accountants, review with our independent public accountants the plans and results of the audit engagement, approve professional services provided by our independent public accountants, review the independence of our independent public accountants and review the adequacy of our internal accounting controls.

- - COMPENSATION COMMITTEE. Our board of directors has authorized the creation of a compensation committee to be established immediately prior to the completion of this offering. Membership of the compensation committee initially will be comprised of Messrs. Parker and Dullum, each of whom is an independent director. The compensation committee will determine compensation for our executive officers, in addition to administering initially our 2001 Plan, which is described below.

COMPENSATION OF DIRECTORS

As compensation for serving on our board of directors, each of our non-employee directors will receive, subject to our receipt of an order from the Commission, an annual fee of $10,000 and an additional $1,000 per each meeting of the board attended, with no additional fee paid in connection with attending committee meetings. In addition, we will reimburse our directors for their reasonable out-of-pocket expenses incurred in attending meetings of the board of directors. Upon receipt of an order from the Commission, we will also

make grants of stock options to our non-employee directors from time to time pursuant to the 2001 Plan. Following the completion of this offering and our receipt of an order from the Commission, each non-employee member of our board of directors will receive an option to purchase 10,000 shares of our common stock. At the time of each annual meeting of our stockholders, each non-employee director shall receive an additional option to purchase 10,000 shares of our common stock.

None of our directors is expected to receive compensation during the fiscal year ending September 30, 2001 in excess of $60,000.

2001 EQUITY INCENTIVE PLAN

Effective July 23, 2001, we adopted the Amended and Restated 2001 Equity Incentive Plan, which we refer to as the 2001 Plan, for the purpose of attracting and retaining the services of executive officers, directors, other key employees and consultants. Under the 2001 Plan, the board of directors or our compensation committee, may award incentive stock options within the meaning of Section 422 of the Code, or ISOs, to employees, and nonstatutory stock options to employees, and non-employee directors. In addition, the 2001 Plan permits the granting of rights to purchase restricted stock.

We have authorized for issuance 600,000 shares of capital stock under the 2001 Plan to our employees and directors. This amount is subject to increase by 4.5% of the number of shares sold under the underwriters' over-allotment option and any increase in the size of this offering, up to a maximum of 828,000 shares. The share reserve shall consist of our common stock and preferred stock. Accordingly, participants in the 2001 Plan may receive options to purchase preferred or common stock, as determined by our board of directors or our compensation committee. Options granted under the 2001 Plan may be exercised for a period of no more than 10 years from the date of grant. Unless sooner terminated by our board of directors, the 2001 Plan will terminate on June 1, 2011 and no additional awards may be made under the 2001 Plan after that date.

STOCK OPTIONS

Options granted under the 2001 Plan will entitle the optionee, upon exercise, to purchase shares of capital stock from us at a specified exercise price per share. ISOs must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant or, if the optionee owns or is treated as owning, under Section 424(d) of the Code, more than 10% of the total combined voting power of all classes of our stock, 110% of the fair market value of a share of stock on the date of the grant. Nonstatutory stock options granted under the 2001 Plan must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant. Options will not be transferable other than by laws of descent and distribution and will generally be exercisable during an optionee's lifetime only by the optionee.

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

If authorized by the compensation committee, the exercise price of an option may be paid in the form of shares of stock that are already owned by a participant. The compensation committee also may provide that if an employee delivers shares of stock in full or partial payment of the exercise price of his or her stock

option, the employee will be granted a "reload stock option" to purchase that number of shares of stock delivered by the employee.

A reload stock option is the grant of a new stock option to the employee covering the same number of shares that such employee tendered in payment of the exercise price with respect to their original stock option. Under the terms of the Plan, this reload option shall have the same expiration date as the original stock option, an exercise price that is equal to the fair market value of our stock on the date of the original stock option exercise, and shall be designated as either an incentive stock option or nonstatutory stock option on the date of grant of the original stock option.

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

The compensation committee also may provide for payment of the exercise price with a promissory note. If an option holder elects to pay the exercise price of his or her option with a promissory note, interest on the note will accrue at a commercially reasonable market rate and the note will be subject to such other re-payment terms and conditions as established by the compensation committee.

RESTRICTED STOCK

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

CORPORATE TRANSACTIONS AND CHANGE IN CONTROL PROVISIONS

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

Upon a change in control, as defined in the 2001 Plan, awards held by participants whose continuous service has not terminated prior to the change in control shall be subject to additional acceleration of vesting, but only to the extent as provided in any written agreement between us, or any of our affiliates, and the participant.

FEDERAL TAX CONSEQUENCES

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

- - ISOS. No taxable ordinary income is realized by the participant upon the grant or exercise of an ISO. If shares of stock are issued to a participant pursuant to the exercise of an ISO, and if no disqualifying disposition of the shares is made by the participant within two years of the date of grant or within one year after the transfer of the shares to the participant, then: (i) upon the sale of the shares, any amount realized in excess of the

option price will be taxed to the participant as a long-term capital gain, and any loss sustained will be a capital loss, and (ii) no deduction will be allowed to us for federal income tax purposes. The exercise of an ISO will give rise to an item of tax preference that may result in an alternative minimum tax liability for the participant unless the participant makes a disqualifying disposition of the shares received upon exercise.

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

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

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

Certain Transactions

In May 2001, we issued and sold 652,631 shares of our common stock for an aggregate purchase price of $652,631 to Mr. Gladstone, our chairman and chief executive officer.

Control persons and principal stockholders

Immediately prior to the completion of this offering, there will be 652,631 shares of common stock outstanding and one stockholder of record. We will have no other shares of capital stock outstanding. The following table sets forth certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock and all officers and directors, as a group.

<TABLE>
<CAPTION>

		Shares Owned Immediately Prior to this Offering		Percentage of Common Stock Outstanding	Shares Owned After Offering(1)	
Name and Address	Type of Ownership					
<S>	<C>	<C>	<C>		<C>	<C>
David Gladstone.....	Record and	652,631		100.0%	652,631	

%				
c/o Gladstone Capital Corporation 1750 Tysons Blvd., 4th Floor McLean, Virginia 22102	Beneficial			
All officers and directors as a group (9 persons).....	Record and Beneficial	652,631		100.0%
%				

(1) DOES NOT REFLECT SHARES OF COMMON STOCK RESERVED FOR ISSUANCE UPON EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTION OR STOCK OPTIONS TO BE ISSUED UNDER THE 2001 PLAN.

Determination of net asset value

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

In calculating the value of our total assets, securities that are traded in the over-the-counter market or on a stock exchange are valued at the prevailing bid price on the valuation date, unless the investment is subject to a restriction that requires a discount from such price, which is determined by our board of directors. All other securities are valued at fair market value as determined in good faith by the board of directors. In making such determination, the board of directors will value loans and non-convertible debt securities for which there exists no public trading market at cost plus amortized original issue discount, if any, unless adverse factors lead to a determination of a lesser value. In valuing convertible debt securities, equity or other types of securities for which there exists no public trading market, the board of directors will determine fair market value on the basis of collateral, the issuer's ability to make payments, its earnings and other pertinent factors.

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

Dividend reinvestment plan

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

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

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

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

those shares purchased as well as shares held pursuant to the reinvestment plan.

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

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

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

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

Material US federal income tax considerations

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

- stockholders who are not citizens or residents of the United States or entities organized under the laws of the United States;
- financial institutions;
- mutual funds;
- a person liable for the alternative minimum tax;
- tax-exempt organizations;
- insurance companies;
- dealers in securities;
- a trader in securities that elects to use a market-to-market method of accounting for your securities holdings; or
- stockholders who hold our stock as part of an integrated investment such as a hedge, constructive sale, straddle or other risk reduction strategy or as part of a conversion transaction.

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

laws.

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

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

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

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

  - no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than US government securities or the securities of other regulated investment companies), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses.

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would be taxable to our stockholders as ordinary dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a gain realized from the sale or exchange of property. If we fail to meet the RIC requirements in our first taxable year or, with respect to later years, for more than two consecutive years and then seek to requalify as a RIC, we would be required to recognize gain to the extent of any unrealized appreciation on our assets unless we make a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period. Absent such special election, any gain we recognized would be deemed distributed to our stockholders as a taxable distribution.

If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and gains we distribute to stockholders. We would, however, be subject to a 4% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, 98% of our income, including both ordinary income and capital gains. The excise tax would apply only to the amount by which 98% of our income exceeds the amount of income we distribute, actually or on a deemed basis, to stockholders. We will be subject to regular corporate income tax, currently at rates up to 35%, on any undistributed income, including both ordinary income and capital gains. We intend to retain some or all of our capital gains, but to designate the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each stockholder will be required to include its share of the deemed distribution in income as if it had been actually distributed to the stockholder and the stockholder will be entitled to claim a credit or refund equal to its allocable share of the tax we pay on the retained capital gain. The amount of the deemed distribution net of such tax will be added to the stockholder's cost basis for his or her common stock. Since we expect to pay tax on any retained capital gains at our regular corporate capital gain tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid will exceed the tax they owe on the capital gain dividend and such excess may be claimed as a credit or refund against the stockholder's other tax obligations. A stockholder that is not subject to US federal income tax or tax on long-term capital gains would be

required to file a US federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to the stockholders prior to the expiration of 60 days after the close of the relevant tax year. We will also be subject to alternative minimum tax, but any tax preference items would be apportioned between us and our stockholders in the same proportion that dividends, other than capital gain dividends, paid to each stockholder bear to our taxable income determined without regard to the dividends paid deduction.

If we acquire debt obligations that were originally issued at a discount, which would generally include loans we make that are accompanied by warrants, that bear interest at rates that are not either fixed rates or certain qualified variable rates or that are not unconditionally payable at least annually over the life of the obligation, we will be required to include in taxable income each year a portion of the "original issue discount" that accrues over the life of the obligation. Such original issue discount will be included in our investment company taxable income even though we receive no cash corresponding to such discount amount. As a result, we may be required to make additional distributions corresponding to such original issue discount amounts in order to satisfy the annual distribution requirement and to continue to qualify as a RIC or to avoid the 4% excise tax. In this event, we may be required to sell temporary investments or other assets to meet the RIC distribution requirements.

For any period during which we qualify for treatment as a RIC for federal income tax purposes, distributions to our stockholders attributable to our investment company taxable income generally will be taxable as ordinary income to stockholders to the extent of our current or accumulated earnings and profits. Any distributions in excess of our earnings and profits will first be treated as a return of capital to the extent of the stockholder's adjusted basis in his or her shares of common stock and thereafter as gain from the sale of shares of our common stock. Distributions of our long-term capital gains, designated by us as such, will be taxable to stockholders as long-term capital gains regardless of the stockholder's holding period in his or her common stock and regardless of whether paid in cash or invested in additional common stock. Corporate stockholders are generally eligible for the 70% dividends received deduction with respect to ordinary income, but not capital gains dividends to the extent such amount designated by us does not exceed the dividends received by us from domestic corporations. Any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it were paid by us and received by the stockholders on December 31 of the previous year. In addition, we may elect to relate a dividend back to the prior taxable year if we (1) declare such dividend prior to the due date for filing our return for that taxable year, (2) make the election in that return, and (3) distribute the amount in the 12-month period following the close of the taxable year but not later than the first regular dividend payment following the declaration. Any such election will not alter the general rule that a stockholder will be treated as receiving a dividend in the taxable year in which the distribution is made, subject to the October, November, December rule described above.

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

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

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

Distributions may also be subject to additional state, local and foreign taxes

depending on each stockholder's particular situation. You should consult your own tax adviser with respect to the particular tax consequences to you of an investment in our common stock.

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

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

Description of our capital stock

THE FOLLOWING DESCRIPTION IS BASED ON OUR ARTICLES OF AMENDMENT AND RESTATEMENT TO THE ARTICLES OF INCORPORATION AND OUR BYLAWS, WHICH WE INTEND TO ADOPT PRIOR TO THE COMPLETION OF THIS OFFERING.

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

COMMON STOCK

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

We have applied to register our common stock for listing on the Nasdaq National Market under the ticker symbol "GLAD."

PREFERRED STOCK

In addition to shares of common stock, our articles of incorporation authorize the issuance of shares of preferred stock. Our board of directors is authorized to provide for the issuance of preferred stock with such

preferences, powers, rights and privileges as it deems appropriate; except that,

such an issuance must adhere to the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or distribution is made with respect to our common stock or before any purchase of common stock is made, the preferred stock, together with all other senior securities, must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on the preferred stock are in arrears by two years or more. We believe that the availability of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

LIMITATION ON LIABILITY OF DIRECTORS

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

Certain provisions of our articles of incorporation and bylaws and Maryland General Corporation Law

THE FOLLOWING DESCRIPTION IS BASED ON OUR ARTICLES OF AMENDMENT AND RESTATEMENT TO THE ARTICLES OF INCORPORATION AND OUR BYLAWS, WHICH WE INTEND TO ADOPT PRIOR TO THE COMPLETION OF THIS OFFERING.

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

CLASSIFIED BOARD OF DIRECTORS

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

NUMBER OF DIRECTORS; REMOVAL; VACANCIES

Our articles of incorporation provide that the number of directors will be determined pursuant to our bylaws and our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. In addition, our bylaws provide that the number of directors shall not be increased by 50% or more in any 12-month period without the approval of at least 66 2/3% of the members of our board of directors then in office. Our bylaws provide that any vacancies will be filled by the vote of a majority of the remaining directors, even if less than a quorum, and the directors so appointed shall hold office until the next election of the class for which such directors have been chosen and until their successors are elected and qualified. Accordingly, our board of directors could temporarily prevent any stockholder

from enlarging the board of directors and filling the new directorships with such stockholder's own nominees.

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

STOCKHOLDER APPROVAL REQUIREMENTS

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

Certain provisions of our articles of incorporation and bylaws and Maryland General Corporation Law

ADVANCE NOTICE PROVISIONS FOR STOCKHOLDER NOMINATIONS AND STOCKHOLDER PROPOSALS

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

The stockholder notice procedure provides that (1) only persons who are nominated by, or at the direction of, the board of directors, or by a stockholder who has given timely written notice containing specified information to the our Secretary prior to the meeting at which directors are to be elected, will be eligible for election as directors and (2) at an annual meeting only such business may be conducted as has been brought before the meeting by, or at the direction of, our board of directors or by a stockholder who has given timely written notice to our secretary of such stockholder's intention to bring such business before the meeting. Except for stockholder proposals submitted in accordance with the federal proxy rules as to which the requirements specified therein shall control, notice of stockholder nominations or business to be conducted at a meeting must be received by us not less than 60 days nor more than 90 days prior to the first anniversary of the previous year's annual meeting if the notice is to be submitted at an annual stockholders meeting or no later than 10 days following the day on which notice of the date of a special meeting of stockholders was given if the notice is to be submitted at a special stockholders meeting.

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

AMENDMENT OF ARTICLES OF INCORPORATION AND BYLAWS

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

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

These provisions are intended to make it more difficult for stockholders to circumvent certain other provisions contained in our articles of incorporation and bylaws, such as those that provide for the classification of our board of

directors. These provisions, however, also will make it more difficult for stockholders to amend the articles of incorporation or bylaws without the approval of the board of

directors, even if a majority of the stockholders deems such amendment to be in the best interests of all stockholders.

Regulation

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

ASSET COVERAGE

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least 200% immediately after each such issuance. In addition, while senior securities are outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary purposes.

QUALIFYING ASSETS

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

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

   (a) is organized under the laws of, and has its principal place of business in, the United States;

   (b) is not an investment company other than a small business investment company wholly-owned by the business development company; and

   (c) does not have any class of securities with respect to which a broker or dealer may extend margin credit.

(2) Securities of any eligible portfolio company which we control.

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

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

SIGNIFICANT MANAGERIAL ASSISTANCE

In addition, a business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1) or (2) above. However, in order to count portfolio securities as qualifying

assets for the purpose of the 70% test, the business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

CODE OF ETHICS

As required by the 1940 Act, we have adopted a code of ethics that establishes procedures for personal investments and restricts certain transactions by our personnel. Our code of ethics is filed as an exhibit to our registration statement. For information on how to obtain a copy of our code of ethics, see "Available information."

Shares eligible for future sale

Upon completion of this offering, 13,052,631 shares of our common stock will be outstanding, based on the number of shares outstanding on June 22, 2001, assuming no exercise of the underwriters' over-allotment option. Of these shares, the 12,400,000 shares of our common stock sold in this offering will be freely tradable without restriction or limitation under the Securities Act, with the exception of shares purchased by our affiliates. Any shares purchased in this offering by our affiliates will be subject to the manner of sale and volume limitations of Rule 144. In addition, the 652,631 shares held by Mr. Gladstone prior to this offering will be subject to a lockup agreement in favor of the representative of the underwriters which generally provides that each of our directors and officers shall not sell, offer to sell, contract to sell, hypothecate, grant any option to sell or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable for our shares of common stock or warrants or other rights to purchase shares of our common stock for a period of 180 days after the date of this prospectus. The representatives of the underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to the lockup agreements. Such shares owned by Mr. Gladstone will become eligible for public resale under Rule 144 on , 2002.

Share repurchases

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

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

Custodian, transfer and dividend paying agent and registrar

Our securities are held under a custodian agreement by First Union National Bank. The address of the custodian is 740 15th Street NW, Washington, D.C. 20005. Our assets are held under bank custodianship in compliance with the 1940 Act. The Bank of New York will act as our transfer and dividend paying agent

Custodian, transfer and dividend paying agent and registrar

and registrar. The principal business address of the Bank of New York is 100 Church Street, 14th Floor, New York, New York 10286.

Brokerage allocation and other practices

Since we will generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use brokers in the normal course of our business.

Underwriting

We and the underwriters for this offering named below have entered into an underwriting agreement concerning the shares being offered. Subject to conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. UBS Warburg LLC, First Union Securities, Inc., Robertson Stephens, Inc., BB&T Capital Markets, a division of Scott & Stringfellow, Inc. and Ferris, Baker Watts, Incorporated are the representatives of the underwriters.

<TABLE>
<CAPTION>

Underwriters	Number of Shares
<S>	<C>
UBS Warburg LLC	
First Union Securities, Inc.	
Robertson Stephens, Inc.	
BB&T Capital Markets/Scott & Stringfellow, Inc.	
Ferris, Baker Watts, Incorporated	
Total	12,400,000

</TABLE>

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have a 30-day option to buy up to 1,860,000 shares from us, at the public offering price less the underwriting discount (sales load), to cover these sales. If any shares are purchased under this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table provides information regarding the amount of the discount to be paid to the underwriters by us:

<TABLE>
<CAPTION>

	Paid by us	
	No exercise of over-allotment option	Full exercise of over-allotment option
<S>	<C>	<C>
Per share	$	$
Total		

</TABLE>

We estimate that the total expenses of this offering payable by us, excluding the underwriting discount, will be approximately $.

At our request, the underwriters have reserved up to 400,000 shares of our common stock for sale, at the public offering price on the cover of this prospectus less the sales concession, to our directors, officers and employees and certain associated persons. The number of shares available for sale to the general public will be reduced to the extent such persons purchase these reserved shares. Any reserved shares not so purchased will be offered to the general public on the same terms as other shares are offered hereby.

Shares sold by the underwriters to the general public will initially be offered at the public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount

of up to $ per share from the public offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to $ per share from the public offering price. If all the shares are not sold at the public offering price, the representatives may change the offering price and the other selling terms. Investors must pay for any shares purchased in the offering on or before , 2001.

We have agreed with the underwriters not to offer, sell, contract to sell, hedge or otherwise dispose of, directly or indirectly, any of our common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, without the prior written consent of UBS Warburg LLC. Our executive officers

and directors have also agreed to these restrictions. Accordingly, this offering will conform with the requirements set forth in Rule 2720 of the Conduct Rules of NASD.

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. Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. Short sales may be either "covered short sales" or "naked short sales." 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 after pricing that could adversely affect investors who purchase in this offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq National Market or otherwise.

No underwriter is obligated to conduct market making activities in our common stock and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. We have agreed to indemnify the several underwriters against some liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect thereof.

Legal matters

The validity of the issuance of the common stock offered hereby will be passed upon for us by Cooley Godward LLP, Reston, Virginia. The validity of the shares of common stock offered hereby will be passed upon for the underwriters by Sullivan & Cromwell, New York, New York. With respect to all matters of Maryland law, Sullivan & Cromwell will rely upon Neuberger, Quinn, Gielen, Rubin & Gibber, Baltimore, Maryland.

Experts

Ernst & Young LLP, independent auditors, have audited our balance sheet at

May 30, 2001, as set forth in their report. We have included our balance sheet in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

Available information

Upon completion of this offering, we will become subject to the informational requirements of the Securities Exchange Act of 1934 and will be required to file reports, proxy statements and other information with the SEC. These documents can be inspected and copied for a fee at the SEC's Public Reference Room, 450 5th Street, N.W., Washington, D.C. 20549. Call 202-942-8090 for information on the operation of the public reference room. The SEC also maintains an Internet site at http://www.sec.gov. This site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

This prospectus does not contain all of the information in our registration statement, including amendments, exhibits and schedules. Statements in this prospectus about the contents of any contract or other document are not necessarily complete and in each instance we refer you to the copy of the contract or other document filed as an exhibit to the registration statement, and each such statement is qualified in all respects by this reference.

Special note regarding forward-looking statements

Certain statements in this prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "believe," "enable," "will," "provide," "anticipate," "future," "could," "growth," "plan," "intend," "pursue," "provide," "anticipate," "future," "expect," "increase," "modifying," "focus," "should," "would" 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 of 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) those listed under "Risk factors;" (2) adverse changes in interest rates; (3) our failure or inability to establish or maintain referral arrangements with leveraged buyout funds and venture capital funds to generate loan opportunities; (4) the loss of one or more of our executive officers, in particular David Gladstone or Terry Lee Brubaker; (5) our inability to establish or maintain a credit facility on terms reasonably acceptable to us, if at all; (6) our inability to successfully securitize our loan portfolio on terms reasonably acceptable to us, if at all; and (7) the decision of our potential 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. 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. As a result of the foregoing and other factors, we can not assure you as to our future results, levels of activity or achievements, and neither we nor any other person assumes responsibility for the accuracy and completeness of such statements.

Gladstone Capital Corporation

Balance Sheet
As of May 30, 2001

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees and Shareholder
Gladstone Capital Corporation

We have audited the accompanying balance sheet of Gladstone Capital Corporation as of May 30, 2001 (date of inception). The balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on the balance sheet based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Gladstone Capital Corporation at May 30, 2001 (date of inception) in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

McLean, Virginia
June 22, 2001

Gladstone Capital Corporation

Balance Sheet
May 30, 2001

<S>	<C>
Assets	
Stock subscription receivable	$652,631
Total assets	$652,631
Stockholders' equity	
Common stock, $0.001 par value, 10,000,000 shares authorized, and 652,631 shares issued and outstanding	$ 653
Capital in excess of par value	651,978
Total stockholders' equity	$652,631

SEE ACCOMPANYING NOTES.

Gladstone Capital Corporation

Notes to Balance Sheet
May 30, 2001

1. ORGANIZATION AND BASIS OF PRESENTATION

Gladstone Capital Corporation (Company) was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001 [and has been inactive since that date] except for matters relating to its organization and registration as a non-diversified, closed-end investment company to be treated as a business development company under the Investment Company Act of 1940, as amended, and the Securities Act of 1933, as amended. The Company's fiscal year-end will be September 30.

The accompanying balance sheet has been prepared in accordance with accounting principles generally accepted in the United States that require the use of management estimates. Actual results may differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Costs

Organization costs include, among other things, cost of incorporation including the cost of legal services pertaining to the organization and incorporation of the business. These costs are expensed as incurred. As of May 30, 2001, the Company had incurred no significant organization costs.

Offering Costs

The Company's initial public offering (Offering) costs include, among other things, legal fees and other costs pertaining to the offering, registration fees, underwriting costs and the costs of printing the prospectuses for sales purposes. The Company will charge the offering costs to capital in excess of par value upon completion of the Offering. As of May 30, 2001, the Company had incurred no significant offering costs.

Stock Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation" allows companies to account for stock-based compensation under Accounting Principles Bulletin (APB) No. 25, "Accounting for Stock Issued to Employees," but requires pro forma disclosure in the notes to the financial statements as if the provision of SFAS No. 123 had been adopted. The Company has elected to account for its stock-based compensation in accordance with the provisions of APB No. 25.

3. INCOME TAXES

The Company intends to qualify for treatment as a regulated investment company under Subchapter M of the Internal Revenue Code (the Code). As a regulated investment company, the Company will not be subject to federal income tax on the portion of its taxable income and gains distributed to stockholders. To qualify as a regulated investment company, the Company is required to distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code. The Company intends to distribute at least 90% of its ordinary income and short-term capital gains on a quarterly basis. The Company may, but does not intend to, pay out a return of capital.

4. STOCK SUBSCRIPTION RECEIVABLE

The Company received stock subscription receivables of $652,631 from the Chairman and Chief Executive Officer in exchange for 652,631 shares of common stock at $1.00 per share. The stock subscription receivable was funded on June 22, 2001.

5. SUBSEQUENT EVENTS

Planned Initial Public Offering

The Company plans to file with the Securities and Exchange Commission to register the Company as a non-diversified, closed-end investment company and elect to be regulated as a business development company under the Investment Company Act of 1940, as amended, and the Securities Act of 1933, as amended and simultaneously offer 12,400,000 shares of common stock.

Non-binding Commitments

The Company has signed non-binding commitment letters to make loans to certain businesses upon the satisfactory completion of the Offering. The loans are subject to among other things, the satisfactory completion of the Company's due diligence investigation on each borrower. If completed, the aggregate total of these loans will be approximately $57 million.

Equity Incentive Plan

Effective July 23, 2001, the Company adopted the Amended and Restated 2001 Equity Incentive Plan (2001 Plan) for the purpose of attracting and retaining executive officers, directors and other key employees.

The Company has reserved 828,000 shares of common stock for the issuance of options under the 2001 Plan to employees and directors. Options granted under the 2001 Plan may be exercised for a period of no more than ten years from the date of grant. Unless sooner terminated by the Company's board of directors, the 2001 Plan will terminated on June 1, 2011 and no additional awards may be made under the 2001 Plan after that date. No options have been issued to date.

Formation of A Subsidiary

On June 13, 2001, the Company filed with the Virginia State Corporation Commission to incorporate Gladstone Advisers, Inc. (Advisers). The Advisers will conduct the daily operations of the Company. The Company owns 100% of the voting securities of Advisers. In the future, the results of operations of the Advisers will be consolidated with the Company for financial reporting purposes.

Part C Other information

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS

1. FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

<S>	Page <C>
Balance Sheet of Registrant, dated as of May 30, 2001.	F-3

</TABLE>

2. EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
a.1*	Articles of Incorporation
a.2+	Articles of Amendment and Restatement of the Articles of Incorporation.
b+	Bylaws.
c	Not applicable.
d+	Form of Direct Registration Transaction Advice for the Company's common stock, par value $0.001 per share, the rights of holders of which are defined in Exhibits a and b.
e+	Dividend Reinvestment Plan.
f	Not applicable.
g	Not applicable.
h	Form of Underwriting Agreement.
i.1+	Amended and Restated 2001 Equity Incentive Plan.
i.2+	Form of Stock Option Agreement.
j+	Form of Custody Agreement with First Union National Bank with respect to safekeeping.
k.1+	Form of Stock, Transfer Agency Agreement between the Company and the Bank of New York.
k.2+	Employment Agreement dated June 25, 2001 between the Company and David Gladstone.
k.3+	Employment Agreement dated July 23, 2001 between the Company and Terry Lee Brubaker.
l	Opinion of Cooley Godward LLP.
m	Not applicable.
n.1*	Consent of Ernst & Young LLP, independent public accountants.
n.2	Consent of Cooley Godward LLP (included in Exhibit l).
n.3+	Consent of David A.R. Dullum to be named as director.
n.4+	Consent of George Stelljes, III to be named as director.
n.5+	Consent of Anthony W. Parker to be named as director.
n.6+	Consent of Ernst & Young LLP, independent public accountants.
o	Not applicable.
p*	Subscription Agreement dated May 30, 2001.
q	Not applicable.
r+	Code of Ethics.

</TABLE>

* PREVIOUSLY FILED.

+ FILED HEREWITH.

ITEM 25. MARKETING ARRANGEMENTS

The information contained under the heading "Underwriting" on page 51 of the prospectus is incorporated herein by reference, and any information concerning any underwriters will be contained in the accompanying prospectus supplement, if any.

Part C Other information

ITEM 26. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Commission registration fee	$53,475
NASD filing fee*	**
Nasdaq National Market Additional Listing Fee*	**
Accounting fees and expenses*	**
Legal fees and expenses.*	**
Printing and engraving*	**
Miscellaneous fees and expenses*	**
Total	$ **

* ESTIMATED FOR FILING PURPOSES.

** TO BE COMPLETED BY AMENDMENT.

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

ITEM 27. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL

Gladstone Advisers, Inc., a Virginia corporation ("Advisers"), is the Company's only subsidiary. Gladstone Capital Corporation owns 100% of the voting securities of Advisers. Advisers is consolidated with the Company for financial reporting purposes.

ITEM 28. NUMBER OF HOLDERS OF SECURITIES

The following table sets forth the approximate number of record holders of the Company's common stock at June 22, 2001.

TITLE OF CLASS	NUMBER OF RECORD HOLDERS
Common stock, $0.001 par value	1

ITEM 29. INDEMNIFICATION

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

she has been successful in the defense of the proceeding or as otherwise ordered by a court. The law also prescribes the circumstances under which the corporation may advance expenses to, or obtain insurance or similar cover for, directors.

The law also provides for comparable indemnification for corporate officers and agents.

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

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

The Company carries liability insurance for the benefit of its directors and officers on a claims-made basis of up to $, subject to a $ retention and the other terms thereof.

ITEM 30. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

Not applicable.

ITEM 31. LOCATION OF ACCOUNTS AND RECORDS

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

ITEM 32. MANAGEMENT SERVICES

Not applicable.

ITEM 33. UNDERTAKINGS

1. The Registrant undertakes to suspend the offering of shares until the prospectus is amended if, subsequent to the effective date of its registration statement, (1) the net asset value declines more than ten

percent from its net asset value as of the effective date of the registration statement; or (2) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.

2. The Registrant undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

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

Signatures

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of McLean, in the Commonwealth of Virginia, on the 27th day of July, 2001.

<TABLE>
<S> <C> <C>
GLADSTONE CAPITAL CORPORATION

By: /s/ DAVID GLADSTONE

David Gladstone
Chairman of the Board and
Chief Executive Officer
</TABLE>

KNOW ALL MEN BY THESE PRESENT, each person whose signature appears below hereby constitutes and appoints David Gladstone and Terry Lee Brubaker and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Registration Statement and any registration statement filed pursuant to Rule 462(b) under the Securities Act, and to file the same, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities indicated on July 27, 2001.

<TABLE>
<CAPTION>
Signature	Title
<C>	<S>
/s/ DAVID GLADSTONE David Gladstone	Chairman of the Board and Chief Executive Officer (principal executive officer)
* Terry Lee Brubaker	President, Chief Operating Officer and Director
* Harry Brill	Chief Financial Officer (principal financial and accounting officer)
</TABLE>

<TABLE>
<S> <C> <C>
/s/ DAVID GLADSTONE

David Gladstone
*By: (attorney-in-fact)
</TABLE>

Exhibit 99.a.2

ARTICLES OF AMENDMENT AND RESTATEMENT
TO THE
ARTICLES OF INCORPORATION
OF
GLADSTONE CAPITAL CORPORATION
(A MARYLAND CORPORATION)

These Articles of Amendment and Restatement were duly adopted by the directors and the stockholders of Gladstone Capital Corporation (the "CORPORATION") by unanimous written consent pursuant to Section 2-408(c) and Section 2-505 of the Annotated Code of Maryland, Corporations and Associations.

The Corporation's Articles of Incorporation authorized Ten Million (10,000,000) shares of common stock, with a par value of $.001 per share ("COMMON STOCK"). The written consent adopting these Articles of Amendment and Restatement authorizes Fifty Million (50,000,000) shares of Common Stock, with a par value of $.001 per share. Upon filing of these Articles of Amendment and Restatement, the Corporation's total capitalization will consist of Fifty Million (50,000,000) shares of capital stock, all of which initially shall be shares of Common Stock.

In accordance with Section 2-609 of the Annotated Code of Maryland, Corporations and Associations, the Corporation desires to amend and restate its charter as currently in effect and does hereby adopt these Articles of Amendment and Restatement, which shall be all of the provisions of the Articles of Incorporation in effect following such amendment and restatement:

FIRST: The name of the corporation is: GLADSTONE CAPITAL CORPORATION.

SECOND: The purposes for which the Corporation is organized are as follows:

A. To loan money; to acquire, by purchase, subscription or in any other manner, take, receive, hold, use, employ, sell, assign, transfer, exchange, pledge, release, mortgage, lease, dispose of and otherwise deal in and with any shares of stock or other shares, voting trust certificates, bonds, debentures, notes, mortgages or other obligations, securities or evidences of indebtedness, and any certificates, receipts, warrants or other instruments evidencing rights or options to receive, purchase or subscribe for the same or representing any other rights or interests therein or in any property or assets, issued or created by any individual, association, partnership, joint venture, corporation, government (or subdivision or agency thereof) or other legal entity, wherever organized and wherever doing business; to possess and exercise in respect thereof any and all of the rights, powers and privileges of individual holders including, without limitation, the right to vote any shares of stock so held or owned and, upon a distribution of the assets or a division of the profits of the Corporation, to distribute any such shares of stock or other shares, voting trust certificates, bonds or other obligations, securities or evidences of indebtedness (or the proceeds thereof) among the stockholders of the Corporation;

B. To render advice and consulting services to corporations, individuals, partnerships, limited liability companies, business trusts and other business entities; to enter into contracts with any of such entities for the purpose of carrying out such advisory and consulting

services; to register as an investment adviser with any agencies and in any jurisdictions; and to do all such other acts as may be related to or incidental to the purposes of an investment adviser, merchant bank or similar financial institution;

C. To purchase, acquire, hold, own, improve, develop, sell, convey, assign, release, mortgage, encumber, use, lease, hire, manage, deal in and otherwise dispose of real property and personal property of every name and nature or any interest therein, improved or otherwise, including stocks and securities of other corporations;

D. To borrow or raise money and to issue bonds, debentures, notes or other obligations of any nature (and in any manner permitted by law) for money so borrowed or in payment for property purchased, or for any other lawful consideration, and to secure the payment thereof, and of the interest thereon, by mortgage upon, pledge, conveyance or assignment in trust of, the whole or any part of the property of the Corporation, real or personal, including contract rights, whether at the time owned or thereafter acquired; to sell, pledge, discount or otherwise dispose of such bonds, debentures, notes or other obligations of the Corporation;

E. To engage in, operate and acquire interests in any kind of business, of whatever nature, which may be permitted by law;

F. To do any act or thing and exercise any power suitable, convenient or proper for the accomplishment of any of the purposes set forth herein or incidental to such purposes, or which at any time may appear conducive to or expedient for the accomplishment of any of such purposes; and

G. To have and exercise any and all powers and privileges now or hereafter conferred by the general laws of the State of Maryland upon corporations formed under such laws.

The foregoing enumeration of the purposes of the Corporation is made in furtherance and not in limitation of the powers conferred upon the Corporation by law. The mention of any particular purpose is not intended in any manner to limit or restrict the generality of any other purpose mentioned, or to limit or restrict any of the powers of the Corporation. The Corporation shall have, enjoy and exercise all of the powers and rights now or hereafter conferred by the laws of the State of Maryland, it being the intention that the purposes set forth in each of the paragraphs of this Article shall, except as otherwise expressly provided, in no way be limited or restricted by reference to or inference from the terms of any other clause or paragraph of this or any other Article of these Articles of Incorporation, or of any amendment thereto, and shall each be regarded as independent, and construed as powers as well as purposes; PROVIDED, HOWEVER, that nothing herein contained shall be deemed to authorize or permit the Corporation to carry on any business or exercise any power, or do any act which a corporation formed under the general laws of the State of Maryland may not at the time lawfully carry on or do.

THIRD: The post office address of the principal office of the Corporation in the State of Maryland is: 300 East Lombard Street, Baltimore, Maryland 21202. The name of the Resident Agent of the Corporation in this State is The Corporation Trust Incorporated whose address is 300 East Lombard Street, Baltimore, Maryland 21202.

FOURTH:

A. The total number of shares of stock of all classes which the Corporation has authority to issue is Fifty Million (50,000,000) shares of capital stock, with a par value of one tenth of one cent ($.001) per share, amounting in aggregate par value to Fifty Thousand Dollars ($50,000). All of such shares are initially classified as Common Stock. The board of directors of the Corporation (the "BOARD OF DIRECTORS") may classify and reclassify any unissued shares of capital stock by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms or conditions of redemption or other rights of such shares of stock.

B. The following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the Common Stock of the Corporation:

(1) Each share of Common Stock shall have one vote, and, except as otherwise provided in respect of any class of stock hereafter classified or reclassified, the exclusive voting power for all purposes shall be vested in the holders of the Common Stock;

(2) Subject to the provisions of law and any preferences of any class of stock hereafter classified or reclassified, dividends, including dividends payable in shares of another class of the Corporation's stock, may be paid on the Common Stock of the Corporation at such time and in such amounts as the Board of Directors may deem advisable; and

(3) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Stock shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation and the amount to which the holders of any class of stock hereafter classified or reclassified having a preference on distributions in the liquidation, dissolution or winding up of the Corporation shall be entitled, together with the holders of any other class of stock hereafter classified or reclassified having (if any such class of stock is participating preferred stock or preference stock) or not having a preference on distributions in the liquidation, dissolution or winding up of the Corporation, to share ratably in the remaining net assets of the Corporation.

C. Subject to the foregoing, the power of the Board of Directors to classify and reclassify any of the shares of capital stock shall include, without limitation, subject to the provisions of these Articles of Incorporation, as they may subsequently be amended, authority to classify or

reclassify any unissued shares of such stock into a class or classes of preferred stock, preference stock, special stock or other stock, and to divide and classify shares of any class into one or more series of such class, by determining, fixing, or altering one or more of the following:

(1) The distinctive designation of such class or series and the number of shares to constitute such class or series; PROVIDED that, unless otherwise prohibited by the terms of such or any other class or series, the number of shares of any class or series may be decreased by the Board of Directors in connection with any classification or reclassification of unissued shares and the number of shares of such class or series may be increased by the Board of Directors in connection with any such classification or reclassification, and any shares of any

class or series which have been redeemed, purchased, otherwise acquired or converted into shares of Common Stock or any other class or series shall become part of the authorized capital stock and be subject to classification and reclassification as provided in this sub-paragraph;

(2) Whether or not and, if so, the rates, amount and times at which, and the conditions under which, dividends shall be payable on shares of such class or series, whether any such dividends shall rank senior or junior to or on a parity with the dividends payable on any other class or series of stock, and the status of any such dividends as cumulative, cumulative to a limited extent, or non-cumulative and as participating or non-participating;

(3) Whether or not shares of such class or series shall have voting rights, in addition to any voting rights provided by law and, if so, the terms of such voting rights;

(4) Whether or not shares of such class or series shall have conversion or exchange privileges and, if so, the terms and conditions thereof, including provision for adjustment of the conversion or exchange rate in such events or at such times as the Board of Directors shall determine;

(5) Whether or not shares of such class or series shall be subject to redemption and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; and whether or not there shall be any sinking fund or purchase account in respect thereof, and if so, the terms thereof;

(6) The rights of the holders of shares of such class or series upon the liquidation, dissolution or winding up of the affairs of, or upon any distribution of assets of, the Corporation, which rights may vary depending upon whether such liquidation, dissolution or winding up is voluntary or involuntary and, if voluntary, may vary at different dates, and whether such rights shall rank senior or junior to or on a parity with such rights of any other class of series of stock;

(7) Whether or not there shall be any limitations applicable, while shares of such class or series are outstanding, upon the payment of dividends or making of distributions on, or the acquisition of, or the use of moneys for purchase or redemption of, any stock of the Corporation, or upon any other action of the Corporation, including action under this sub-paragraph, and, if so, the terms and conditions thereof; and

(8) Any other preferences, rights, restrictions, including restrictions on transferability, and qualifications of shares of such class or series, not inconsistent with law and the Articles of Incorporation, as they may subsequently be amended.

D. For the purposes hereof and of any Articles Supplementary to these Articles of Incorporation providing for the classification or reclassification of any shares of capital stock or of any other charter document of the Corporation (unless otherwise provided in any such articles or documents), any class or series of stock of the Corporation shall be deemed to rank:

(1) prior to another class or series either as to dividends or upon liquidation, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable on liquidation, dissolution or winding up, as the case may be, in preference or priority to holders of such other class or series;

(2) on a parity with another class or series either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates

or redemption or liquidation price per share thereof be different from those of such others, if the holders of such class or series of stock shall be entitled to receipt of dividends or amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rates or redemption or liquidation prices, without preference or priority over the holders of such other class or series; and

(3) junior to another class or series either as to dividends or upon liquidation, if the rights of the holders of such class or series shall be subject or subordinate to the rights of the holders of such other class or series in respect of the receipt of dividends or the amounts distributable upon liquidation, dissolution or winding up, as the case may be.

FIFTH: The number of directors of the Corporation shall be in accordance with the provisions of the General Corporation Law of the State of Maryland and shall initially be two (2); which number may be changed pursuant to the provisions set forth in the Bylaws of the Corporation, but shall never be less than the number permitted by law. The names of the Directors of the Corporation who shall act until their successors are duly elected and qualify are: David Gladstone and Terry Brubaker.

SIXTH: The following provisions are hereby adopted for the purpose of defining, limiting and regulating the powers of the Corporation and of the Board of Directors and stockholders:

A. The Board of Directors is hereby empowered to authorize and direct the issuance from time to time or at any time or times of the shares of stock of the Corporation of any class, now or hereafter authorized, any options or warrants for such shares permitted by law, any rights to subscribe to or purchase such shares and any other securities of the Corporation, for such consideration as the Board of Directors may deem advisable, subject to such limitations and restrictions, if any, as may be set forth in the Bylaws of the Corporation.

B. Unless specifically provided elsewhere herein or in any Articles Supplementary, no holder of shares of stock of the Corporation of any class, now or hereafter authorized, shall have any preferential or preemptive right to subscribe for, purchase or receive (i) any shares of stock of the Corporation of any class, now or hereafter authorized, (ii) any options or warrants for such shares permitted by law, (iii) any rights to subscribe to or purchase such shares, or (iv) any other securities of the Corporation which may at any time or from time to time be issued, sold or offered for sale by the Corporation.

C. The Board of Directors is hereby empowered to adopt Bylaw provisions with respect to the indemnification of officers, employees, agents and other persons and to make such other indemnification as they shall deem expedient and in the best interests of the Corporation, and to the extent permitted by law.

D. The provisions relating to certain special voting requirements set forth in Title 3, Subtitle 6 of the General Corporation Law of the State of Maryland and the provisions relating to certain control shares set forth in Title 3, Subtitle 7 of the Maryland General Corporation Law shall be applicable to the Corporation generally, but shall not be applicable pursuant to Sections 3-603(e)(iii) and 3-702(b) thereof, respectively, to the shares of the Corporation which are owned by, or which shall in the future be issued to and owned by, any employee stock ownership plan, incentive stock ownership plan or other similar plan established now or in the future for the benefit of the Corporation's directors, officers, employees or affiliates, and, without limiting the foregoing, none of such shares owned by any such plan shall, for purposes of such subtitles, be aggregated with any shares owned individually by any beneficiaries of any such plan.

E. (1) The Board of Directors is hereby authorized to make, amend, alter, repeal or rescind the Bylaws of the Corporation; PROVIDED, HOWEVER, that if any provision of the Bylaws requires more than a majority of the members of the Board of Directors to provide a waiver in connection with, or to consent or approve an action or omission, then the Board of Directors may only amend, alter, repeal or rescind such provision with the affirmative vote of that percentage of directors that would have been required to provide such waiver, consent or approval.

(2) The holders of 75% of the capital stock of the Corporation, voting together as a single class is hereby authorized to make, amend, alter, repeal or rescind the Bylaws of the Corporation; PROVIDED, HOWEVER, that if any provision of the Bylaws requires more than the holders 75% of the capital stock of the Corporation to provide a waiver in connection with, or to consent or approve an action or omission, then the stockholders of the Corporation may only amend, alter, repeal or rescind such provision with the affirmative vote of that percentage of stockholders that would have been required to provide such waiver, consent or approval.

F. The Corporation reserves the right to amend these Articles of Incorporation in any way which alters the contract rights, as expressly set forth in these Articles of Incorporation, of any outstanding stock of the Corporation and substantially adversely affects any of the rights of any of the holders of any outstanding stock of the Corporation; PROVIDED, HOWEVER, that if the Maryland General Corporation Law or these Articles of Incorporation require more than a majority of the Board of Directors, more a than majority of the capital stock of the Corporation voting together as a single class, or more than a majority of both the directors and the stockholders to provide a waiver in connection with, or to consent or approve an action or omission, then the Board of Directors or stockholders of the Corporation, or both, as applicable, may only amend, alter, repeal or rescind such provision with the affirmative vote of that percentage of the Board of Directors or stockholders, or both, as applicable, that would have been required to provide such waiver, consent or approval.

SEVENTH:

A. The Corporation shall indemnify (i) its directors and officers, whether serving the Corporation or at its request any other entity, to the full extent permitted by the General Laws of the State of Maryland now or hereafter in force (as limited by the Investment Company Act of 1940, as amended, or by any valid rule, regulation or order of Securities and Exchange Commission thereunder, in each case as now or hereafter in force (the "1940 ACT")), including the advance of expenses under the procedures and to the full extent permitted by law and (ii)

other employees and agents to such extent as shall be authorized by the Board of Directors or the Corporation's Bylaws and be permitted by law. The foregoing rights of indemnification shall not be exclusive of any other rights to which those seeking indemnification may be entitled. The Board of Directors may take such action as is necessary to carry out these indemnification provisions and is expressly empowered to adopt, approve and amend from time to time such bylaws, resolutions or contracts implementing such provisions or such further indemnification arrangements as may be permitted by law. No amendment to or repeal of this Article SEVENTH shall limit or eliminate the right to indemnification provided hereunder with respect to acts or omissions occurring prior to such amendment or repeal.

B. To the fullest extent permitted by Maryland statutory or decisional law, as amended or interpreted and as limited by the 1940 Act, no director or officer of this Corporation shall be personally liable to the Corporation or its stockholders for money damages. No amendment to or repeal of this Article SEVENTH shall limit or eliminate the benefits provided to directors and officers under this provision with respect to any act or omission which occurred prior to such amendment or repeal.

EIGHTH: The duration of the Corporation shall be perpetual.

IN WITNESS WHEREOF, I, Terry Lee Brubaker, President of Gladstone Capital Corporation, hereby acknowledge on behalf of Gladstone Capital Corporation that the foregoing Articles of Amendment and Restatement to the Articles of Incorporation are the corporate act of said corporation under the penalties of perjury this _____ day of _____, 2001.

Terry L. Brubaker, President

WITNESS:

- ---
David Gladstone, Secretary

Exhibit 99.b

GLADSTONE CAPITAL CORPORATION

(A MARYLAND CORPORATION)

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Exhibit 99.b

BYLAWS

OF

GLADSTONE CAPITAL CORPORATION

(A MARYLAND CORPORATION)

ARTICLE I

OFFICES

SECTION 1. PRINCIPAL OFFICE. The principal office shall be in the City of Baltimore, State of Maryland.

SECTION 2. ADDITIONAL OFFICES. The Corporation may also have offices at such other places both within and without the State of Maryland as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 3. PLACE. Unless the Articles of Incorporation provide otherwise, meetings of stockholders shall be held at the office of the Corporation in the Commonwealth of Virginia, or at any other place within the United States as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver of notice thereof.

SECTION 4. ANNUAL MEETING.

(a) The annual meeting of the stockholders of the Corporation, for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders: (i) pursuant to the Corporation's notice of meeting of stockholders; or (ii) by

or at the direction of the Board of Directors; or (iii) by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in the following paragraph, who is entitled to vote at such meeting and who complied with the notice procedures set forth in Section 4.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 4(a) of these Bylaws, (i) the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, (ii) such other business must be a proper matter for

stockholder action under law, (iii) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the Corporation with a Solicitation Notice (as defined in this Section 4(b)), such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the Corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the Corporation's voting shares reasonably believed by such stockholder or beneficial owner to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice, and (iv) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this Section 4. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the sixtieth (60th) day nor earlier than the close of business on the ninetieth (90th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (A) as to each person whom the stockholder proposed to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of the proposal, at least the percentage of the Corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "Solicitation Notice").

(c) Notwithstanding anything in the second sentence of Section 4(b) of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of

Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least seventy (70) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 4 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall

be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(d) Only such persons who are nominated in accordance with the procedures set forth in this Section 4 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 4. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposal or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(e) Notwithstanding the foregoing provisions of this Section 4, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholders' meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Nothing in these Bylaws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation proxy statement pursuant to Rule 14a-8 under the 1934 Act.

(f) For purposes of this Section 4, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the 1934 Act.

SECTION 5. SPECIAL MEETINGS.

(a) Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by (i) the Chairman of the Board of Directors, (ii) the Chief Executive Officer or President, (iii) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption), or (iv) stockholders of the Corporation who are stockholders of record at the time of giving of notice and who hold at least the percentage of the voting securities of the Corporation required by Section 3-805 of the Maryland General Corporation Law.

(b) If a special meeting is properly called by any person or persons other than the Board of Directors, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by certified or registered mail, return receipt requested, to the Chairman of the Board of Directors, the Chief Executive Officer, the President or the Secretary of the Corporation. No business may be

transacted at such special meeting otherwise than specified in such notice. The Board of Directors shall determine the time and place of such special meeting, which shall be held not less than thirty-five (35) nor more than one hundred twenty (120) days after the date of the receipt of the request. Upon determination of the time and place of the meeting, the officer receiving the request shall cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 6 of these Bylaws. Nothing contained in this paragraph (b) shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

(c) Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the corporation who is a stockholder of record at the time of giving notice provided for in these Bylaws who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 5(c). In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by Section 4(b) of these Bylaws shall be delivered to the Secretary at the principal executive offices of the corporation not earlier than the close of business on the ninetieth (90th) day prior to such special meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at

such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

SECTION 6. NOTICE. Except as otherwise provided herein or by law, notice, given in writing or by electronic transmission, of each meeting of stockholders shall be given not less than ten (10) nor more than ninety (90) days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, if any, date and hour, in the case of special meetings, the purpose or purposes of the meeting, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at any such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. Notice of the time, place, if any, and purpose of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof, or by electronic transmission by such person, either before or after such meeting, and will be waived by any stockholder by his attendance thereat in person, by remote communication, if applicable, or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

SECTION 7. PRESIDING OFFICER; STATEMENT OF AFFAIRS; ORDER OF BUSINESS.

(a) Meetings of stockholders shall be presided over by the Chairman of the Board of Directors, if any, or, if he is not present (or, if there is none), by the Chief Executive Officer, or, if he is not present, by the President, or, if he is not present, by a Vice President, or, if he is not present, by such person as may have been chosen by the Board of Directors, or if none of such persons is present, by a chairman to be chosen by the stockholders owning a majority of the shares of capital stock of the Corporation issued and outstanding and entitled to vote at the meeting and who are present in person or represented by proxy. The Secretary of the Corporation, or, if he is not present, an Assistant Secretary, or, if he is not present, such person as may be chosen by the Board of Directors, or if none of such persons is present, then such person as may be chosen by the stockholders owning a majority of the shares of capital stock of the Corporation issued and outstanding and entitled to vote at the meeting and who are present in person or represented by proxy shall act as Secretary of the meeting.

(b) The following order of business, unless otherwise ordered at the meeting, shall be observed as far as practicable and consistent with the purposes of the meeting:

(1) Call of the meeting to order.

(2) Presentation of proof of mailing of the notice of the meeting and, if the meeting is a special meeting, the call thereof.

(3) Presentation of proxies.

(4) Announcement that a quorum is present.

(5) Reading and approval of the minutes of the previous meeting.

(6) Reports, if any, of officers.

(7) Submission of statement of affairs by the Chief Financial Officer or Treasurer, if the meeting is an annual meeting.

(8) Election of directors, if the meeting is an annual meeting or a meeting called for that purpose.

(9) Miscellaneous business.

(10) Adjournment.

SECTION 8. QUORUM; ADJOURNMENTS. At any meeting of stockholders the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting shall constitute a quorum; but this section shall not affect any requirement under law or under the Articles of Incorporation for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a

quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 9. VOTING.

(a) A majority of the votes cast at a meeting of stockholders, duly called and at which a quorum is present, shall be sufficient to take or authorize action upon any matter which may properly come before the meeting, unless more than a majority of the votes cast is required by law, these Bylaws or by the Articles of Incorporation.

(b) If two or more classes of stock are entitled to vote separately on any matter for which the law requires approval by two-thirds of all the votes entitled to be cast, the matter shall be approved by two-thirds of all the votes of each class, unless these Bylaws or the Articles of Incorporation provide otherwise.

(c) Unless the Articles of Incorporation provide otherwise, each outstanding share of stock having voting power, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders; but no share shall be entitled to vote if any installment payable on it is overdue and unpaid. A stockholder may vote the shares owned of record by him either in person or by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. No proxy shall be valid after eleven months from its date, unless otherwise provided in the proxy. At all meetings of stockholders, unless the voting is conducted by inspectors, all questions relating to the qualification of voters and the validity of proxies and the acceptance or rejection of votes shall be decided by the chairman of the meeting.

(d) At all elections of directors of the Corporation each stockholder having voting power shall not be entitled to exercise the right of cumulative voting.

SECTION 10. ACTION WITHOUT MEETING.

(a) Any action required or permitted to be taken at any meeting of stockholders may be taken without a meeting, if a unanimous written consent which sets forth the action is signed by each stockholder entitled to vote on the matter is filed with the records of the of stockholders' meetings.

(b) Unless the Articles of Incorporation requires otherwise, the holders of any class of stock other than common stock, entitled to vote generally in the election of directors, may take action or consent to any action by the written consent of the stockholders entitled to cast not less than the minimum number of votes that would be necessary to authorize or take the action at a stockholders' meeting if the Corporation gives notice of the action to each stockholder not later than ten (10) days after the effective time of the action.

(c) Notwithstanding the foregoing, no such action by written consent may be taken following the closing of the initial public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "1933 Act"), covering the offer and sale of Common Stock of the corporation to the public (the "Initial Public Offering").

SECTION 11. TELEPHONE MEETINGS. Stockholders may participate in a meeting by means of a conference call or similar communications equipment by means of which all persons participating can hear each other at the same time, and participation in the meeting by such means shall conclusively be deemed to constitute presence in person at such meeting.

ARTICLE III

DIRECTORS

SECTION 12. POWERS. The business and affairs of the Corporation shall be managed by its Board of Directors, which may exercise all of the powers of the Corporation, except such as are by law or by the Articles of Incorporation or by these Bylaws conferred upon or reserved to the stockholders.

SECTION 13. NUMBER AND TERM.

(a) The number of directors of the Corporation shall initially be two (2) until increased or decreased pursuant to the following provisions, but shall never be greater than nine (9) or fewer than one (1). A majority of the entire Board of Directors may, at any time and from time to time, increase or

decrease the number of directors of the Corporation as set forth in the Articles of Incorporation or these Bylaws; provided, however, that the number of directors shall not be increased by fifty percent (50%) or more in any twelve (12) month period without the approval of two-thirds (2/3rds) of the members of the Board of Directors then in office. The tenure of office of a director shall not be affected by any decrease in the number of directors so made by the Board of Directors. The directors shall be elected by a majority of all the votes cast at the annual meeting of the stockholders, except as provided in Section 15 of this Article.

(b) Following the closing of the Initial Public Offering, the Corporation shall be subject to the provisions set forth in Title 3, Subtitle 8 of the Maryland General Corporation Law. Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, following the closing of the Initial Public Offering, the directors shall be divided into three classes to be designated Class I, Class II and Class III, respectively. The initial Class I directors shall hold office for a term expiring at the annual meeting of the stockholders held in the first year following the closing of the Initial Public Offering. The initial Class II directors shall hold office for a term expiring at the annual meeting of the stockholders held in the second year following the closing of the Initial Public Offering. The initial Class III directors shall hold office for a term expiring at the annual meeting of the stockholders held in the third year following the closing of the Initial Public Offering.

(c) At each annual meeting of the stockholders commencing with the first annual meeting after the closing of the Initial Public Offering, the successor or successors of the class of directors whose term expires at that meeting (other than directors elected by the holders of any series of preferred stock) shall hold office for a term expiring at the annual meeting of the stockholders held in the third year following the year of their election. The directors elected to each class (other than directors elected by any series of preferred stock) shall hold office until their successors are duly elected and qualify or until their earlier resignation or removal. Directors need not be stockholders.

SECTION 14. MATTERS FOR WHICH ACTION OF THE ENTIRE BOARD IS REQUIRED. Notwithstanding anything to the contrary in these Bylaws, the following actions shall require the approval by the affirmative vote of a majority of the entire Board of Directors:

(a) appointing any director to a committee of the Board of Directors pursuant to Article IV of these Bylaws;

(b) appointing any employee, officer, or director of the Corporation, or any person who is to become an employee, officer, or director of the Corporation, to serve as an officer above the level of principal; and

(c) altering, amending or repealing these Bylaws or adopting new bylaws.

SECTION 15. VACANCY. Any vacancy occurring in the Board of Directors for any cause, including by reason of an increase in the number of directors, may be filled by a majority of the remaining members of the Board of Directors, although such majority is less than a quorum. Notwithstanding the foregoing, if the stockholders of any class or series are entitled separately to elect one or more directors, a majority of the remaining directors elected by that class or series or the sole remaining director elected by that class or series may fill any vacancy among the number of directors elected by that class or series. A director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the next annual meeting of stockholders or until his successor is elected and qualifies.

SECTION 16. REMOVAL AND RESIGNATION.

(a) Unless otherwise provided by law or the Articles of Incorporation, at any meeting of stockholders, duly called and at which a quorum is present, the stockholders may, by the affirmative vote of the holders of seventy-five percent (75%) of the votes generally entitled to be cast thereon, remove any director or directors from office for cause, and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of any removed director or directors. The stockholders may not remove a director without cause.

(b) Any director may resign at any time by giving written notice to the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer, the President or Secretary of the Corporation. Unless otherwise specified in the written notice, the resignation shall take effect upon delivery thereof to the Board of Directors or designated officer. It shall not be necessary for a resignation to be accepted before it becomes effective.

SECTION 17. PLACE OF MEETINGS. Meetings of the Board of Directors, regular or special, may be held at any place in or out of the State of Maryland as the Board of Directors may from time to time determine.

SECTION 18. ANNUAL MEETING. The annual meeting of the Board of Directors shall be held immediately following the annual stockholders meeting, and no notice of such meeting shall be necessary to the directors in order legally to constitute the meeting, provided a quorum shall be present.

SECTION 19. REGULAR MEETINGS. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board of Directors.

SECTION 20. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called at any time by the Board of Directors or the executive committee, if one be constituted, by vote at a meeting, or by the Chief Executive Officer, the President or by a majority of the directors or a majority of the members of the executive committee in writing with or without a meeting. Special meetings may be held at such place or places within or without Maryland as may be designated from time to time by the Board of Directors; in the absence of such designation such meetings shall be held at such places as may be designated in the call.

SECTION 21. NOTICE. Notice of the place and time of every special meeting of the Board of Directors shall be served on each director or sent to him by mail, or by leaving the same at his residence or usual place of business or by telecopy, facsimile transmission, electronic mail or any other electronic means at least twenty-four (24) hours before the date of the meeting.

SECTION 22. QUORUM; ADJOURNMENTS. At all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the action of a majority of the directors present at any meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by statute, the Articles of Incorporation or these Bylaws. If a quorum shall not be present at any meeting of directors, the directors present thereat may by a majority vote adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 23. TELEPHONE MEETINGS. Members of the Board of Directors or any committee thereof may participate in a meeting by means of a conference call or similar communications equipment by means of which all directors participating can hear each other at the same time, and participation in the meeting by such means shall conclusively be deemed to constitute presence in person at such meeting.

SECTION 24. ACTION WITHOUT MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if a written consent to such action is signed by all members of the Board of Directors or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee (except for those instances where the Investment Company Act of 1940 (the "1940 ACT") requires action be taken by the Corporation's Board of Directors in person, including without limitation the selection of independent auditors and the approval of an Investment Agreement.

SECTION 25. COMPENSATION OF DIRECTORS. Directors, as such, shall not receive any stated salary for their services but, by resolution of the Board of Directors, non-employed directors may be entitled to receive (a) an annual fee, (b) a fixed cash sum, (c) a stock or stock option grant, or (d) a combination of the above, along with the reimbursement of expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors, or

of any committee thereof, but nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

COMMITTEES.

SECTION 26. EXECUTIVE COMMITTEE. The Board of Directors may appoint an Executive Committee consisting of not fewer than three members, one of whom shall be designated as Chairman of the Executive Committee. The Chairman of the Board of Directors and the President shall be elected members of the Executive Committee. The Executive Committee shall have and may exercise those rights,

powers and authority of the Board of Directors as may from time to time be granted to it by the Board of Directors subject to any limitations imposed by law and may authorize the seal of the Corporation to be affixed to all papers which may require the same.

SECTION 27. NOMINATING COMMITTEE. The Board of Directors shall appoint a Nominating Committee consisting of not fewer than three members, one of whom shall be designated as Chairman of the Nominating Committee. A majority of members of the Nominating Committee shall not be officers of the Corporation. The Nominating Committee shall have and may exercise those rights, powers and authority of the Board of Directors as may from time to time be granted to it by the Board of Directors; PROVIDED, HOWEVER, that in addition to any such rights, powers or authority, the Nominating Committee shall have the exclusive right to recommend candidates for election as directors to the Board of Directors.

SECTION 28. COMPENSATION COMMITTEE. The Board of Directors may appoint from its membership a Compensation Committee consisting of not fewer than two members, one of whom shall be designated as Chairman of the Compensation Committee. None of the members of the Compensation Committee shall be officers of the Corporation. The Compensation Committee shall have and may exercise those rights, powers and authority of the Board of Directors as may from time to time be granted to it by the Board of Directors.

SECTION 29. AUDIT COMMITTEE. The Board of Directors may appoint from its membership an Audit Committee consisting of not fewer than three members, each of whom shall be independent directors, and free from any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a committee member, one of whom shall be designated as Chairman of the Audit Committee. All members of the Audit Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Audit Committee shall have accounting or related financial management expertise. The Board of Directors shall adopt a formal written charter for the Audit Committee that specifies (1) the scope of the Audit Committee's responsibilities and the means by which the Audit Committee carries out these responsibilities, (2) the outside auditor's accountability to the Board of Directors and the Audit Committee and the Audit Committee's ultimate authority to select, evaluate and, where appropriate, replace the outside auditor, and (3) the Audit Committee's responsibility to oversee the independence of the outside auditor through the receipt of a formal written statement delineating all relationships between the auditor and the corporation and active dialogue with the auditors.

SECTION 30. ADVISORY COMMITTEE.

(a) The Board of Directors may appoint individuals of its selection to an Advisory Committee to assist the Board of Directors in the conduct of its duties and responsibilities. The Advisory Committee may meet in conjunction with meetings of the Board of Directors and shall serve as advisers and counselors to the Board of Directors as the members thereof shall determine best serves the Corporation's interests.

(b) The Board of Directors, by resolutions adopted by a majority of the whole Board, may appoint an Advisory Committee complying with the terms of Section 2(a)(1) of the 1940 Act and the regulations promulgated thereunder, to provide advice and counsel in respect to investment and loan transactions entered or contemplated by the Corporation or its subsidiaries. The Advisory Committee may be composed of up to five persons, who shall not be directors, officers, employees or agents of the Corporation or any subsidiary or investment adviser thereof. Advisory Committee members shall be entitled to indemnification under Article VII below. The Advisory Committee and its members will have no voting power and no authority, as agent or otherwise, to act on behalf of the Corporation, in respect of any matter; and directors shall be under no obligation to accept or reject any particular item of advice or counsel provided thereby. The Advisory Committee may be invited to hold meetings jointly with meetings of directors. Any one or more members of the Advisory Committee may be invited to attend meetings of the directors and may be offered access to the same information and materials otherwise provided only to directors. The Advisory Committee may render its advice in written or verbal form, and the same may or may not be recorded.

SECTION 31. OTHER COMMITTEES. The Board of Directors, by resolutions adopted by a majority of the entire Board of Directors, may appoint a committee or committees, as it shall deem advisable and impose upon such committee or committees such functions and duties, and grant such rights, powers and authority, as the Board of Directors shall prescribe (except the power to declare dividends or distributions on stock, to issue stock except to the extent permitted by law, to recommend to stockholders any action requiring stockholders' approval, to amend these Bylaws or to approve any merger or share exchange which does not require stockholders' approval).

SECTION 32. PROCEDURE; NOTICE; MEETINGS. Each committee shall fix its own

rules of procedure and shall meet at such times and at such place or places as may be provided by such rules or as the members of such committee shall provide. Committee meetings may be called by the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chairman of the Committee, if any, or any two or more committee members on at least twenty-four (24) hours notice, if such notice is mailed, delivered personally or sent by messenger, telecopy, facsimile transmission, electronic mail or any other electronic means. Each committee shall keep regular minutes of its meetings and deliver such minutes to the Board of Directors. The Chairman of each committee, or, in his or her absence, a member of such committee chosen by a majority of the members of such committee present, shall preside at the meetings of such committee, and another member thereof, or any other person, chosen by such committee shall act as Secretary of such committee, or in the capacity of Secretary for purposes of such meeting.

SECTION 33. QUORUM; VOTE. With respect to each committee, a majority of its members shall constitute a quorum for the transaction of business, and the affirmative vote of a majority of the members thereof shall be required for any action of such committee.

SECTION 34. APPOINTMENTS; VACANCIES; CHANGES; DISCHARGES. The Board of Directors shall have the exclusive power at any time, through the approval by the affirmative vote of a majority of the entire Board of Directors, to appoint directors to, fill vacancies in, change the membership of, or discharge any committee.

SECTION 35. TENURE. Each member of a committee shall continue as a member thereof until the expiration of his or her term as a director, or his or her earlier resignation as a member of such committee or as a director, unless sooner removed as a member of such committee by a vote of a majority of the entire Board of Directors or as a director in accordance with these Bylaws.

SECTION 36. COMPENSATION. Members of any committee shall be entitled to such compensation for their services as members of any such committee and to such reimbursement for any reasonable expenses incurred in attending committee meetings as may from time to time be fixed by the Board of Directors. The compensation (if any) of members of any committee may be on such basis as is determined by the Board of Directors. Any member may waive compensation for any meeting. Any committee member receiving compensation under these provisions shall not be barred from serving the Corporation in any other capacity and from receiving compensation and reimbursement of reasonable expenses for such other services.

SECTION 37. ACTION BY CONSENT. Any action required or permitted to be taken at any meeting of any committee of the Board of Directors may be taken without a meeting if a written consent to such action is signed by all members of the committee and such written consent is filed with the minutes of its proceedings.

SECTION 38. MEETINGS BY TELEPHONE OR SIMILAR COMMUNICATIONS. The members of any committee which is designated by the Board of Directors may participate in a meeting of such committee by means of a conference telephone or similar communications equipment by means of which all members participating in the meeting can hear each other at the same time, and participation by such means shall be conclusively deemed to constitute presence in person at such meeting.

ARTICLE V

NOTICES; WAIVER OF NOTICE

SECTION 39. NOTICES. Notices to directors and stockholders shall be in writing and delivered personally or mailed to the directors or stockholders at their addresses appearing on the books of the Corporation. Notice by mail shall be deemed to be given at the time when the same shall be mailed. In the case of stockholders' meetings the notice may be left at the stockholders residence or usual place of business or by transmitting it in the form of electronic mail to any electronic mail address of the stockholder or by any other electronic means. Notice to directors may also be given by telecopy, electronic mail or any other electronic means.

SECTION 40. WAIVER OF NOTICE. Whenever any notice of the time, place or purpose of any meeting of stockholders, directors or committee is required to be given under the provisions of law or under the provisions of the Articles of Incorporation or these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting, whether before or after the holding thereof, or actual attendance at the meeting of stockholders in person or by proxy, or at the meeting of directors or

committee in person, shall be deemed equivalent to the giving of such notice to such persons.

ARTICLE VI

OFFICERS

SECTION 41. DESIGNATIONS. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chief Executive Officer, a President, a Secretary, a Chief Financial Officer and a Treasurer. The Board of Directors may also choose a Chairman of the Board of Directors, one or more Vice-Presidents, one or more Principals, one or more Assistant Secretaries and Assistant Treasurers and any other officers deemed necessary or appropriate by the Board of Directors. Two or more offices, except those of President and Vice-President, may be held by the same person but no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument is required by law, the Articles of Incorporation or these Bylaws to be executed, acknowledged or verified by two or more officers.

SECTION 42. TERM OF OFFICE; REMOVAL. At its annual meeting, the Board of Directors shall elect a Chief Executive Officer, a President, a Secretary, a Chief Financial Officer and a Treasurer. The Board of Directors may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors. The officers of the Corporation shall serve for one year and until their successors are chosen and qualify. Any officer or agent may be removed by the Board of Directors whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. If the office of any officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

SECTION 43. COMPENSATION. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors.

SECTION 44. THE CHIEF EXECUTIVE OFFICER AND THE PRESIDENT.

(a) The Chief Executive Officer shall be the chief executive officer of the Corporation and shall preside over all meeting of the Board of Directors and stockholders. He shall be involved in the general management of the business of the Corporation, and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall execute in the corporate name all authorized deeds, mortgages, bonds, contracts or other instruments requiring a seal, under the seal of the Corporation, except in cases in which the signing or execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

(b) The President shall be primarily responsible for the implementation of policies of the Board of Directors. In addition, in the absence or permanent incapacity of a Chief Executive Officer, the President shall maintain the duties of the Chief Executive Officer. He shall have authority over the operations of the Company and its divisions, if any, subject only to the ultimate authority of the Chief Executive Officer and the Board of Directors. He may sign and execute in the name of the Company certificates, deeds, mortgages, bonds, contracts or other instruments except in cases where the signing and the execution thereof shall be expressly delegated by the Board of Directors or by this Agreement to some other officer or agent of the Company or shall be required by law otherwise to be signed or executed. In addition, he shall perform all duties incident to the office of the President and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 45. VICE-PRESIDENTS AND PRINCIPALS. The Vice-President or Principal, if any, or if there shall be more than one, the Vice-Presidents and Principals, in the order determined by the Board of Directors, shall, in the absence or disability of the Chief Executive Officer or President, perform the duties and exercise the powers of the Chief Executive Officer or President, and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

SECTION 46. THE SECRETARY AND ASSISTANT SECRETARIES.

(a) The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, the Chief Executive Officer or President, under whose supervision he shall be. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board of Directors, affix the same to any instrument requiring it and, when

so affixed, it shall be attested by his signature or by the signature of an Assistant Secretary.

(b) The Assistant Secretary, if any, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

SECTION 47. THE CHIEF FINANCIAL OFFICER, TREASURER AND ASSISTANT TREASURERS.

(a) The Chief Financial Officer and the Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Chief Financial Officer and Treasurer may be the same person.

(b) The Chief Financial Officer or the Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer, the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires an account of transactions and of the financial condition of the Corporation.

(c) If required by the Board of Directors, the Chief Financial Officer or the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

(d) The Assistant Treasurer, if any, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AGENTS AND ADVISORS

SECTION 48. GENERALLY. Reference is made to Section 2-418 (and any other relevant provisions) of Maryland General Corporation Law. Particular reference is made to the class of persons (hereinafter called "INDEMNITEES") who may be indemnified by a Maryland corporation pursuant to the provisions of Section 2-418, namely, any entity (including the Corporation's investment adviser) or person (or the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, manager, partner, officer, trustee, employee, agent or any similar title of another corporation, partnership, joint venture, trust or other enterprise or employee benefit plan.

(a) The Corporation shall (and is hereby obligated to) indemnify the Indemnitees, and each of them, in each and every situation where the Corporation is obligated to make such indemnification pursuant to the aforesaid statutory provisions or pursuant to the Articles of Incorporation.

(b) The Corporation shall indemnify the Indemnitees, and each of them, in each and every situation where, under the aforesaid statutory provisions, the Corporation is not obligated, but is nevertheless permitted or empowered, to make such indemnification, if the Board of Directors determines that such Indemnitee acted in good faith and in a manner such Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation,

and, in the case of any criminal action or proceeding, that such Indemnitee had no reasonable cause to believe that such Indemnitee's conduct was unlawful.

SECTION 49. LIMITATION FOR DISABLING CONDUCT.

(a) Notwithstanding anything to the contrary in Section 48 hereof, the Corporation may not indemnify any director or officer of the Corporation against any liability, nor shall any director or officer of the Corporation be exculpated from any liability, to the Corporation or its stockholders to which such director or officer might otherwise be subject by reason of "DISABLING CONDUCT," as hereinafter defined. Accordingly, each determination with respect to the permissibility of indemnification of a director or officer of the Corporation because such director or officer has met the applicable standard of conduct shall include a determination that the liability for which such indemnification is sought did not arise by reason of such person's disabling conduct. The determination required by this subsection may be based on:

(i) a final decision on the merits by a court or other body before whom the action, suit or proceeding was brought that the person to be indemnified was not liable by reason of disabling conduct, or

(ii) in the absence of such a decision, a reasonable determination, based on a review of the facts, that the person to be indemnified was not liable by reason of such person's disabling conduct by: (A) the vote of a majority of a quorum of directors who are disinterested, non-party directors; or (B) an independent legal counsel in a written opinion. In making such determination, such disinterested, non-party directors or independent legal counsel, as the case may be, may deem the dismissal for insufficiency of evidence of any disabling conduct of either a court action or an administrative proceeding against a person to be indemnified to provide reasonable assurance that such person was not liable by reason of disabling conduct.

(b) For the purpose of this Section 49:

(i) "DISABLING CONDUCT" of a director or officer shall mean such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of the office or any other conduct prohibited under Section 17(h) of the 1940 Act or any other applicable securities laws;

(ii) "DISINTERESTED, NON-PARTY DIRECTOR" shall mean a director of the Corporation who is neither an "INTERESTED PERSON" of the Corporation as defined in Section 2(a)(19) of the 1940 Act nor a party to the action, suit or proceeding in connection with which indemnification is sought;

(iii) "INDEPENDENT LEGAL COUNSEL" shall mean a member of the Bar of the State of Maryland who is not, and for at least two (2) years prior to his or her engagement to render the opinion in question has not been, employed or retained by the Corporation, by any investment adviser to or principal underwriter for the Corporation, or by any person affiliated with any of the foregoing; and

(iv) "THE CORPORATION" shall include, in addition to the resulting Corporation, any constituent Corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents.

(c) The Corporation may purchase insurance to cover the payment of costs incurred in performing the Corporation's obligations under Section 48 hereof, but it is understood that no insurance may be obtained for the purpose of indemnifying any disabling conduct.

(d) The Corporation may advance legal fees and other expenses pursuant to the indemnification rights set forth in Section 48 hereof so long as, in addition to the other requirements therefor, the Corporation either:

(i) obtains security for the advance from the Indemnitee;

(ii) obtains insurance against losses arising by reason of lawful advances; or

(iii) determines, pursuant to the means set forth in Section 49(a)(ii) hereof, that there is reason to believe that the Indemnitee ultimately will be found entitled to indemnification.

SECTION 50. ADVISORY COMMITTEE MEMBERS. The Corporation shall indemnify any person appointed to any Advisory Committee pursuant to Article IV, Section 30 hereof (or the heirs, executors, or administrators of such person) who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a member of the

Advisory Committee of this Corporation, if the Board of Directors determines that such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interest of the Corporation, and in the case of any criminal action or proceeding, that such person had no reasonable cause to believe that such person's conduct was unlawful.

ARTICLE VIII

CERTIFICATES OF STOCK

SECTION 51. FORM OF SIGNATURES; STATEMENTS.

(a) Except as provided in Section 51(b), shares of the Corporation's capital stock shall be issued without certificates. At the time of issuance or transfer of such uncertificated shares, the Corporation shall send the stockholder a written statement identifying: (1) the Corporation as the issuer of the stock; (2) the name of the stockholder or other person to whom it is issued; and (3) the class of stock and the number of shares represented by such statement. If the Corporation has authority at the time of such issuance or transfer to issue stock of more than one class, the written statement shall also include a full statement or summary of: (1) the designations and any preferences, conversion and other rights, voting powers, restrictions,

limitations as to dividends, qualifications, and terms and conditions of redemption of the stock of each class which the Corporation is authorized to issue; and (2) if the Corporation is authorized at the time of such issuance or transfer to issue any preferred or special class in series, (i) the differences in the relative rights and preferences between the shares of each series to the extent they have been set, and (ii) the authority of the Board of Directors to set the relative rights and preferences of subsequent series. Notwithstanding the immediately preceding sentence, the written statement may, in lieu of including the information referred to therein, state that the Corporation will furnish a full statement of such information to any stockholder on request and without charge. If the Corporation imposes a restriction on transferability of such uncertificated shares, the written statement shall also: (1) contain a full statement of the restriction; or (2) state that the Corporation will furnish information about the restriction to the stockholder on request and without charge.

(b) Notwithstanding Section 51(a), every stockholder in the Corporation shall, upon request duly made to the Corporation or any transfer agent of the Corporation, be entitled to have a certificate, signed by the President, a Vice-President or Chairman of the Board of Directors and countersigned by the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer or other such officers as provided in Section 2-212 of the Maryland General Corporation Law, exhibiting the number and class (and series, if any) of shares owned by him, her or it, and bearing the seal of the Corporation. Such signatures and seal may be facsimile transmission. In case any officer who has signed, or whose facsimile signature was placed on, a certificate shall have ceased to be such officer before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if he or she were such officer at the date of its issue.

(c) Every certificate representing stock issued by the Corporation, if it is authorized to issue stock of more than one class, shall set forth upon the face or back of the certificate, a full statement or summary of the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemptions of the stock of each class which the Corporation is authorized to issue and, if the Corporation is authorized to issue any preferred or special class of stock in series, the differences in the relative rights and preferences between the shares of each series to the extent they have been set and the authority of the Board of Directors to set the relative rights and preferences of subsequent series. In lieu of such full statement or summary, there may be set forth upon the face or back of each certificate a statement that the Corporation will furnish to the stockholder, upon request and without charge, a full statement of such information.

SECTION 52. REGISTRATION OF TRANSFER. Upon surrender to the Corporation or any transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, or upon presentation to the Corporation or any transfer agent of the Corporation of an instruction with a request to register transfer of uncertificated shares, it shall be the duty of the Corporation or its transfer agent, if it is satisfied that all terms and conditions of the Articles of Incorporation, of the Bylaws and of applicable law regarding the transfer of shares have been fulfilled, to record the transaction upon its books, to issue a new certificate to the person entitled thereto upon request for such certificate, and to cancel the old certificate, if any.

SECTION 53. REGISTERED STOCKHOLDERS.

(a) Except as otherwise provided by law, the Corporation shall be entitled to recognize the exclusive right of a person who is registered on its books as the owner of shares of its capital stock to receive dividends or other distributions, to vote as such owner, and to hold liable for calls and assessments a person who is registered on its books as the owner of shares of its capital stock. The Corporation shall not be bound to recognize any equitable or legal claim to or interest in such shares on the part of any other person except that the Board of Directors may adopt by resolution a procedure by which a stockholder may certify in writing to the Corporation that any shares of its capital stock registered in the name of such stockholder are held for the account of a specified person other than such stockholder are held for the account of a specified person other than such stockholder.

(b) If a stockholder desires that notices and/or dividends shall be sent to a name or address other than the name or address appearing on the stock ledger maintained by the Corporation (or by the transfer agent or registrar, if any), such stockholder shall have the duty to notify the Corporation (or the transfer agent or registrar, if any), in writing, of such desire. Such written notice shall specify the alternate name or address to be used.

SECTION 54. LOCATION OF STOCK LEDGER. A copy of the Corporation's stock ledger containing (i) the name and address of each stockholder, and (ii) the number and shares of stock of each class which the stockholder holds shall be maintained at the Corporation's office located at its headquarters. Such stock ledger may be in written form or any other form capable of being converted into written form within a reasonable time for visual inspection.

SECTION 55. RECORD DATE. In order that the Corporation may determine the stockholders of record who are entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or the allotment of any rights, or to make a determination with respect to stockholders of record for any other proper purpose, the Board of Directors may, in advance, fix a date as the record date for any such determination or meeting. Such date shall not be more than 90 nor less than 10 days before the date of any such meeting, nor more than 90 days prior to the date any other determination is made with respect to stockholders. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting taken pursuant to Section 8 of Article II; PROVIDED, HOWEVER, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 56. LOST, STOLEN OR DESTROYED CERTIFICATES. The Board of Directors may direct that a new certificate be issued in place of any certificate theretofore issued by the Corporation which is claimed to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing such issuance of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum or other security in such form, as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate claimed to have been lost, stolen or destroyed.

ARTICLE IX

GENERAL PROVISIONS

SECTION 57. DIVIDENDS. Dividends upon the capital stock of the Corporation, subject to the provisions of the Articles of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in its own shares, subject to the provisions of law and of the Articles of Incorporation.

SECTION 58. RESERVES. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interests of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

SECTION 59. ANNUAL STATEMENT. The Chief Executive Officer, the President or a Vice-President, the Chief Financial Officer or the Treasurer shall prepare

or cause to be prepared annually a full and correct statement of the affairs of the Corporation, including a balance sheet and a financial statement of operations for the preceding fiscal year, which shall be submitted at the annual meeting and shall be filed within twenty days thereafter at the principal office of the Corporation in the State of Maryland.

SECTION 60. CHECKS. All checks, drafts, and orders for the payment of money, notes and other evidences of indebtedness, issued in the name of the Corporation shall be signed by such officer or officers as the Board of Directors may from time to time designate.

SECTION 61. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

SECTION 62. SEAL. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "CORPORATE SEAL, MARYLAND." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE X

AMENDMENTS

SECTION 63. AMENDMENTS. These Bylaws may be amended, altered, restated or repealed, or a provision waived as provided in the Articles of Incorporation and these Bylaws.

I, THE UNDERSIGNED, being the Secretary of Gladstone Capital Corporation DO HEREBY CERTIFY the foregoing to be the bylaws of the Corporation, as adopted by Written Consent of the Board of Directors in Lieu of an Organizational Meeting, dated May 30, 2001.

/s/ DAVID GLADSTONE

David Gladstone, Secretary

DIRECT REGISTRATION TRANSACTION ADVICE

Company Name:
Security Description:
CUSIP Number:
Account Registration:

Transfer Agent: THE BANK OF NEW YORK
Transfer Agent Account Number:
Telephone Number:
Transaction Date:

Transaction Description:
Transaction Advice Number:
Transaction Shares:
DRS Current Balance:

BROKER/DEALER INFORMATION

Name:
Participant Number:
Customer Account Number:

RETAIN THIS ADVICE AS A RECORD OF YOUR OWNERSHIP OF THE ABOVE SECURITIES.

FOLD AND DETACH HERE

<TABLE>
<S> <C> <C>

COMPLETE THIS FORM TO AUTHORIZE THE BANK OF NEW YORK TO ADD/CHANGE BROKER/DEALER INFORMATION OR TO ELECTRONICALLY TRANSFER YOUR DIRECT REGISTRATION SHARES TO THE BROKER/DEALER YOU DESIGNATE.

/ / Add to/change my account to reflect the following Broker/Dealer Information:

_____ _____
Broker/Dealer Name Broker/Dealer Participant Number

_____
Broker/Dealer Customer Account Number

/ / Electronically transfer (by indicating below) Direct Registration Shares from my account to the Broker/Dealer and related Broker/Dealer Customer Account Number designated on my account.
/ / / / / / /
Indicate Number of shares OR All shares (check here) / /

SIGNATURES: THE INSTRUCTION(S) GIVEN ABOVE MUST BE SIGNED BY ALL REGISTERED HOLDER(S). IF HELD IN JOINT NAME, BOTH OWNERS MUST SIGN. ALL SIGNATURE(S) MUST BE GUARANTEED BY A PARTICIPANT IN THE MEDALLION SIGNATURE PROGRAM.

Medallion Guarantee Stamp

_____ _____
Signature Date

_____ _____
Signature Date

SEE REVERSE SIDE FOR ADDITIONAL INFORMATION

Make no markings below this dotted line

FOLD AND DETACH HERE

TRANSACTION REQUEST FORM - PLEASE KEEP THIS FORM FOR FUTURE REQUESTS (SEE REVERSE SIDE FOR PROPER ENTRY INSTRUCTIONS)

BOX #1 / / Issue a certificate from my Direct Registration shares position (Please choose one option only):
/ / / / / / /
(Indicate number of whole shares) OR All Shares (check here) / /

BOX #2 / / Issue Direct Registration shares in place of the attached certificated share(s):
/ / / / / / /
(Indicate number of whole shares) Please enclose your certificate(s). A Direct Registration Transaction Advice will be issued and mailed to you.

BOX #3 / / Sell my certificated shares:
/ / / / / / /
(Indicate number of whole shares)

BOX #4 / / Sell my Direct Registration Shares:
/ / / / / / /
(Indicate number of whole shares) OR All Shares
(check here) / /

PLEASE ENCLOSE YOUR CERTIFICATE(S) IF SELLING CERTIFICATED SHARES. SHARES WILL BE SOLD SUBJECT TO THE TERMS AND CONDITIONS

OUTLINED IN THE DIVIDEND REINVESTMENT OR DIRECT STOCK PURCHASE PLAN PROSPECTUS. THESE TERMS AND CONDITIONS ARE ALSO SUMMARIZED IN THE DIRECT REGISTRATION BROCHURE WHICH YOU EITHER PREVIOUSLY RECEIVED OR IS ENCLOSED WITH THIS ADVICE.

BOX / / Change my address - Mark this box and complete the other side of form.
#5

- ----------

ALL REQUESTS MUST BE SIGNED BY ALL REGISTERED OWNERS	SIGNATURE	SIGNATURE	DATE	DAYTIME TELEPHONE NO. ( )

- ----------

Make no markings below this dotted line

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</TABLE>

ABOUT YOUR TRANSACTION ADVICE

This advice is your record of the indicated securities being credited to your account in book entry form as part of a Direct Registration System. It should be kept with your important documents as a record of your ownership of these securities. This completes the transaction that you initiated.

You are asked to review carefully all of the information shown on the reverse side to be sure that it conforms with your understanding of the transaction. When doing so, please make a point to verify your Broker/Dealer Information, if present. Your failure to notify the Transfer Agent of any corrections to your Broker/Dealer Information will be deemed your confirmation of this information. If you elect to sell these securities (or any additional securities credited to your account) through your Broker/Dealer, they may be transferred by the Transfer Agent to your Broker/Dealer without further confirmation of such Broker/Dealer Information from you. For this reason, it is most important that the Broker/Dealer Information shown on the reverse side, or any future Broker/Dealer Information that may be provided to the Transfer Agent, be accurate. The Transfer Agent must rely entirely on the Broker/Dealer Information currently shown in its records, and will not be responsible for any error that may occur in the transfer of your securities in reliance upon inaccurate Broker/Dealer Information furnished by you or your Broker/Dealer.

There may be rights, privileges, restrictions and conditions attached to the securities covered by this Advice. A full copy of the text of any rights, privileges, restrictions and conditions can be obtained by writing to the Secretary of the Company.

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INSTRUCTIONS FOR AUTHORIZATION TO ADD/CHANGE BROKER/DEALER INFORMATION

COMPLETE THIS FORM IF:
- ----------

- o You need to add/change any of your Broker/Dealer Information.
- o You want to electronically transfer your Direct Registration securities to the Broker/Dealer you designate.

REMEMBER:
- ----------

- o Once a Broker/Dealer has been identified on your account, you may transfer any number of your shares to the Broker/Dealer electronically by simply calling The Bank of New York at the toll free number listed on the front of this advice.
- o While you may only have one Broker/Dealer identified on your account, you may change this information at any time by completing the add/change section on the reverse side of this form, having your signature guaranteed, and returning the completed form to The Bank of New York.
- o You must sign this form and have your signature guaranteed by a participant in the Medallion Signature Guarantee Program. If there is more than one name on the account, both shareowners must sign. All securities will be transferred unless you specify fewer than "ALL" shares. Send the completed form to The Bank of New York, PO Box 11022, Church Street Station, New York, NY 10286-1022.
- o If you want to transfer your shares to any other person, call The Bank of New York for the appropriate forms.

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DETACH HERE

CHANGE OF ADDRESS:

(Please print new information):_____
STREET CITY STATE ZIP CODE

INSTRUCTIONS FOR TRANSACTION REQUEST SECTION ON THE REVERSE SIDE

1. Mark Box #1 to receive shares in certificate form from your Direct Registration position. Enter the number of whole shares you wish to receive or check the box provided if you wish to receive all Direct Registration shares in certificate form.

2. Mark Box #2 to move shares held by you in certificated form to your Direct Registration position. Enter the number of whole shares you wish to add to your Direct Registration position from your certificated shares. Please enclose your certificate(s).

3. Mark Box #3 to sell your certificated shares. Enter the number of whole shares you wish to sell from your certificated position. You will receive a check for the net proceeds of the sale (LESS SERVICE FEES AND BROKERAGE COMMISSION AS OUTLINED IN THE DIVIDEND REINVESTMENT OR DIRECT PURCHASE PLAN PROSPECTUS). Please enclose your certificate(s).

4. Mark Box #4 to sell your Direct Registration Shares. Enter the number of whole shares you wish to sell from your Direct Registration position or check the box provided for "ALL" shares. You will receive a check for the net proceeds of the sale (LESS SERVICE FEES AND BROKERAGE COMMISSIONS AS OUTLINED IN THE DIVIDEND REINVESTMENT OR DIRECT PURCHASE PLAN PROSPECTUS).

5. Mark Box #5 to make an address change on your account. Please complete address change information above.

ALL REQUESTS MUST BE SIGNED BY ALL REGISTERED OWNERS. PLEASE PRINT NUMERALS IN BLUE OR BLACK INK.

MAIL ALL REQUESTED TRANSACTIONS TO: The Bank Of New York
Church Street Station
P.O. Box 11022
New York, NY 10286-1022

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Exhibit 99.e

GLADSTONE CAPITAL CORPORATION
DIVIDEND REINVESTMENT PLAN

Gladstone Capital Corporation
1750 Tysons Boulevard, 4th Floor
McLean, VA 22102
(703) 744-1165

PLAN AGENT:
The Bank of New York
100 Church Street
14th Floor
New York, NY 10286

The Dividend Reinvestment Plan (the "PLAN") of Gladstone Capital Corporation (the "COMPANY") provides for reinvestment of Company distributions, which consist of income dividends, capital gain distributions, and returns of capital paid by the Company, on behalf of each Participant (as defined below), by the Company's transfer agent (as set forth in Section 14 below, the "PLAN AGENT"), in accordance with the following terms:

1. PURPOSE. The purpose of the Plan is to provide shareholders of record of the Company's common stock, par value $0.001 per share (the "SHARES"), with a method of investing distributions in additional shares at the current market price without charges for record-keeping, custodial and reporting services.

2. DUTIES AND RESPONSIBILITIES OF THE PLAN AGENT. The Plan Agent shall administer the Plan for Participants, keep records, send statements of accounts to Participants, and perform such other duties relating to the Plan as the Company and the Plan Agent, from time to time, shall agree upon.

3. PARTICIPATION IN THE PLAN.

(a) SHARES HELD BY A BROKER, BANK OR NOMINEE. Any shares held on the books of the Plan Agent in the name of a broker, bank, or other nominee (a "NOMINEE") may participate in the Plan only to the extent that such nominee participates on behalf of the beneficial owner of such shares.

(b) PARTICIPATION. Each shareholder of record may enroll in the Plan by delivering an enrollment status form to the Plan Agent no less than ten (10) days prior to the corresponding distribution declaration date (each participating shareholder, a "PARTICIPANT"). The Plan Agent shall reinvest for each Participant's Account (as defined in Section 5 below) all distributions that may be declared and paid on such Participant's shares. A shareholder who does not elect to participate in the Plan will receive all distributions in cash paid by check mailed directly to such shareholder (or if such shareholder holds such shares in street or nominee name, then to such shareholder's nominee) as of the relevant record date, by the Plan Agent.

(c) ELECTION OF PARTIAL PARTICIPATION. Any shareholder may elect to partially participate in the Plan at any time by providing the Plan Agent with notice of such shareholder's

intention for partial participation. The notice of partial participation must be specific as to the number of shares with respect to which distributions shall not be reinvested pursuant to the Plan. With respect to any distribution, any election of partial participation in the Plan shall be effective only if notice of such election shall have been received by the Plan Agent before the record date of such distribution.

(d) REENROLLMENT IN THE PLAN. Any shareholder who has previously elected complete non-participation in the Plan (i.e., elected to receive distributions in cash on all shares owned by such shareholder) and thus is not participating in the Plan, may begin or resume participation in the Plan at any time with notice to the Plan Agent of such shareholder's intention to participate. With respect to any distribution, any election to participate in the Plan shall be effective only if notice of such election shall have been received by the Plan Agent before the record date of such distribution.

(e) TERMINATION OF PARTICIPATION.

(i) Any Participant may terminate participation in the Plan at any time upon written notice to the Plan Agent. Such termination will be effective immediately if received not less than ten (10) days prior to a distribution record date; otherwise, it will be effective the day after the related distribution date. Within twenty (20) days following receipt of such notice by the Plan Agent and according to such Participant's instructions, the Plan Agent

shall either:

(1) maintain all shares held by such Participant in a Plan Account designated to receive all future distributions in cash;

(2) issue certificates for the whole shares credited to such Participant's Plan Account and issue a check representing the value of any fractional shares to such Participant; or

(3) sell the shares held in the Plan Account and remit the proceeds of the sale, less any brokerage commissions that may be incurred, to such Participant at his or her address of record at the time of such liquidation. With respect to any distribution, termination of participation in the Plan shall be effective only if notice of such termination shall have been received by the Plan Agent before the record date of such distribution.

(ii) Pursuant to Section 3(b) hereof, participation in the Plan shall continue with respect to all shares held in a Participant's Plan Account, including shares registered in such Participant's name on the books of the Plan Agent ("REGISTERED SHARES") and shares credited to such Participant's Plan Account pursuant to the Plan ("PLAN SHARES"), unless and until termination of participation is specifically requested by such Participant with respect to such shares. For these purposes, the sale or transfer of Registered Shares shall not cause termination of participation in the Plan with respect to Plan Shares and vice versa.

4. OPERATION OF THE PLAN.

(a) PAYMENT OF DISTRIBUTIONS. With respect to each distribution, each Participant's Plan Account shall be credited with the number of full and fractional shares (computed to three decimal places) that could be obtained, at the price determined in accordance with paragraphs (b) and (c) below, with the cash equivalent of such distribution, net of any applicable withholding taxes. Each shareholder who has elected not to participate in the Plan in accordance with Section 3(c) above or who has terminated his or her participation in the Plan in accordance with Section 3(f) above shall receive each distribution in cash.

(b) ALLOCATIONS TO PLAN ACCOUNTS. Except under the circumstances outlined in paragraph (c) below, the Plan Agent shall purchase shares on the Nasdaq National Market ("NASDAQ") or elsewhere beginning on or before the payment date of the distribution until the Plan Agent has expended for such purchases all of the cash that would otherwise be payable to Participants. The allocation of shares to the Participants' Plan Accounts shall be based on the average cost of the shares so purchased, including brokerage commissions. The Plan Agent shall reinvest all distributions as soon as practicable, but no later than 30 days after the payment date of the distribution, except to the extent necessary to comply with applicable provisions of the federal securities laws.

(c) ALLOCATION OF NEWLY ISSUED SHARES TO PLAN ACCOUNTS.

(i) If the shares sell in the market at a substantial premium over their net asset value, the Company's Board of Directors may (but is not required to) declare a distribution to be paid to Participants in newly issued shares of the Company. In that situation, the price of newly issued shares issued to a Participant's Plan Account shall be equal to the average of the closing sales prices reported for the shares in the Nasdaq listings in The Wall Street Journal for the five days on which trading of shares takes place immediately prior to the payment date of such distribution (but not less than 95% of the opening sales price on such date).

(ii) If the Board of Directors has declared the distribution to be payable to Plan Participants in newly issued shares, the Plan Agent shall be instructed not to credit such newly issued shares, and instead to buy shares in the market, if:

(1) the price at which newly issued shares are to be credited does not exceed 110% of the last determined net asset value of the shares; or

(2) the Company has advised the Plan Agent that since such net asset value was last determined, the Company has become aware of events that indicate the possibility of a material change in per share net asset value as a result of which the net asset value of the shares on the payment date might be higher than the price at which the Plan Agent would credit newly issued shares to the Participant's Plan Accounts.

5. PLAN ACCOUNTS. The Plan Agent shall maintain a separate Plan Account for each Participant. All shares issued to a Participant under the Plan (i.e., Plan Shares) shall be credited to such Participant's Plan Account. The Plan Agent will mail to each Participant a statement confirming the issuance of Plan Shares within 15 days after the allocation of such shares is made. Such statement will

show the amount of the distribution, the price at which such Plan Shares

were credited, the number of full and fractional Plan Shares credited, the number of Plan Shares previously credited, and the cumulative total of Plan Shares. The Statement will also reflect the number of Registered Shares held in the Plan Account. In addition, each Participant shall receive copies of the Company's annual and quarterly reports to shareholders, proxy statements and dividend income information for tax purposes. The proxy card received by each Participant shall represent all shares held of record, including Plan Shares held in the Plan Account.

6. SHARE CERTIFICATES. Certificates for shares issued under the Plan shall not be furnished to a Participant unless such Participant requests in writing certificates for a specified number of shares credited to such Participant's Plan Account. All requests for certificates must be directed to the Plan Agent. No certificates for fractional shares will be issued.

7. NAME OF PLAN ACCOUNTS AND ON CERTIFICATES. Plan Accounts are maintained in the name in which share certificates of the Participant were (or would have been, in the case of uncertificated shares) registered at the time the Participant began participation in the Plan. Certificates for shares issued at the request of a Participant pursuant to Section 6 above will be similarly registered.

8. STOCK DIVIDENDS AND STOCK SPLITS. Any stock dividends or split shares distributed by the Company on shares held in a Plan Account will be credited to the Participant's Plan Account.

9. SHARE SAFEKEEPING. Participants who wish to have their shares held in safekeeping may deposit Gladstone Capital Corporation certificates now or hereafter registered in their names for credit in their Plan Account with the Plan Agent. There is no charge for such deposit and by making such deposit the Participant will be relieved of the responsibility for loss, theft or destruction of the certificate. Because the Participant bears the risk of loss in sending stock certificates to the Plan Agent, it is recommended that certificates be sent to the Plan Agent by registered mail, return receipt requested, and properly insured. Certificates should not be endorsed, but must be accompanied by written instructions directing the Plan Agent to hold the certificates for the Participant.

10. EXPENSES OF ADMINISTRATION. The Plan Agent's fees for administering this Plan shall be included in the fees paid by the Company to the Plan Agent for acting as its transfer agent, and shall not be charged to Participants.

11. AMENDMENT OR TERMINATION OF THE PLAN. The Plan may be amended or terminated by the Company or the Plan Agent upon 60 days' notice to Plan Participants.

12. NOTICE. Any notice required hereunder must be provided in writing. Notices to the Company should be directed to Gladstone Capital Corporation, 1750 Tysons Boulevard, 4th Floor, McLean, Virginia 22102. Notices to the Plan Agent should be directed to the Plan Agent's address as set forth in Section 14 below. Notices to any Participant must be provided to such Participant at his or her address of record at the time of such notice.

13. EFFECTIVE DATE. This Plan shall take effect on [_____, 2001] (the "EFFECTIVE DATE") and shall remain in effect until its termination hereunder.

14. PLAN AGENT. As of the Effective Date hereof, the Plan Agent shall be The Bank of New York, 100 Church Street, 14th Floor, New York, NY 10286. The Company shall notify Participants of any change in the Plan Agent and/or the address to which notices to the Plan Agent may be sent.

GLADSTONE CAPITAL CORPORATION

DIVIDEND REINVESTMENT PLAN

ENROLLMENT STATUS FORM

The undersigned shareholder of record of Gladstone Capital Corporation elects

one of the following:

[ ] PLAN TERMINATION: Terminate enrollment in the Dividend Reinvestment Plan and receive dividends and distributions in cash with respect to all shares of Gladstone Capital Corporation held of record or credited to the undersigned's Plan Account.

YOU MUST CHOOSE ONE OF THE FOLLOWING OPTIONS:

[ ] Liquidate all Plan Shares and remit proceeds.

[ ] Send certificate for whole Plan shares and liquidate any fractional Plan Shares and deliver proceeds to the Plan Participant at the address of record.

[ ] FULL PARTICIPATION: Participate in the Dividend Reinvestment Plan and receive dividends and distributions in additional shares with respect to ALL Gladstone Capital Corporation shares held of record or credited to the undersigned's Plan Account.

[ ] PARTIAL PARTICIPATION: Participate in the Dividend Reinvestment Plan and receive dividends and distributions in additional shares with respect to all Gladstone Capital Corporation shares held of record, including the shares subsequently credited to the undersigned's Plan Account, EXCEPT _____ shares on which dividends and distributions are to be paid in cash.

Termination and partial participation instructions will take effect on the record date following receipt of this form by the Plan Agent. Enrollment instructions will take effect on the record date following receipt of this form by the Plan Agent.

Type or print name(s) exactly as it appears on your stock certificate(s)

Tax Identification Number or Social Security Number

Signature:

Signature:

(if a joint account, both signatures are required)

PLEASE RETURN FORM TO THE PLAN AGENT:
The Bank of New York
100 Church Street
14th Floor
New York, NY 10286

Exhibit 99.i.1

GLADSTONE CAPITAL CORPORATION

AMENDED AND RESTATED 2001 EQUITY INCENTIVE PLAN

ADOPTED: JUNE 2, 2001
AMENDED AND RESTATED: JULY 23, 2001
APPROVED BY STOCKHOLDERS: JULY 23, 2001
TERMINATION DATE: JUNE 1, 2011

1. PURPOSES.

(a) ELIGIBLE STOCK AWARD RECIPIENTS. The persons eligible to receive Stock Awards are the Employees and Directors of the Company and its Affiliates. Stock Awards to Non-Employee Directors must be approved by order of the Commission as provided by Section 61(a)(3)(B)(I)(II) of the Investment Company Act .

(b) AVAILABLE STOCK AWARDS. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Company's capital stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, and (iii) rights to acquire restricted stock.

(c) GENERAL PURPOSE. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) "AFFILIATE" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) "BOARD" means the Board of Directors of the Company.

(c) "CAPITALIZATION ADJUSTMENT" has the meaning ascribed to that term in Section 11(a).

(d) "CHANGE IN CONTROL" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction;

(iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company shall otherwise occur;

(iv) there is consummated a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the Company immediately prior to such sale, lease, license or other disposition; or

(v) individuals who, on the date this Plan is adopted by the Board, are members of the Board (the "Incumbent Board") cease for any reason to

constitute at least a majority of the members of the Board; (PROVIDED, HOWEVER, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because the level of Ownership held by any Exchange Act Person (the "Subject Person") exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur.

Notwithstanding the foregoing or any other provision of this Plan, the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant shall supersede the foregoing definition with respect to Stock Awards subject to such agreement (it being understood, however, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply).

(e) "CODE" means the Internal Revenue Code of 1986, as amended.

(f) "COMMITTEE" means a committee of one or more members of the Board appointed by the Board in accordance with Section 3(c).

(g) "COMMON STOCK" means the common stock of the Company.

(h) "COMPANY" means Gladstone Capital Corporation, a Maryland corporation.

(i) "CONTINUOUS SERVICE" means that the Participant's service with the Company or an Affiliate, whether as an Employee or Director, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, shall not terminate a Participant's Continuous Service. For example, a change in status from an Employee of the Company to an Employee of an Affiliate or a Director shall not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company's leave of absence policy or in the written terms of the Participant's leave of absence.

(j) "CORPORATE TRANSACTION" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board in its discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least fifty percent (50%) of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(k) "COVERED EMPLOYEE" means the chief executive officer and the four (4) other highest compensated officers of the Company for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

(l) "DIRECTOR" means a member of the Board of Directors of the Company.

(m) "DISABILITY" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(n) "EMPLOYEE" means any person employed by the Company or an Affiliate. Service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(o) "ENTITY" means a corporation, partnership or other entity.

(p) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(q) "EXCHANGE ACT PERSON" means any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that "Exchange Act Person" shall not include (A) the Company or any Subsidiary of the Company, (B) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company.

(r) "FAIR MARKET VALUE" means, as of any date, the value of the capital stock determined as follows:

(i) If the class of capital stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of such capital stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the capital stock) on the last market trading day prior to the day of determination, as reported in THE WALL STREET JOURNAL or such other source as the Board deems reliable.

(ii) In the absence of such markets for the capital stock, the Fair Market Value shall be determined in good faith by the Board.

(s) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(t) "INVESTMENT COMPANY ACT" means the Investment Company Act of 1940.

(u) "NON-EMPLOYEE DIRECTOR" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a

business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(v) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.

(w) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(x) "OPTION" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(y) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(z) "OPTIONHOLDER" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding

Option.

(aa) "OUTSIDE DIRECTOR" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax-qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(bb) "OWN," "OWNED," "OWNER," OR "OWNERSHIP" means that a person or Entity shall be deemed to "Own," to have "Owned," to be the "Owner" of, or to have acquired "Ownership" of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(cc) "PARTICIPANT" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(dd) "PLAN" means this Gladstone Capital Corporation Amended and Restated 2001 Equity Incentive Plan.

(ee) "PREFERRED STOCK" means the preferred stock of the Company.

(ff) "RULE 16B-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(gg) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(hh) "STOCK AWARD" means any right granted under the Plan, including an Option or a right to acquire restricted stock.

(ii) "STOCK AWARD AGREEMENT" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(jj) "SUBSIDIARY" means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(kk) "TEN PERCENT STOCKHOLDER" means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) ADMINISTRATION BY BOARD. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in Section 3(c).

(b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock or Preferred Stock pursuant to a Stock Award; and the number of shares of capital stock with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 12.

(iv) To terminate or suspend the Plan as provided in Section 13.

(v) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan.

(C) DELEGATION TO COMMITTEE.

(i) GENERAL. The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(ii) SECTION 162(M) AND RULE 16B-3 COMPLIANCE. In the discretion of the Board, the Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (1) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Stock Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (2) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

(d) EFFECT OF BOARD'S DECISION. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) SHARE RESERVE. Subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the capital stock that may be issued pursuant to Stock Awards shall be six hundred thousand (600,000) shares, subject to increase by 4.5% of the number of shares sold pursuant to the exercise of the underwriter's over-allotment option in the initial public offering and any upsizing of the offering up to 20%, for a maximum share reserve of eight hundred twenty-eight thousand (828,000) shares of capital stock. Stock Awards shall be comprised of Common Stock or Preferred Stock as determined by the Board in its discretion.

(b) REVERSION OF SHARES TO THE SHARE RESERVE. If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the shares of capital stock not acquired under such Stock Award shall revert to and again become available for issuance under the Plan.

(c) SOURCE OF SHARES. The shares of capital stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) ELIGIBILITY FOR SPECIFIC STOCK AWARDS. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees and Directors.

(b) TEN PERCENT STOCKHOLDERS. A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the capital stock on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) SECTION 162(M) LIMITATION ON ANNUAL GRANTS. Subject to the

provisions of Section 11(a) relating to Capitalization Adjustments, no Employee shall be eligible to be granted Options covering more than three hundred thousand (300,000) shares of capital stock during any calendar year.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates shall be issued for shares of capital stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date on which it was granted.

(b) EXERCISE PRICE OF AN INCENTIVE STOCK OPTION. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the capital stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) EXERCISE PRICE OF A NONSTATUTORY STOCK OPTION. The exercise price of each Nonstatutory Stock Option shall be not less than the Fair Market Value of the capital stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) CONSIDERATION. The purchase price of capital stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) (1) by delivery to the Company of other capital stock, (2) according to a deferred payment or other similar arrangement with the Optionholder which satisfies the requirements of Section 62 of the Investment Company Act, or (3) in any other form of legal consideration that may be acceptable to the Board. Unless otherwise specifically provided in the Option, the purchase price of capital stock acquired pursuant to an Option that is paid by delivery to the Company of other capital stock acquired, directly or indirectly from the Company, shall be paid only by shares of the capital stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid (1) the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement, and (2) the treatment of the Option as a variable award for financial accounting purposes.

(e) TRANSFERABILITY OF AN INCENTIVE STOCK OPTION. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) TRANSFERABILITY OF A NONSTATUTORY STOCK OPTION. A Nonstatutory Stock Option shall be transferable by gift, by will, or by the laws of descent and distribution to the extent provided in the Option Agreement. The Nonstatutory Stock Option shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) VESTING GENERALLY. The total number of shares of capital stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may

deem appropriate. The vesting provisions of individual Options may vary. The provisions of this Section 6(g) are subject to any Option provisions governing the minimum number of shares of capital stock as to which an Option may be exercised.

(h) TERMINATION OF CONTINUOUS SERVICE. In the event that an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement) or (ii)

the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(i) EXTENSION OF TERMINATION DATE. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares of capital stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in Section 6(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(j) DISABILITY OF OPTIONHOLDER. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(k) DEATH OF OPTIONHOLDER. In the event that (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death pursuant to Section 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(l) EARLY EXERCISE. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of capital stock subject to the Option prior to the full vesting of the Option. Any unvested shares of capital stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate. The Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option.

(m) RE-LOAD OPTIONS.

(i) Without in any way limiting the authority of the Board to make or not to make grants of Options hereunder, the Board shall have the authority (but not an obligation) to include as part of any Option Agreement a provision entitling the Optionholder to a further Option (a "Re-Load Option") in the event the Optionholder exercises the Option evidenced by the Option Agreement, in whole or in part, by surrendering other shares of capital stock in accordance with this Plan and the terms and conditions of the Option Agreement. Unless otherwise specifically provided in the Option, the Optionholder shall not

surrender shares of capital stock acquired, directly or indirectly from the Company, unless such shares have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes).

(ii) Any such Re-Load Option shall (1) provide for a number of shares of capital stock equal to the number of shares of capital stock surrendered as part or all of the exercise price of such Option; (2) have an expiration date which is the same as the expiration date of the Option the exercise of which gave rise to such Re-Load Option; and (3) have an exercise price which is equal to one hundred percent (100%) of the Fair Market Value of the capital stock subject to the Re-Load Option on the date of exercise of the original Option. Notwithstanding the foregoing, a Re-Load Option shall be subject to the same exercise price and term provisions heretofore described for Options under the Plan.

(iii) Any such Re-Load Option may be an Incentive Stock Option or a Nonstatutory Stock Option, as the Board may designate at the time of the grant of the original Option; provided, however, that the designation of any Re-Load Option as an Incentive Stock Option shall be subject to the one hundred thousand dollar ($100,000) annual limitation on the exercisability of Incentive Stock Options described in subsection 10(d) and in Section 422(d) of the Code. There shall be no Re-Load Options on a Re-Load Option. Any such Re-Load Option shall be subject to the availability of sufficient shares of capital stock under subsection 4(a) and the "Section 162(m) Limitation" on the grants of Options under subsection 5(c) and shall be subject to such other terms and conditions as the Board may determine which are not inconsistent with the express provisions of the Plan regarding the terms of Options.

7. RESTRICTED STOCK AWARD PROVISIONS.

Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(a) PURCHASE PRICE. The purchase price of restricted stock awards shall not be less than the capital stock's Fair Market Value on the date such award is made or at the time the purchase is consummated and shall be above the current net asset value as defined in rule 2a-4 of the Investment Company Act.

(b) CONSIDERATION. The purchase price of capital stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at

the discretion of the Board, according to a deferred payment or other similar arrangement with the Participant which satisfies the requirements of Section 62 of the Investment Company Act; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion; PROVIDED, HOWEVER, that at any time that the Company is incorporated in Delaware, then payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(c) VESTING. Shares of capital stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(d) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event that a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of capital stock held by the Participant that have not vested as of the date of termination under the terms of the restricted stock purchase agreement.

(e) TRANSFERABILITY. Rights to acquire shares of capital stock under the restricted stock purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the restricted stock purchase agreement, as the Board shall determine in its discretion, so long as capital stock awarded under the restricted stock purchase agreement remains subject to the terms of the restricted stock purchase agreement.

8. COVENANTS OF THE COMPANY.

(a) AVAILABILITY OF SHARES. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of capital stock required to satisfy such Stock Awards.

(b) SECURITIES LAW COMPLIANCE. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such

authority as may be required to grant Stock Awards and to issue and sell shares of capital stock upon exercise of the Stock Awards; PROVIDED, HOWEVER, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any capital stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of capital stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell capital stock upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of capital stock pursuant to Stock Awards shall constitute general funds of the Company.

10. MISCELLANEOUS.

(a) ACCELERATION OF EXERCISABILITY AND VESTING. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a

Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) STOCKHOLDER RIGHTS. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of capital stock subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) NO EMPLOYMENT OR OTHER SERVICE RIGHTS. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause or (ii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) INCENTIVE STOCK OPTION $100,000 LIMITATION. To the extent that the aggregate Fair Market Value (determined at the time of grant) of capital stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) INVESTMENT ASSURANCES. The Company may require a Participant, as a condition of exercising or acquiring capital stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring capital stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the capital stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the shares of capital stock upon the exercise or acquisition of capital stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the capital stock.

(f) WITHHOLDING OBLIGATIONS. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of capital stock under a Stock Award by any of the

following means (in addition to the Company's right to withhold from any

compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of capital stock from the shares of capital stock otherwise issuable to the Participant as a result of the exercise or acquisition of capital stock under the Stock Award; PROVIDED, HOWEVER, that no shares of capital stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid variable award accounting); or (iii) delivering to the Company owned and unencumbered shares of capital stock.

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) CAPITALIZATION ADJUSTMENTS. If any change is made in, or other event occurs with respect to, the capital stock subject to the Plan or subject to any Stock Award without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company (each a "Capitalization Adjustment"), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to Sections 4(a) and 4(b) and the maximum number of securities subject to award to any person pursuant to Section 5(c), and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of capital stock subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) DISSOLUTION OR LIQUIDATION. In the event of a dissolution or liquidation of the Company, then all outstanding Stock Awards shall terminate immediately prior to the completion of such dissolution or liquidation.

(c) CORPORATE TRANSACTION. In the event of a Corporate Transaction, any surviving corporation or acquiring corporation may assume any or all Stock Awards outstanding under the Plan or may substitute similar stock awards for Stock Awards outstanding under the Plan (it being understood that similar stock awards include, but are not limited to, awards to acquire the same consideration paid to the stockholders or the Company, as the case may be, pursuant to the Corporate Transaction). In the event that any surviving corporation or acquiring corporation does not assume any or all such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have been neither assumed nor substituted and that are held by Participants whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction, the vesting of such Stock Awards shall (contingent upon the effectiveness of the Corporate Transaction) be accelerated in full to a date prior to the effective time of such Corporate Transaction as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five (5) days prior to the effective time of the Corporate Transaction), and the Stock Awards shall terminate if not exercised (if applicable) at or prior to such effective time. With respect to any other Stock Awards outstanding under the Plan that have been neither assumed nor substituted, the vesting of such Stock Awards shall not be accelerated unless otherwise provided in a written agreement

between the Company or any Affiliate and the holder of such Stock Award, and such Stock Awards shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction.

(d) CHANGE IN CONTROL. A Stock Award held by any Participant whose Continuous Service has not terminated prior to the effective time of a Change in Control may be subject to additional acceleration of vesting and exercisability as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration shall occur.

12. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11(a) relating to Capitalization Adjustments, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code.

(b) STOCKHOLDER APPROVAL. The Board, in its sole discretion, may submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees.

(c) CONTEMPLATED AMENDMENTS. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) NO IMPAIRMENT OF RIGHTS. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) AMENDMENT OF STOCK AWARDS. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; PROVIDED, HOWEVER, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) NO IMPAIRMENT OF RIGHTS. Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

15. CHOICE OF LAW.

The law of the Commonwealth of Virginia shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

16. INVESTMENT COMPANY ACT.

No provision of this Equity Incentive Plan will contravene any portion of the Investment Company Act. In the event of any conflict between the provisions of the Plan and the Investment Company Act, the applicable section of the Investment Company Act shall control and all Stock Awards under the Plan shall be so modified. All participants holding such modified Stock Awards shall be notified of the change to their Stock Awards and such change shall be binding on such Participants.

GLADSTONE CAPITAL CORPORATION
AMENDED AND RESTATED 2001 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT
(INCENTIVE STOCK OPTION OR NONSTATUTORY STOCK OPTION)

Pursuant to your Stock Option Grant Notice ("Grant Notice") and this Stock Option Agreement, Gladstone Capital Corporation (the "Company") has granted you an option under its Amended and Restated 2001 Equity Incentive Plan (the "Plan") to purchase the number of shares of the Company's capital stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice. Defined terms not explicitly defined in this Stock Option Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of your option are as follows:

1. VESTING. Subject to the limitations contained herein, your option will vest as provided in your Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. NUMBER OF SHARES AND EXERCISE PRICE. The number of shares of capital stock subject to your option and your exercise price per share referenced in your Grant Notice may be adjusted from time to time for Capitalization Adjustments.

3. CONVERSION OF OPTION AND RIGHTS UPON CONVERSION. In the sole discretion of the Board, your option for shares of Common Stock shall convert to an option for shares of Preferred Stock on the following basis:

(a) your option for shares of Common Stock shall be convertible by the Company to an option for an equal number of shares of Preferred Stock;

(b) the exercise price per share for the Preferred Stock shall be the same exercise price as referenced in your Grant Notice for the Common Stock;

(c) your option for shares of Preferred Stock shall vest in equal annual increments over four years, with the vesting occurring on each yearly anniversary of the initial Date of Grant of the option (such that service prior to the conversion shall be credited);

(d) upon liquidation or dissolution of the Company or a Change in Control, after the payment of all the Company's debts and obligations, you shall receive a distribution of fifteen dollars ($15) per share for each share of Preferred Stock that you hold at that time as a result of the exercise of this option, and subject to adjustment by the Company in its discretion upon the occurrence of any event with respect to the Company capital stock without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), before the holders of Common Stock receive any of the liquidation proceeds;

(e) upon the payment of dividends, if any, the holders of Preferred Stock shall receive a dividend equal to ninety percent (90%) of the dividend received by the holders of Common Stock;

(f) neither the option for shares of Preferred Stock nor the Preferred Stock is registered with the Securities and Exchange Commission;

(g) your option for shares of Preferred Stock and the Preferred Stock are subject to the rules and restrictions of the Securities Act, Exchange Act, and Investment Company Act, and are transferable only by gift, will or intestacy;

(h) the Preferred Stock acquired upon exercise of the option must be converted to Common Stock on or before the ten year anniversary of the Date of Grant of your option, with a conversion ratio of one share of Preferred Stock for one share of Common Stock;

(i) the Preferred Stock and Common Stock will have one-for-one voting rights (one vote for each share);

(j) the Company may repurchase any shares of the Preferred

Stock which are acquired under the option, at any time, at the greater of the Fair Market Value per share for the Preferred Stock or the liquidation preference value as described in subsection 3(e) above; and

(k) the Preferred Stock may be purchased by you with a promissory note pursuant to the terms described in Section 5(c) below.

To the extent your option is an Incentive Stock Option for purposes of Section 422 of the Code prior to its conversion under this Section 3, the Company does not warranty or guarantee, in any way, the option's continued status as an incentive stock option following the conversion.

4. EXERCISE PRIOR TO VESTING ("EARLY EXERCISE"). If permitted in your Grant Notice (i.e., the "Exercise Schedule" indicates that "Early Exercise" of your option is permitted) and subject to the provisions of your option, you may elect at any time that is both (i) during the period of your Continuous Service and (ii) during the term of your option, to exercise all or part of your option, including the nonvested portion of your option; PROVIDED, HOWEVER, that:

(a) a partial exercise of your option shall be deemed to cover first vested shares of capital stock and then the earliest vesting installment of unvested shares of capital stock;

(b) any shares of capital stock so purchased from installments that have not vested as of the date of exercise shall be subject to the purchase option in favor of the Company as described in the Company's form of Early Exercise Stock Purchase Agreement;

(c) you shall enter into the Company's form of Early Exercise Stock Purchase Agreement with a vesting schedule that will result in the same vesting as if no early exercise had occurred; and

(d) if your option is an Incentive Stock Option, then, to the extent that the aggregate Fair Market Value (determined at the time of grant) of the shares of capital stock with respect to which your option plus all other Incentive Stock Options you hold are exercisable for the first time by you during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars ($100,000), your option(s) or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

5. METHOD OF PAYMENT. Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in cash or by check or in any other manner PERMITTED BY YOUR GRANT NOTICE, which may include one or more of the following:

(a) In the Company's sole discretion at the time your option is exercised and provided that at the time of exercise the capital stock is publicly traded and quoted regularly in THE WALL STREET JOURNAL, pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of capital stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds.

(b) Provided that at the time of exercise the capital stock is publicly traded and quoted regularly in THE WALL STREET JOURNAL, by delivery of already-owned shares of capital stock either that you have held for the period required to avoid a charge to the Company's reported earnings (generally six (6) months) or that you did not acquire, directly or indirectly from the Company, that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time you exercise your option, shall include delivery to the Company of your attestation of ownership of such shares of capital stock in a form approved by the Company. Notwithstanding the foregoing, you may not exercise your option by tender to the Company of capital stock to the extent such tender would violate the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(c) Pursuant to the following deferred payment alternative:

(i) The loan shall be in the amount equal to the aggregate exercise price for the stock, plus the amount of income tax due on the difference between the exercise price and Fair Market Value of the stock, if any;

(ii) The loan has a term of not more than ten (10) years;

(iii) The loan becomes due sixty (60) days after the termination of the Participant's employment or service;

(iv) The loan bears interest at a commercially reasonable market rate of interest as determined by the Board of Directors of the Company;

(v) The loan is at all times fully collateralized;

(vi) In the case of a loan to any Officer or Employee of the Company (including any Officer or Employee who is also a Director of the Company), the loan is approved by the "required majority" of Directors, meaning both a majority of the Company's Directors who have no financial interest in such transaction, plan, or arrangement and a majority of such Directors who are not interested persons (as defined in the Investment Company Act) in the Company, on the basis that the loan is in the best interests of the Company and its stockholders,

(vii) In the case of a loan to any Director of the Company who is not also an Officer or Employee of the Company, the loan is approved by order of the Securities and Exchange Commission, upon application, on the basis that the terms of the loan are fair and reasonable and do not involve overreaching of the Company or its stockholders; and

(viii) In order to elect the deferred payment alternative, you must, as a part of your written notice of exercise, give notice of the election of this payment alternative and, in order to secure the payment of the deferred exercise price to the Company hereunder, if the Company so requests, you must tender to the Company a promissory note and a pledge agreement covering the purchased shares of capital stock, both in form and substance satisfactory to the Company, or such other or additional documentation as the Company may request.

6. WHOLE SHARES. You may exercise your option only for whole shares of capital stock.

7. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, you may not exercise your option unless the shares of capital stock issuable upon such exercise are then registered under the Securities Act or, if such shares of capital stock are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option also must comply with other applicable laws and regulations governing your option, and you may not exercise your option if the Company determines that such exercise would not be in material compliance with such laws and regulations.

8. TERM. You may not exercise your option before the commencement or after the expiration of its term. The term of your option commences on the Date of Grant and expires upon the EARLIEST of the following:

(a) three (3) months after the termination of your Continuous Service for any reason other than your Disability or death, provided that if during any part of such three (3) month period your option is not exercisable solely because of the condition set forth in Section 6, your option shall not expire until the earlier of the Expiration Date or until it shall have been exercisable for an aggregate period of three (3) months after the termination of your Continuous Service;

(b) twelve (12) months after the termination of your Continuous Service due to your Disability;

(c) eighteen (18) months after your death if you die either during your Continuous Service or within three (3) months after your Continuous Service terminates;

(d) the Expiration Date indicated in your Grant Notice; or

(e) the day before the tenth (10th) anniversary of the Date of Grant.

If your option is an Incentive Stock Option, note that to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires that at all times beginning on the date of grant of your option and ending on the day three (3) months before the date of your option's exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or Disability. The Company has provided for extended exercisability of your option under certain circumstances for your benefit but cannot guarantee that your option will necessarily be treated as an Incentive Stock Option if you continue to provide services to the Company or an Affiliate as a Director after your employment terminates or if you otherwise exercise your

option more than three (3) months after the date your employment with the Company or an Affiliate terminates.

9. EXERCISE.

(a) You may exercise the vested portion of your option (and the unvested portion of your option if your Grant Notice so permits) during its term by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option, (2) the lapse of any substantial risk of forfeiture to which the shares of capital stock are subject at the time of exercise, or (3) the disposition of shares of capital stock acquired upon such exercise.

(c) If your option is an Incentive Stock Option, by exercising your option you agree that you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the capital stock issued upon exercise of your option that occurs within two (2) years after the date of your option grant or within one (1) year after such shares of capital stock are transferred upon exercise of your option.

10. TRANSFERABILITY. Your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to exercise your option.

11. OPTION NOT A SERVICE CONTRACT. Your option is not an employment or service contract, and nothing in your option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option shall obligate the Company or an Affiliate, their respective stockholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or consultant for the Company or an Affiliate.

12. WITHHOLDING OBLIGATIONS.

(a) At the time you exercise your option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your option.

(b) Upon your request and subject to approval by the Company, in its sole discretion, and compliance with any applicable legal conditions or restrictions, the Company may withhold from fully vested shares of capital stock otherwise issuable to you upon the exercise of your option a number of whole shares of capital stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid variable award accounting). If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely election under Section 83(b) of the Code, covering the aggregate number of shares of capital stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your option. Notwithstanding the filing of such election, shares of capital stock shall be withheld solely from fully vested shares of capital stock determined as of the date of exercise of your option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested, and the Company shall have no obligation to issue a certificate for such shares of capital stock or release such shares of capital stock from any escrow provided for herein.

13. NOTICES. Any notices provided for in your option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

14. GOVERNING PLAN DOCUMENT. Your option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan shall control.

* * * * *

Exhibit 99.j

INSTITUTIONAL CUSTODY AGREEMENT

Attn: David Gladstone,
Chairman of the Board and Chief Executive Officer
Gladstone Capital Corporation
1750 Tysons Blvd., 4th Floor
McLean, VA 22102

Ladies and Gentlemen:

First Union National Bank ("We" or the "Bank") accepts your request to act as your agent to maintain in your name a securities custody account (the "Account") for all cash, securities and other property which you may deliver to us from time to time upon the following terms. Unless you direct us otherwise in writing, we will have the following powers, rights and duties regarding the Account.

1. We shall hold and safeguard the cash, securities and other property in the Account, collect the income and principal thereof when due, and credit them to the Account or another account at the Bank, as you direct, subject to the procedures we provide you.

2. We may hold securities and other property in bearer form or in the name of any of our nominees, agents, subsidiaries, or other entities, including any central or corporate depository, clearing corporation or other entity with which securities may be deposited, provided, however, to the extent that custody is ever held by any domestic or foreign securities depository, or foreign bank, then it will do so in accordance with Rules 17f-4, 17f-7 and 17f-5 under the Investment Company Act of 1940, respectively. You agree to indemnify and hold harmless any nominee from liability as a holder of record.

We may refuse to accept securities and other property registered in your name or in any name other than that of a nominee described above. If we accept these securities or other property, we will not be responsible for collecting income or principal or for any other action we customarily take in connection with registered securities. We may refuse to accept any securities or other property we deem inappropriate.

3. You authorize us to execute and deliver as your agent and at your instruction any assignments, stock or bond powers or other documents or instruments and, in particular (a) to buy, sell, assign, transfer, or dispose of any security or other property in the Account at your risk and in accordance with industry practice; and (b) to obtain any payment due and pay for securities sold in accordance with industry practice. You authorize us to execute any and all documents by signing as your agent or attorney-in-fact. Acting as agent or principal, we may place or negotiate these orders through our subsidiaries or affiliates.

If we receive or disburse funds in transactions in foreign securities or other foreign assets for the Account, we will engage in foreign currency conversions using customary bank channels and agents when we deem it practical to do so, and we will not be liable for losses or expenses in these conversions.

If you invest funds in the Account in shares of registered investment companies to which we or our affiliates provide investment advisory or other services for compensation (as described in a prospectus you will receive before any investment), we or our affiliates will retain this compensation in addition to all fees you pay under this Agreement.

4.(a) We may, but are not required to, credit the Account provisionally on payable date with interest, dividends, distributions, redemptions or other amounts due. If we are instructed to deliver securities or other property against payment, we will deliver them only upon receipt of payment and will promptly credit the Account with the proceeds.

(b) We may, but are not required to, advance our own funds to complete transactions when the Account may not have adequate funds. If we advance funds, or permit you to use funds credited to the Account, you will reimburse us for these amounts plus our cost of providing funds. To secure this obligation, you grant us

a continuing security interest in the Account and any funds credited to the Account provided that such security interest shall be limited to the amount advanced plus our cost of providing such funds. We will decide to credit provisionally or advance funds to the Account in light of particular circumstances in different markets, classes of assets, and countries at different times.

5. We X shall __ shall not invest available cash received into the
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Account. If you wish us to invest cash, we will invest it in the following short-term investment vehicle:

Evergreen Money Market Fund. If this vehicle is a mutual fund in the Evergreen Family of funds, we are compensated for managing the fund, as described in the fund's prospectus and the accompanying disclosures. You acknowledge having received these documents. We will retain this compensation in addition to all fees you pay under this Agreement.

6. We may take all of the following actions without consulting with you or obtaining your approval: (a) sell any fractional shares received as a distribution or dividend; (b) sell payment-in-kind issues distributed in denominations of less than $1,000 par amount, if there is a market for these issues; (c) exchange securities in temporary or bearer form for securities in definitive or registered form; (d) effect an exchange of shares where the par value of stock is changed; and (e) surrender securities at maturity or earlier when advised of a call for redemption, against payment therefor in accordance with accepted industry practice. If securities we or our nominee holds on behalf of you and others are called for partial redemption, we may allot the called portion to the beneficial holders of the securities in any manner we deem equitable.

7.(a) You will instruct us to act with respect to warrants, rights, options, tenders, puts, calls, class action filings, consents or other securities or actions affecting the Account. We will not be liable for failing to act unless we receive your instructions not earlier than ten business days and no later than two business days before the last scheduled date by which action is required.

(b) With respect to tender offers for under 5% of the outstanding shares at less than 99% of current market value, you understand that we will not be obligated to provide notice of such offers and we have the authority to retain such shares.

(c) Notwithstanding any other provision in this Agreement, we will not be liable for failing to act on any call for redemption, tender offer, subscription or purchase rights, merger, reorganization, recapitalization, share split, change of par value, conversion, exchange, Dutch auction, class action filing, consent or other action affecting the securities or other property in the Account unless we actually received notice of the call or event from you, the issuer of the affected security, or one of the nationally recognized bond or corporate action services to which we subscribe. We also will not be liable for any failure to act if the notice we receive is defective in any material respect or we do not receive it at least five business days before the last scheduled date by which action is required.

(d) We will forward to you any notices, reports, or other documents we receive concerning securities and other property in the Account, but we are not required to notify you of any rights, duties, limitations, or other information set forth in any security (including mandatory or optional put, call and similar provisions).

8. You will exercise all voting rights for all securities in the Account, however registered. Our only duty regarding voting rights shall be to mail or cause to be mailed to you any documents we receive relating to the exercise of these rights.

9. We __ may X may not disclose your name, address and securities
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positions to issuers of securities in the Account in accordance with the Shareholder Communications Act of 1985 and the rules thereunder, as they may be amended. If no box is checked, we are required to and will release this information until we receive contrary instructions from you.

10.(a) Our duties are limited to those stated in this Agreement. We are not required to make any investment review, to consider the propriety of holding or selling any property in the Account, or to provide any advice. We will not be liable to you or the Account for any act we or any of our agents, nominees, correspondents, designees, or subcustodians take or omit to take under this Agreement, in the absence of

gross negligence or willful misconduct on our or its part. We will not be responsible for the solvency or financial condition of any agent providing services to the Account, and we will not be liable to you or the Account for any loss arising therefrom. Nothing in this Agreement will cause us to be deemed a trustee or fiduciary for or on your behalf. We will not be liable under any provision of this Agreement, regardless of whether any claim is based on contract or tort, for any consequential, special or indirect damages or losses

which you may incur or suffer, whether or not we knew in advance of the likelihood or possibility of these damages or losses.

(b) You will indemnify and hold us harmless against any and all claims, losses, liabilities, damages, or expenses (including reasonable attorneys' and other agents' fees and expenses) arising from or in connection with this Agreement or the performance of our duties hereunder, provided, however, that nothing herein shall require that you indemnify us for our gross negligence or willful misconduct.

(c) We may employ, consult with, and obtain advice from suitable agents, including auditors and legal counsel (who may be counsel to you or us), and we will not be liable for acting in good faith in accordance with these agents' or advisers' reasonable advice and opinion.

(d) You agree not to institute any legal action against us, including one arising out of an exception or objection under paragraph 11, after one year from the date of the first statement reflecting the information, error or omission forming the basis for the claim.

11.(a) We shall furnish you with periodic statements showing all income, transactions, and assets in the Account and the market values thereof. We will not be liable to you or the Account for any loss that may arise if a broker, pricing service or other person upon whose valuation we rely in good faith misprices Account assets. If you do not object to an Account statement in writing within 90 days of the closing date of the statement, you will be deemed to have waived any objections to or claims regarding the statement.

(b) You have the right to receive individual confirmations of transactions in the Account at no cost.

12. You are a closed-end, non-diversified management investment company duly organized and validly existing under the laws of in the State of Maryland. This Agreement has been duly authorized, executed and delivered on your behalf; and it is your legal, valid and binding obligation that binds you and any successor.

13. Either party may terminate this Agreement upon 30 days' written notice to the other party. Upon giving or receiving this notice we shall promptly deliver all cash, securities and other property then in the Account in accordance with your instructions.

14. You agree to pay the custody fee in Schedule A, which will be due monthly in arrears and deducted from the Account. We may amend the fee schedule upon thirty days notice to you. You will reimburse us for all expenses we incur in administering the Account, including accounting and legal fees, commissions, taxes, and any other expenses that result from any action or omission on your part. We will deduct these expenses and the custody fee from the Account or any other account in your name at the Bank.

15. We shall make distributions from the Account to those persons, in amounts, at times and in any manner as you instruct us in writing. We will not be liable for any distribution made in good faith without actual notice or knowledge of the changed condition or status of the recipient. If any distribution we make is returned unclaimed, we shall notify you and dispose of the distribution as you direct. In making distributions we may deposit cash in any insured depository, including the Bank, without any liability for the payment of interest thereon, even though we receive the "float" from the uninvested cash.

16. Except to the extent federal law applies, the laws of Virginia shall govern the laws of validity, interpretation and enforcement of this Agreement. The invalidity of any part of this Agreement will not affect the remaining parts thereof.

17. /X/ If this box is checked, you have, or may later have, more than one institutional custodian account with us, and the terms and provisions of this Agreement shall govern all of these Accounts and the term "Account" as used herein will refer to any and all of these accounts.

18. This is the entire agreement of the parties as to the matters referred to herein and supersedes all prior agreements. Except as provided in paragraph 14, this Agreement may be amended only in a writing both parties sign. If any provision of this Agreement shall be or become invalid or unenforceable, the remaining provisions shall remain in full force and effect.

19. This agreement is binding on the parties' successors and assigns.

20. All recommendations, notices and other communications relating to you shall be sent to:

Attn: David Gladstone
Gladstone Capital Corporation
1750 Tysons Blvd., 4th Floor
McLean, VA 22102

in writing delivered by hand, first class mail, or overnight delivery service or transmitted by facsimile transmission, or orally promptly confirmed in writing. We may rely and act upon any written or oral instruction or other communication received from this person or another person(s) as he or she designates in writing to issue instructions or communications. We may rely on oral or written instructions from any designated person until you inform us in writing that the person is no longer authorized to issue instructions or communications. We may rely on oral instructions even if not confirmed in writing, and even if later written instructions contradict the oral instructions. We will not be liable to you or the Account for acting on any instruction or other communication on which we are authorized to rely pursuant to this Agreement, or for any delay in delivery or non-delivery or error in transmission. You and each person designated to issue instructions and communications agree that we may record telephone conversations, and preserve or destroy these recordings, and that we will not be liable for recording or failing to record these conversations, or preserving or destroying these recordings.

21. We will not be responsible for any delay in performance, or non-performance, of any obligation under this Agreement to the extent that it is due to forces beyond our reasonable control, including but not limited to delays, errors or interruptions you or third parties cause; any industrial, juridical, governmental, civil or military action; acts of terrorism, insurrection or revolution, nuclear fusion, fission or radiation; failure or fluctuation in electrical power, heat, light, air conditioning, computer, or telecommunications equipment; or acts of God.

Dated this _____ day of _____, 2001 .

_____

By: _____

Its: _____

ACCEPTED:
FIRST UNION NATIONAL BANK

By: _____

Its: _____

SCHEDULE B
GLADSTONE CAPITAL CORPORATION

Gentlemen:

In accordance with the terms of the Custody Agreement for the above mentioned account, the following individuals have been authorized to give instructions to First Union National Bank:

<TABLE>
<S> <C> <C>

David Gladstone	Chairman of the Board and Chief Executive Officer	
Name	Title	Signature
Terry Lee Brubaker	President, Chief Operating Officer and Director	
Name	Title	Signature
Harry Brill	Chief Financial Officer	
Name	Title	Signature

</TABLE>

Sincerely,

| ---------- | ---------- |
| Print Officer Name | Date |

Signature

STOCK TRANSFER AGENCY AGREEMENT

between

GLADSTONE CAPITAL CORPORATION

and

THE BANK OF NEW YORK

Dated as of _____, 19__

ACCOUNT NUMBER(S) _____

STOCK TRANSFER AGENCY AGREEMENT

AGREEMENT, made as of _____, by and between Gladstone Capital Corporation, a corporation organized and existing under the laws of the State of Maryland (hereinafter referred to as the "Customer"), and THE BANK OF NEW YORK, a New York trust company (hereinafter referred to as the "Bank").

W I T N E S S E T H:

That for and in consideration of the mutual promises hereinafter set forth, the parties hereto covenant and agree as follows:

ARTICLE I
DEFINITIONS

Whenever used in this Agreement, the following words and phrases shall have the following meanings:

1. "Business Day" shall be deemed to be each day on which the Bank is open for business.

2. "Certificate" shall mean any notice, instruction, or other instrument in writing, authorized or required by this Agreement to be given to the Bank by the Customer which is signed by any Officer, as hereinafter defined, and actually received by the Bank.

3. "Officer" shall be deemed to be the Customer's Chief Executive Officer, President, any Vice President, the Secretary, the Treasurer, the Controller, any Assistant Treasurer, and any Assistant Secretary duly authorized by the Board of Directors of the Customer to execute any Certificate, instruction, notice or other instrument on behalf of the Customer and named in a Certificate, as such Certificate may be amended from time to time.

4. "Shares" shall mean all or any part of each class of the shares of capital stock of the Customer which from time to time are authorized and/or issued by the Customer and identified in a Certificate of the Secretary of the Customer under corporate seal, as such Certificate may be amended from time to time, with respect to which the Bank is to act hereunder.

ARTICLE II
APPOINTMENT OF BANK

1. The Customer hereby constitutes and appoints the Bank as its agent to perform the services described herein and as more particularly described in Schedule I attached hereto (the "Services"), and the Bank hereby accepts appointment as such

agent and agrees to perform the Services in accordance with the terms hereinafter set forth.

2. In connection with such appointment, the Customer shall deliver the following documents to the Bank:

(a) A certified copy of the Certificate of Incorporation or other document evidencing the Customer's form of organization (the "Charter") and all amendments thereto;

(b) A certified copy of the By-Laws of the Customer;

(c) A certified copy of a resolution of the Board of Directors of the Customer appointing the Bank to perform the Services and authorizing the execution and delivery of this Agreement;

(d) A Certificate signed by the Secretary of the Customer specifying: the number of authorized Shares, the number of such authorized Shares issued and currently outstanding, and the names and specimen signatures of all persons duly authorized by the Board of Directors of the Customer to execute any Certificate on behalf of the Customer, as such Certificate may be amended from time to time;

(e) A Specimen Share certificate for each class of Shares in the form approved by the Board of Directors of the Customer, together with a Certificate signed by the Secretary of the Customer as to such approval and covenanting to supply a new such Certificate and specimen whenever such form shall change;

(f) An opinion of counsel for the Customer, in a form satisfactory to the Bank, with respect to the validity of the authorized and outstanding Shares, the obtaining of all necessary governmental consents, whether such Shares are fully paid and non-assessable and the status of such Shares under the Securities Act of 1933, as amended, and any other applicable law or regulation (I.E., if subject to registration, that they have been registered and that the Registration Statement has become effective or, if exempt, the specific grounds therefor);

(g) A list of the name, address, social security or taxpayer identification number of each Shareholder, number of Shares owned, certificate numbers, and whether any "stops" have been placed; and

(h) An opinion of counsel for the Customer, in a form satisfactory to the Bank, with respect to the due authorization by the Customer and the validity and

effectiveness of the use of facsimile signatures by the Bank in connection with the countersigning and registering of Share certificates of the Customer.

3. The Customer shall furnish the Bank with a sufficient supply of blank Share certificates and from time to time will renew such supply upon request of the Bank. Such blank Share certificates shall be properly signed, by facsimile or otherwise, by Officers of the Customer authorized by law or by the By-Laws to sign Share certificates, and, if required, shall bear the corporate seal or a facsimile thereof.

ARTICLE III
AUTHORIZATION AND ISSUANCE OF SHARES

1. The Customer shall deliver to the Bank the following documents on or before the effective date of any increase, decrease or other change in the total number of Shares authorized to be issued:

(a) A certified copy of the amendment to the Charter giving effect to such increase, decrease or change;

(b) An opinion of counsel for the Customer, in a form satisfactory to the Bank, with respect to the validity of the Shares, the obtaining of all necessary governmental consents, whether such Shares are fully paid and non-assessable and the status of such Shares under the Securities Act of 1933, as amended, and any other applicable federal law or regulations (I.E., if subject to registration, that they have been registered and that the Registration Statement has become effective or, if exempt, the specific grounds therefor); and

(c) In the case of an increase, if the appointment of the Bank was theretofore expressly limited, a certified copy of a resolution of the Board of Directors of the Customer increasing the authority of the Bank.

2. Prior to the issuance of any additional Shares pursuant to stock dividends, stock splits or otherwise, and prior to any reduction in the number of Shares outstanding, the Customer shall deliver the following documents to the Bank:

(a) A certified copy of the resolutions adopted by the Board of Directors and/or the shareholders of the Customer authorizing such issuance of additional Shares of the Customer or such reduction, as the case may be;

(b) A certified copy of the order or consent of each governmental or regulatory authority required by law as a prerequisite to the issuance or reduction of such

Shares, as the case may be, and an opinion of counsel for the Customer that no other order or consent is required; and

(c) An opinion of counsel for the Customer, in a form satisfactory to the Bank, with respect to the validity of the Shares, the obtaining of all necessary governmental consents, whether such Shares are fully paid and non-assessable and the status of such Shares under the Securities Act of 1933, as amended, and any other applicable law or regulation (I.E., if subject to registration, that they have been registered and that the Registration Statement has become effective, or, if exempt, the specific grounds therefor).

ARTICLE IV
RECAPITALIZATION OR CAPITAL ADJUSTMENT

1. In the case of any negative stock split, recapitalization or other capital adjustment requiring a change in the form of Share certificates, the Bank will issue Share certificates in the new form in exchange for, or upon transfer of, outstanding Share certificates in the old form, upon receiving:

(a) A Certificate authorizing the issuance of Share certificates in the new form;

(b) A certified copy of any amendment to the Charter with respect to the change;

(c) Specimen Share certificates for each class of Shares in the new form approved by the Board of Directors of the Customer, with a Certificate signed by the Secretary of the Customer as to such approval;

(d) A certified copy of the order or consent of each governmental or regulatory authority required by law as a prerequisite to the issuance of the Shares in the new form, and an opinion of counsel for the Customer that the order or consent of no other governmental or regulatory authority is required; and

(e) An opinion of counsel for the Customer, in a form satisfactory to the Bank, with respect to the validity of the Shares in the new form, the obtaining of all necessary governmental consents, whether such Shares are fully paid and non-assessable and the status of such Shares under the Securities Act of 1933, as amended, and any other applicable law or regulation (I.E., if subject to registration, that the Shares have been registered and that the Registration Statement has

become effective or, if exempt, the specific grounds therefor).

2. The Customer shall furnish the Bank with a sufficient supply of blank Share certificates in the new form, and from time to time will replenish such supply upon the request of the Bank. Such blank Share certificates shall be properly signed, by facsimile or otherwise, by Officers of the Customer authorized by law or by the By-Laws to sign Share certificates and, if required, shall bear the corporate seal or a facsimile thereof.

ARTICLE V
ISSUANCE AND TRANSFER OF SHARES

1. The Bank will issue Share certificates upon receipt of a Certificate from an Officer, but shall not be required to issue Share certificates after it has received from an appropriate federal or state authority written notification that the sale of Shares has been suspended or discontinued, and the Bank shall be entitled to rely upon such written notification. The Bank shall not be responsible for the payment of any original issue or other taxes required to be paid by the Customer in connection with the issuance of any Shares.

2. Shares will be transferred upon presentation to the Bank of Share certificates in form deemed by the Bank properly endorsed for transfer, accompanied by such documents as the Bank deems necessary to evidence the authority of the person making such transfer, and bearing satisfactory evidence of the payment of applicable stock transfer taxes. In the case of small estates where no administration is contemplated, the Bank may, when furnished with an appropriate surety bond, and without further approval of the Customer, transfer Shares registered in the name of the decedent where the current market value of the Shares being transferred does not exceed such amount as may from time to time be prescribed by the various states. The Bank reserves the right to refuse to transfer Shares until it is satisfied that the endorsements on Share certificates are valid and genuine, and for that purpose it may require, unless otherwise instructed by an Officer of the Customer, a guaranty of signature by an "eligible guarantor institution" meeting the requirements of the Bank, which requirements include membership or participation in STAMP or such other "signature guarantee program" as may be determined by the Bank in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended. The Bank also reserves the right to refuse to transfer Shares until it is satisfied that the requested transfer is legally authorized, and it shall incur no liability for the refusal in good faith to make transfers which the Bank, in its judgment, deems improper or unauthorized, or until it is satisfied that there is no basis to any claims adverse to such transfer. The Bank may, in effecting transfers of Shares, rely upon those provisions of the Uniform Act for the Simplification of Fiduciary

Security Transfers or the Uniform Commercial Code, as the same may be amended from time to time, applicable to the transfer of securities, and the Customer shall indemnify the Bank for any act done or omitted by it in good faith in reliance upon such laws.

3. All certificates representing Shares that are subject to restrictions on transfer (E.G., securities acquired pursuant to an investment representation, securities held by controlling persons, securities subject to stockholders' agreement, etc.), shall be stamped with a legend describing the extent and conditions of the restrictions or referring to the source of such restrictions. The Bank assumes no responsibility with respect to the transfer of restricted securities where counsel for the Customer advises that such transfer may be properly effected.

ARTICLE VI
DIVIDENDS AND DISTRIBUTIONS

1. The Customer shall furnish to the Bank a copy of a resolution of its Board of Directors, certified by the Secretary or any Assistant Secretary, either (i) setting forth the date of the declaration of a dividend or distribution, the date of accrual or payment, as the case may be, the record date as of which shareholders entitled to payment, or accrual, as the case may be, shall be determined, the amount per Share of such dividend or distribution, the payment date on which all previously accrued and unpaid dividends are to be paid, and the total amount, if any, payable to the Bank on such payment date, or (ii) authorizing the declaration of dividends and distributions on a periodic basis and authorizing the Bank to rely on a Certificate setting forth the information described in subsection (i) of this paragraph.

2. Prior to the payment date specified in such Certificate or resolution, as the case may be, the Customer shall, in the case of a cash dividend or distribution, pay to the Bank an amount of cash, sufficient for the Bank to make the payment, specified in such Certificate or resolution, to the shareholders of record as of such payment date. The Bank will, upon receipt of any such cash, (i) in the case of shareholders who are participants in a dividend reinvestment and/or cash purchase plan of the Customer, reinvest such cash dividends or distributions in accordance with the terms of such plan, and

(ii) in the case of shareholders who are not participants in any such plan, make payment of such cash dividends or distributions to the shareholders of record as of the record date by mailing a check, payable to the registered shareholder, to the address of record or dividend mailing address. The Bank shall not be liable for any improper payment made in accordance with a Certificate or resolution described in the preceding paragraph. If the Bank shall not receive sufficient cash prior to the payment date to make payments of any cash dividend or distribution pursuant to

subsections (i) and (ii) above to all shareholders of the Customer as of the record date, the Bank shall, upon notifying the Customer, withhold payment to all shareholders of the Customer as of the record date until sufficient cash is provided to the Bank.

3. It is understood that the Bank shall in no way be responsible for the determination of the rate or form of dividends or distributions due to the shareholders.

4. It is understood that the Bank shall file such appropriate information returns concerning the payment of dividends and distributions with the proper federal, state and local authorities as are required by law to be filed by the Customer but shall in no way be responsible for the collection or withholding of taxes due on such dividends or distributions due to shareholders, except and only to the extent required of it by applicable law.

ARTICLE VII
CONCERNING THE CUSTOMER

1. The Customer shall promptly deliver to the Bank written notice of any change in the Officers authorized to sign Share certificates, Certificates, notifications or requests, together with a specimen signature of each new Officer. In the event any Officer who shall have signed manually or whose facsimile signature shall have been affixed to blank Share certificates shall die, resign or be removed prior to issuance of such Share certificates, the Bank may issue such Share certificates as the Share certificates of the Customer notwithstanding such death, resignation or removal, and the Customer shall promptly deliver to the Bank such approvals, adoptions or ratifications as may be required by law.

2. Each copy of the Charter of the Customer and copies of all amendments thereto shall be certified by the Secretary of State (or other appropriate official) of the state of incorporation, and if such Charter and/or amendments are required by law also to be filed with a county or other officer or official body, a certificate of such filing shall be filed with a certified copy submitted to the Bank. Each copy of the By-Laws and copies of all amendments thereto, and copies of resolutions of the Board of Directors of the Customer, shall be certified by the Secretary or an Assistant Secretary of the Customer under the corporate seal.

3. Customer hereby represents and warrants:

(a) It is a corporation duly organized and validly existing under the laws of Maryland.

(b) This Agreement has been duly authorized, executed and delivered on its behalf and constitutes the legal, valid and binding obligation of Customer. The execution, delivery and performance of this Agreement by Customer do not and will not violate any applicable law or regulation and do not require the consent of any governmental or other regulatory body except for such consents and approvals as have been obtained and are in full force and effect.

ARTICLE VIII
CONCERNING THE BANK

1. The Bank shall not be liable and shall be fully protected in acting upon any oral instruction, writing or document reasonably believed by it to be genuine and to have been given, signed or made by the proper person or persons and shall not be held to have any notice of any change of authority of any person until receipt of written notice thereof from an Officer of the Customer. It shall also be protected in processing Share certificates which it reasonably believes to bear the proper manual or facsimile signatures of the duly authorized Officer or Officers of the Customer and the proper countersignature of the Bank.

2. The Bank may establish such additional procedures, rules and regulations governing the transfer or registration of Share certificates as it

may deem advisable and consistent with such rules and regulations generally adopted by bank transfer agents.

3. The Bank may keep such records as it deems advisable but not inconsistent with resolutions adopted by the Board of Directors of the Customer. The Bank may deliver to the Customer from time to time at its discretion, for safekeeping or disposition by the Customer in accordance with law, such records, papers, Share certificates which have been cancelled in transfer or exchange and other documents accumulated in the execution of its duties hereunder as the Bank may deem expedient, other than those which the Bank is itself required to maintain pursuant to applicable laws and regulations, and the Customer shall assume all responsibility for any failure thereafter to produce any record, paper, cancelled Share certificate or other document so returned, if and when required. The records maintained by the Bank pursuant to this paragraph which have not been previously delivered to the Customer pursuant to the foregoing provisions of this paragraph shall be considered to be the property of the Customer, shall be made available upon request for inspection by the Officers, employees and auditors of the Customer, and shall be delivered to the Customer upon request and in any event upon the date of termination of this Agreement, as specified in Article IX of this Agreement, in the form and manner kept by the Bank on such date of termination or such earlier date as may be requested by the Customer.

4. The Bank may employ agents or attorneys-in-fact at the expense of the Customer, and shall not be liable for any loss or expense arising out of, or in connection with, the actions or omissions to act of its agents or attorneys-in-fact, so long as the Bank acts in good faith and without negligence or willful misconduct in connection with the selection of such agents or attorneys-in-fact.

5. The Bank shall only be liable for any loss or damage arising out of its own negligence or willful misconduct; provided, however, that the Bank shall not be liable for any indirect, special, punitive or consequential damages.

6. The Customer shall indemnify and hold harmless the Bank from and against any and all claims (whether with or without basis in fact or law), costs, demands, expenses and liabilities, including reasonable attorney's fees, which the Bank may sustain or incur or which may be asserted against the Bank except for any liability which the Bank has assumed pursuant to the immediately preceding section. The Bank shall be deemed not to have acted with negligence and not to have engaged in willful misconduct by reason of or as a result of any action taken or omitted to be taken by the Bank without its own negligence or willful misconduct in reliance upon (i) any provision of this Agreement, (ii) any instrument, order or Share certificate reasonably believed by it to be genuine and to be signed, countersigned or executed by any duly authorized Officer of the Customer, (iii) any Certificate or other instructions of an Officer, (iv) any opinion of legal counsel for the Customer or the Bank, or (v) any law, act, regulation or any interpretation of the same even though such law, act, or regulation may thereafter have been altered, changed, amended or repealed. Nothing contained herein shall limit or in any way impair the right of the Bank to indemnification under any other provision of this Agreement.

7. Specifically, but not by way of limitation, the Customer shall indemnify and hold harmless the Bank from and against any and all claims (whether with or without basis in fact or law), costs, demands, expenses and liabilities, including reasonable attorney's fees, of any and every nature which the Bank may sustain or incur or which may be asserted against the Bank in connection with the genuineness of a Share certificate, the Bank's due authorization by the Customer to issue Shares and the form and amount of authorized Shares.

8. The Bank shall not incur any liability hereunder if by reason of any act of God or war or other circumstances beyond its control, it, or its employees, officers or directors shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of this Agreement it is provided shall be done or performed or by reason of any nonperformance or delay, caused as aforesaid, in the

performance of any act or thing which by the terms of this Agreement it is provided shall or may be done or performed.

9. At any time the Bank may apply to an Officer of the Customer for written instructions with respect to any matter arising in connection with the Bank's duties and obligations under this Agreement, and the Bank shall not be liable for any action taken or omitted to be taken by the Bank in good faith in accordance with such instructions. Such application by the Bank for instructions

from an Officer of the Customer may, at the option of the Bank, set forth in writing any action proposed to be taken or omitted to be taken by the Bank with respect to its duties or obligations under this Agreement and the date on and/or after which such action shall be taken, and the Bank shall not be liable for any action taken or omitted to be taken in accordance with a proposal included in any such application on or after the date specified therein unless, prior to taking or omitting to take any such action, the Bank has received written instructions in response to such application specifying the action to be taken or omitted. The Bank may consult counsel to the Customer or its own counsel, at the expense of the Customer, and shall be fully protected with respect to anything done or omitted by it in good faith in accordance with the advice or opinion of such counsel.

10. When mail is used for delivery of non-negotiable Share certificates, the value of which does not exceed the limits of the Bank's Blanket Bond, the Bank shall send such non-negotiable Share certificates by first class mail, and such deliveries will be covered while in transit by the Bank's Blanket Bond. Non-negotiable Share certificates, the value of which exceed the limits of the Bank's Blanket Bond, will be sent by insured registered mail. Negotiable Share certificates will be sent by insured registered mail. The Bank shall advise the Customer of any Share certificates returned as undeliverable after being mailed as herein provided for.

11. The Bank may issue new Share certificates in place of Share certificates represented to have been lost, stolen or destroyed upon receiving instructions in writing from an Officer and indemnity satisfactory to the Bank. Such instructions from the Customer shall be in such form as approved by the Board of Directors of the Customer in accordance with applicable law or the By-Laws of the Customer governing such matters. If the Bank receives written notification from the owner of the lost, stolen or destroyed Share certificate within a reasonable time after he has notice of it, the Bank shall promptly notify the Customer and shall act pursuant to written instructions signed by an Officer. If the Customer receives such written notification from the owner of the lost, stolen or destroyed Share certificate within a reasonable time after he has notice of it, the Customer shall promptly notify the Bank and the Bank shall act pursuant to written instructions signed by an Officer. The Bank shall not be liable for any act done or omitted by it pursuant to the written instructions described herein. The Bank may issue new Share

certificates in exchange for, and upon surrender of, mutilated Share certificates.

12. The Bank will issue and mail subscription warrants for Shares, Shares representing stock dividends, exchanges or splits, or act as conversion agent upon receiving written instructions from an Officer and such other documents as the Bank may deem necessary.

13. The Bank will supply shareholder lists to the Customer from time to time upon receiving a request therefor from an Officer of the Customer.

14. In case of any requests or demands for the inspection of the shareholder records of the Customer, the Bank will notify the Customer and endeavor to secure instructions from an Officer as to such inspection. The Bank reserves the right, however, to exhibit the shareholder records to any person whenever it is advised by its counsel that there is a reasonable likelihood that the Bank will be held liable for the failure to exhibit the shareholder records to such person.

15. At the request of an Officer, the Bank will address and mail such appropriate notices to shareholders as the Customer may direct.

16. Notwithstanding any provisions of this Agreement to the contrary, the Bank shall be under no duty or obligation to inquire into, and shall not be liable for:

(a) The legality of the issue, sale or transfer of any Shares, the sufficiency of the amount to be received in connection therewith, or the authority of the Customer to request such issuance, sale or transfer;

(b) The legality of the purchase of any Shares, the sufficiency of the amount to be paid in connection therewith, or the authority of the Customer to request such purchase;

(c) The legality of the declaration of any dividend by the Customer, or the legality of the issue of any Shares in payment of any stock dividend; or

(d) The legality of any recapitalization or readjustment of the Shares.

17. The Bank shall be entitled to receive and the Customer hereby agrees to pay to the Bank for its performance hereunder (i) out-of-pocket expenses (including legal expenses and attorney's fees) incurred in connection with this Agreement and its performance hereunder, and (ii) the compensation for services as set forth in Schedule I.

18. The Bank shall not be responsible for any money, whether or not represented by any check, draft or other instrument for the payment of money, received by it on behalf of the Customer, until the Bank actually receives and collects such funds.

19. The Bank shall have no duties or responsibilities whatsoever except such duties and responsibilities as are specifically set forth in this Agreement, and no covenant or obligation shall be implied against the Bank in connection with this Agreement.

ARTICLE IX
TERMINATION

Either of the parties hereto may terminate this Agreement by giving to the other party a notice in writing specifying the date of such termination, which shall be not less than 60 days after the date of receipt of such notice. In the event such notice is given by the Customer, it shall be accompanied by a copy of a resolution of the Board of Directors of the Customer, certified by its Secretary, electing to terminate this Agreement and designating a successor transfer agent or transfer agents. In the event such notice is given by the Bank, the Customer shall, on or before the termination date, deliver to the Bank a copy of a resolution of its Board of Directors certified by its Secretary designating a successor transfer agent or transfer agents. In the absence of such designation by the Customer, the Bank may designate a successor transfer agent. If the Customer fails to designate a successor transfer agent and if the Bank is unable to find a successor transfer agent, the Customer shall, upon the date specified in the notice of termination of this Agreement and delivery of the records maintained hereunder, be deemed to be its own transfer agent and the Bank shall thereafter be relieved of all duties and responsibilities hereunder. Upon termination hereof, the Customer shall pay to the Bank such compensation as may be due to the Bank as of the date of such termination, and shall reimburse the Bank for any disbursements and expenses made or incurred by the Bank and payable or reimbursable hereunder.

ARTICLE X
MISCELLANEOUS

1. The indemnities contained herein shall be continuing obligations of the Customer, its successors and assigns, notwithstanding the termination of this Agreement.

2. Any notice or other instrument in writing, authorized or required by this Agreement to be given to the Customer shall be sufficiently given if addressed to the Customer and mailed or delivered to it at 1750 Tysons Blvd, 4th Floor, McLean, VA 22102, or at such other place as the Customer may from time to time designate in writing.

3. Any notice or other instrument in writing, authorized or required by this Agreement to be given to the Bank shall be sufficiently given if addressed to the Bank and mailed or delivered to it at its office at 101 Barclay Street (12W), New York, New York 10286 or at such other place as the Bank may from time to time designate in writing.

4. This Agreement may not be amended or modified in any manner except by a written agreement duly authorized and executed by both parties. Any duly authorized Officer may amend any Certificate naming Officers authorized to execute and deliver Certificates, instructions, notices or other instruments, and the Secretary or any Assistant Secretary may amend any Certificate listing the shares of capital stock of the Customer for which the Bank performs Services hereunder.

5. This Agreement shall extend to and shall be binding upon the parties hereto and their respective successors and assigns; provided, however, that this Agreement shall not be assignable by either party without the prior written consent of the other party, and provided, further, that any reorganization, merger, consolidation, or sale of assets, by the Bank shall not be deemed to constitute an assignment of this Agreement.

6. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

7. This Agreement may be executed in any number of counterparts each of which shall be deemed to be an original; but such counterparts, together, shall constitute only one instrument.

8. The provisions of this Agreement are intended to benefit only the Bank and the Customer, and no rights shall be granted to any other person by virtue of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective corporate officers, thereunto duly authorized and their respective corporate seals to be hereunto affixed, as of the day and year first above written.

Attest: GLADSTONE CAPITAL CORPORATION

_____ By: _____
Name:_____
Title:_____

Attest: THE BANK OF NEW YORK

_____ By: _____
Name:_____
Title:_____

SCHEDULE I

Exhibit 99k.2

EMPLOYMENT AGREEMENT

THIS AGREEMENT ("AGREEMENT") is made between GLADSTONE CAPITAL CORPORATION, a Maryland corporation (the "COMPANY"), and David Gladstone, a resident of the Commonwealth of Virginia (the "EXECUTIVE").

The Company wishes to secure the services of the Executive and the Executive wishes to furnish such services to the Company pursuant to the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and obligations hereinafter set forth, the parties hereto, intending to be legally bound, hereby agree as set forth below.

1. EMPLOYMENT; TERM. The Company hereby agrees to employ the Executive, and the Executive hereby agrees to enter into such employment, as Chairman and Chief Executive Officer of the Company, for the period commencing on the date that this Agreement is executed by all parties (the "EFFECTIVE DATE") and ending on the date three (3) years from the Effective Date, unless terminated sooner pursuant to Section 5 hereof. The initial three (3)-year term shall be extended for additional successive periods of one (1) year each, on the same terms and conditions contained herein, unless three (3) months' prior written notice is given by the Company of its intention to terminate the term of this Agreement without cause. For purposes hereof, the period of Executive's employment hereunder is referred to as the "TERM."

2. DUTIES AND EXTENT OF SERVICES.

(a) The Executive shall serve as Chief Executive Officer of the Company with such duties and responsibilities as are consistent with such positions, and shall so serve faithfully and to the best of his ability, under the direction and supervision of the Company's Board of Directors (the "BOARD"). The positions of Chief Executive Officer and Chairman are the highest offices in the Company and all other employees and officers of the Company report directly to these positions unless they have been delegated.

(b) Subject to the Company's procedures for selection and removing Board members, the Executive shall serve as a member of the Board of Directors and Chairman of the Board of the Company and hold such other positions and executive offices of the Company or of any of the Company's subsidiaries or affiliates as may from time to time be authorized by the Board, provided that each such position shall be commensurate with the Executive's standing in the business community as Chairman and Chief Executive Officer of the Company. The Executive shall not be entitled to any compensation other than the compensation provided for herein for serving during the Term as a Director of the Company or in any other office or position of the Company, or any of its subsidiaries or affiliates, unless the Board shall have specifically approved such additional compensation.

(c) The Executive shall devote the substantial majority of his business time, attention and efforts to his duties hereunder, except when necessary to fulfill his fiduciary obligations as Vice Chairman of American Capital Strategies, Ltd., the managing member emeritus, through an affiliate, of Capital Investors, LLC, the owner and Chairman of B&G Berry Corporation and a member of the board of directors of Capital Automotive REIT. The Executive agrees that he will not be employed by any other entity (except to serve as a compensated advisor to American Capital Strategies), or serve as Chairman of the Board, co-Chairman of the Board, or non-executive Chairman of the Board of any other entity during the term of this Agreement, except as specified in the preceding sentence. The Executive shall diligently perform to the best of his ability all of the duties required of him as Chairman and Chief Executive Officer of the Company, and in the other positions or offices of the Company or its subsidiaries or affiliates required of him hereunder. The Executive shall faithfully adhere to, execute and fulfill all policies established by the Company. Notwithstanding the foregoing provisions of this Section, the Executive may participate in charitable, civic, political, social, trade or other non-profit organizations to the extent such participation does not materially interfere with the performance of his duties hereunder, and may serve as a non-management director of business corporations (or in a like capacity in other for-profit organizations) so long as it does not materially interfere with the Executive's obligations hereunder.

(d) The Executive shall be required to live in the greater Washington, D.C.

area in order to perform his duties hereunder. The Executive understands that he will be required to travel from time to time in order to perform his duties hereunder and agrees to undertake such travel as part of his duties to the Company under the terms of this Agreement.

3. COMPENSATION.

(a) BASE SALARY.

(i) BASE SALARY PRIOR TO N-2 EFFECTIVE DATE. Up until the date that the Company's Registration Statement on Form N-2 relating to its initial public offering is declared effective by the Securities and Exchange Commission (the "N-2 EFFECTIVE DATE"), the Executive's Base Salary shall be $13,000, minus deductions and withholdings required by law, payable on a regular basis in accordance with the Company's regular payroll policies in effect from time to time, but not less frequently than monthly.

(ii) BASE SALARY AFTER N-2 EFFECTIVE DATE. After the N-2 Effective Date, the Executive's Base Salary shall be Two Hundred Thousand Dollars ($200,000) per year, minus deductions and withholdings required by law, payable on a regular basis in accordance with the Company's regular payroll policies in effect from time to time, but not less frequently than monthly. On at least an annual basis, the Board will review the Executive's performance and may make increases to such Base Salary if, in its sole discretion, any such change is warranted.

(b) INCENTIVE BONUS. Following the initial public offering, the Executive will be eligible to receive a year-end incentive bonus of up to one hundred percent (100%) of his Base Salary

determined in the sole discretion of the Board or a compensation committee thereof. Subject to the provisions of Section 3(d) hereof, such bonus payments shall be made to the Executive, if earned, as soon as practicable after the end of each calendar year during the Term.

(c) DEFERRAL. The Executive may elect to defer payment of all or any part of his incentive bonus compensation amount payable in accordance with Section 3(b) hereof with respect to any calendar year during the Term, by giving the Company written notice thereof not later than June 30 of such year. Additionally, in the event that in respect of any fiscal year of the Company any amount of Base Salary, incentive bonus compensation or any other amount payable to the Executive hereunder or otherwise, shall, either alone or in combination with other amounts payable hereunder or otherwise, result in a payment by the Company that shall not be currently deductible by it pursuant to the provisions of Section 162(m) of the Internal Revenue Code, as amended, or like or successor provisions (a "NON-DEDUCTIBLE AMOUNT"), as determined by the Company's independent accountants, the Company may elect to defer the payment of the Non-Deductible Amount. Any amounts so deferred, either by election of the Executive or by election of the Company, shall be immediately invested in a brokerage money market account controlled by the Company. The entire amount invested in such account shall be paid to the Executive on a date to be chosen by the Company, but in no event later than the first anniversary of the termination of the Executive from employment with the Company.

(d) STOCK OPTIONS. Upon Board approval, the Executive shall receive an option to purchase one hundred thousand (100,000) shares of the Company's outstanding Common Stock. These options will vest according to the following schedule: fifty thousand (50,000) shares subject to the option shall vest on the date of the grant; and the remaining fifty thousand (50,000) shares subject to the option shall vest on the first anniversary of the date of the grant. The purchase price for the shares subject to the option shall be the fair market value of the shares on the date of the grant. The option shall be an incentive stock option to the extent permitted by law. Such options shall be subject to the Company's 2001 Equity Incentive Plan. The Executive may be required to sign additional stock agreements as a condition for receiving the option, and the option shall be subject to such agreements.

The Executive is permitted to exercise his option before it is fully vested. In the event the Executive elects to exercise his option early, the stock he receives upon such exercise will be subject to the same vesting schedule that was applicable to the option shares. The specific terms and conditions of the transfer of such stock to the Executive shall be governed by an "Early Exercise Stock Purchase Agreement" in a form approved by the Company. Generally, until the Executive satisfies the vesting requirements, he may not sell, assign or convey the shares of early exercised stock. The Company will have the right to repurchase those early exercised shares at the original price paid by the Executive for the shares, in the event the Executive's employment terminates for any reason before such shares are vested.

4. BENEFITS.

(a) STANDARD BENEFITS. During the Term, the Executive shall be entitled to participate in any and all benefit programs and arrangements now in effect and hereinafter adopted and generally made available by the Company to its senior officers, including but not

limited to, four (4) weeks of paid vacation during each year of the Term in accordance with the policies and procedures of the Company as in effect from time to time for its senior officers, pension plans, contributory and non-contributory Company welfare and benefit plans, disability plans, and medical, death benefit and life insurance plans for which the Executive shall be eligible, or may become eligible during the Term.

(b) EXPENSE REIMBURSEMENT. The Company agrees to reimburse, within thirty (30) days of presentation, the Executive for all reasonable and necessary travel, business entertainment and other business out-of-pocket expenses incurred or expended by him in connection with the performance of his duties hereunder upon presentation of proper expense statements or vouchers or such other supporting information as the Company may reasonably require of the Executive.

(c) OTHER EXECUTIVE PERQUISITES. The Company shall provide the Executive with other executive perquisites as may be available to or deemed appropriate for the Executive by the Board or a compensation committee thereof.

5. TERMINATION. This Agreement and the Executive's employment with the Company may be terminated either upon the expiration of its Term (as set forth in Section 1), or as set forth in Sections 5(a) through 5(e) or as set forth in Section 11:

(a) DEATH. In the event of the death of the Executive during the Term, this Agreement shall automatically terminate with the effective date of termination being the date of the Executive's death, and the Company shall have no further obligations hereunder except to pay all compensation due for the period up to (i) the effective date of termination, plus an amount equal to any bonus he received during the previous year and (ii) acceleration of the vesting of all options previously granted to the Executive that would have vested within the one year period commencing with the effective date of the Executive's termination had the Executive remained employed by the Company for that one (1) year period. Such options that will accelerate will vest and become exercisable on the effective date of termination.

(b) DISABILITY. In the event of the "PERMANENT DISABILITY" (as hereinafter defined) of the Executive during the Term, the Company shall have the right, to the extent permissible under applicable law and upon written notice to the Executive, to terminate the Executive's employment hereunder, effective upon the giving of such notice (or such later date as shall be specified in such notice). For purposes of this Section, "PERMANENT DISABILITY" means any disability as defined under the Company's applicable disability insurance policy or, if no such policy is available, any physical or mental disability or incapacity that renders the Executive incapable of performing the services required of him in accordance with his obligations under Section 2 hereof for a period of four (4) consecutive months or for shorter periods aggregating six (6) months during any twelve (12)-month period. In the event of such termination, and subject to the provisions of Section 5(g) below, the Company shall have no further obligations hereunder, except that the Executive shall be entitled to be paid as severance (i) his Base Salary then in effect under Section 3(a) hereof for a period of two (2) years from the effective date of termination, plus any bonus he received during the previous year; provided, however, that the Company shall only be required to pay that amount of the Executive's Base Salary which shall not be covered by long-term disability payments, if any, to the Executive, and (ii) acceleration of

the vesting of all options previously granted to the Executive that would have vested within the two (2) year period commencing with the effective date of the Executive's termination had the Executive remained employed by the Company for that one year period. Such options that will accelerate will vest and become exercisable on the effective date of termination.

(c) CAUSE. The Company shall have the right, upon ten (10) days' written notice to the Executive, to terminate the Executive's employment under this Agreement for "CAUSE" (as hereinafter defined), effective upon the giving of such notice (or such later date as shall be specified in such notice), and the Company shall have no further obligations hereunder, except to pay the Executive compensation due for the period up to the effective date of termination. The Executive's right to participate in any of the Company's retirement, insurance and other benefit plans and programs shall be as determined under such programs

and plans. For purposes of this Agreement, "CAUSE" means:

(i) fraud, embezzlement or gross insubordination on the part of the Executive or material breach by the Executive of his obligations under Sections 6 or 7 hereof;

(ii) a material breach of, gross negligence with respect to, or the willful failure or refusal by the Executive to perform and discharge, his duties, responsibilities or obligations under this Agreement (other than under Sections 6 and 7 hereof, which shall be governed by clause (i) above, and other than by reason of disability or death) that is not corrected within ten (10) days following written notice thereof to the Executive by the Company, such notice to state with specificity the nature of the breach, failure or refusal; provided that if such breach, failure or refusal cannot reasonably be corrected within ten (10) days of written notice thereof, correction shall be commenced by the Executive within such period and may be corrected within a reasonable period thereafter;

(iii) conviction of, or the entry of a plea of nolo contendere by, the Executive of any felony; or

(iv) illegal drug use, alcohol abuse or drug abuse by the Executive.

(d) TERMINATION BY THE COMPANY WITHOUT CAUSE OR BY THE EMPLOYEE FOR GOOD REASON.

(1) TERMINATION BY THE COMPANY WITHOUT CAUSE. The Company shall have the right, upon thirty (30) days' written notice given to the Executive, to terminate this Agreement for any reason whatsoever. In the event of a termination without cause, the Executive shall be entitled to receive as severance (i) from the Company an amount equal to two (2) years of his Base Salary at the rate then in effect, plus any bonus he received during the previous year and (ii) acceleration of the vesting of all Options previously granted to the Executive that have not yet vested, which options shall immediately vest and be exercisable as of the effective date of termination.

(2) TERMINATION BY THE EMPLOYEE FOR GOOD REASON. In the event the Executive terminates employment for Good Reason, he shall receive the same severance as set forth in Section 5(d)(1). For purposes of the Agreement, "GOOD REASON" means:

a. a material change in the Executive's responsibilities and duties which is not agreed to by the Executive;

b. a material breach by the Company of its compensation obligations under this Agreement which is not agreed to by the Executive; or

c. a determination by Executive of a material difference with the Company's Board.

(e) BY EXECUTIVE. The Executive shall have the right, exercisable at any time during the Term, to terminate this Agreement for any reason whatsoever, upon three (3) months written notice to the Company. In such event, the Company shall have no further obligations except to pay the Executive all compensation due for the period up to the effective date of termination, except if the Executive terminates for "Good Reason" as described above.

(f) GENERAL PROVISIONS/OPTION VESTING AND EXERCISE PERIODS. If the Executive is terminated pursuant to either Section 5(c) or 5(e), all options that are not vested as of the effective date of termination shall be forfeited. In the event the Executive has vested but unexercised options upon his termination, the exercise period for such option shall be (i) eighteen (18) months if the Executive is terminated upon death or permanent disability; (ii) twelve (12) months if the Executive's employment is terminated pursuant to Section 11; or (iii) ninety (90) days if the Executive's employment terminates for any other reason. Additional compensation subsequent to termination, if any, will be due and payable to the Executive only to the extent and in the manner expressly provided in this Agreement. In the event that the Executive secures employment with another entity during the period that any payment is continuing pursuant to the provisions of this Section 5, the amounts to be paid hereunder shall be reduced by the amount of the Executive's earnings from such other employment.

(g) SEVERANCE PAY/RELEASE. The Company's payment of severance pay (including option acceleration) pursuant to Section 5(b) and 5(d) is contingent on the Executive entering into a release in favor of the Company with language mutually agreeable to the Executive and the Company. Severance payments will be made, minus the deductions and withholdings, in installments for the duration of the severance period according to the Company's regular payroll periods commencing with the first payroll period following the effective date of the

release.

6. CONFIDENTIALITY. The Executive acknowledges that, by reason of his employment by the Company, he will have access to confidential information of the Company and its subsidiaries and affiliates, including, without limitation, information and knowledge pertaining to products, inventions, discoveries, improvements, innovations, designs, ideas, trade secrets, proprietary information, manufacturing, packaging, advertising, distribution and sales methods, sales and profit figures, customer and client lists and relationships between the Company, any of its subsidiaries or affiliates and dealers, distributors, sales representatives, wholesalers, customers, clients, suppliers and others who have business dealings with them ("CONFIDENTIAL INFORMATION"). The Executive acknowledges that such Confidential Information is a valuable and unique asset of the Company and its subsidiaries and affiliates and covenants that, both during and after the Term, he will not disclose any Confidential Information to any person (except as his duties as an employee of the Company may require) without the prior written

authorization of the Board. The obligation of confidentiality imposed by this Section 6 shall not apply to Confidential Information that otherwise becomes generally known in the industry or to the public through no act of the Executive in breach of this Agreement or any other party in violation of an existing confidentiality agreement with the Company or any subsidiary or affiliate or which is required to be disclosed by court order or applicable law.

7. COVENANT NOT TO COMPETE.

(a) SCOPE OF COVENANT. The Executive agrees that during the Term and for a period equal to the longer of (i) one (1) year commencing upon the expiration or termination of the Executive's employment hereunder (for any reason whatsoever) and (ii) the period during which the Executive is receiving the full and timely payments pursuant to Section 5 hereof, the Executive shall not, directly or indirectly, for himself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation or business of whatever nature, without the prior written consent of the Company:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any business selling any products or services in direct competition with the Company within the United States (the "TERRITORY");

(ii) call upon any person who is at that time, or who was at any time within one (1) year prior to that time, an employee of the Company (including the respective subsidiaries thereof) in a managerial capacity for the purpose or with the intent of enticing such employee away from or out of the employ of the Company (including the respective subsidiaries thereof), provided that the Executive shall be permitted to call upon and hire any member of his immediate family;

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of the Company (including the respective subsidiaries thereof) within the Territory for the purpose of soliciting or selling products or services in direct competition with the Company (including the respective subsidiaries thereof) within the Territory; or

(iv) call upon any prospective acquisition candidate, on the Executive's own behalf or on behalf of any competitor, which candidate was either called upon by the Company (including the respective subsidiaries thereof) or for which the Company (including the respective subsidiaries thereof) made an acquisition analysis, for the purpose of acquiring such entity;

provided, however, that nothing in this Section 7(a) shall be construed to preclude the Executive from making any investments in the securities of any business enterprise, whether or not engaged in competition with the Company or any of its subsidiaries, to the extent that such securities are actively traded on a national securities exchange or in the over-the-counter market in the United States or on any foreign securities exchange; and provided further, however, that nothing shall preclude the Executive from serving as the Vice Chairman of American Capital Strategies, Ltd., the managing member emeritus, through an affiliate, of Capital Investors, LLC, the owner and

Chairman of B&G Berry Corporation and a member of the board of directors of Capital Automotive REIT.

For purposes of this Agreement, "businesses in competition with the Company" are

any entities or persons who make senior and subordinated loans to small and medium sized private businesses that are substantially owned by buyout or venture capital funds or similar institutional investors.

(b) REASONABLENESS. It is agreed by the parties that the foregoing covenants in this Section 7 impose a reasonable restraint on the Executive in light of the activities and business of the Company (including the Company's subsidiaries) on the date of the execution of this Agreement and the current plans of the Company (including the Company's subsidiaries); but it is also the intent of the Company and the Executive that such covenants be construed and enforced in accordance with the changing activities, business and locations of the Company (including the Company's other subsidiaries) throughout the term of this covenant.

(c) SEVERABILITY. The covenants in this Section 7 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which the court deems reasonable, and this Agreement shall thereby be reformed.

(d) ENFORCEMENT BY THE COMPANY NOT LIMITED. All of the covenants in this Section 7 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of the Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants. It is specifically agreed that the period of one (1) year stated at the beginning of this Section 7, during which the agreements and covenants of the Executive made in this Section 7 shall be effective, shall be computed by excluding from such computation any time during which the Executive is in violation of any provision of this Section 7.

(e) CHANGE OF RELEVANT LAW. Notwithstanding any of the foregoing, if any applicable law shall reduce the time period during which the Executive shall be prohibited from engaging in any competitive activity described in Section 7(a) hereof, the period of time for which the Executive shall be prohibited from engaging in competitive activities pursuant to Section 7(a) hereof shall be the maximum time permitted by law. However, in the event that the time period specified by Section 7(a) shall be so reduced, then, notwithstanding the provisions of Section 5 hereof, the Executive shall be entitled to receive from the Company his Base Salary at the rate then in effect solely for the longer of (i) the time period during which the provisions of Section 7(a) shall be enforceable under the provisions of such applicable law, or (ii) the time period during which the Executive is not engaging in any competitive activity, but in no event longer than the term provided in Section 5.

(f) WAIVER OF SEVERANCE. If the Executive's employment terminates pursuant to Section 5(d) and the Executive chooses to waive his right to severance (including option

acceleration) as provided for under those Sections, this Covenant Not to Compete shall not take effect.

8. SPECIFIC PERFORMANCE. The Executive acknowledges that the services to be rendered by the Executive are of a special, unique and extraordinary character and, in connection with such services, the Executive will have access to confidential information vital to the Company's business and the business of the Company's subsidiaries and affiliates. By reason of this, the Executive consents and agrees that if the Executive violates any of the provisions of Section 6 or 7 hereof, the Company and its subsidiaries and affiliates would sustain irreparable injury and that monetary damages would not provide adequate remedy to the Company or any of its subsidiaries or affiliates. Therefore, the Executive hereby agrees that the Company and any affected subsidiary and affiliate shall be entitled to have Sections 6 or 7 hereof, specifically enforced (including, without limitation, by injunctions and restraining orders) by any court having equity jurisdiction. Nothing contained herein shall be construed as prohibiting the Company or any of its subsidiaries or affiliates from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages from the Executive.

9. DEDUCTIONS AND WITHHOLDING. The Executive agrees that the Company or its subsidiaries or affiliates, as applicable, shall withhold from any and all compensation paid to and required to be paid to the Executive pursuant to this Agreement, all Federal, state, local and/or other taxes which the Company determines are required to be withheld in accordance with applicable statutes or regulation from time to time in effect and all amounts required to be deducted in respect of the Executive's coverage under applicable employee benefit plans.

10. NO CONFLICTS. The Executive hereby represents and warrants to the Company that his execution, delivery and performance of this Agreement and any other

agreement to be delivered pursuant to this Agreement will not (a) require the consent, approval or action of any other person or (b) violate, conflict with or result in the breach of any of the terms of, or constitute (or with notice or lapse of time or both, constitute) a default under, any agreement, arrangement or understanding with respect to the Executive's employment to which the Executive is a party or by which the Executive is bound or subject including, without limitation, any non-competition or non-disclosure provisions in agreements to which the Executive is or was a party. The Executive hereby agrees to indemnify and hold harmless the Company and its directors, officers, employees, agents, representatives, subsidiaries and affiliates (and each such subsidiary's and affiliate's directors, officers, employees, agents and representatives) from and against any and all losses, liabilities or claims (including interest, penalties and attorneys' fees, disbursements and related charges) based upon or arising out of the Executive's breach of any of the foregoing representations and warranties. The Executive has provided to the Company a copy of his Amended and Restated Employment Agreement with American Capital Strategies, Ltd., the terms of which are hereby acknowledged and agreed to by the Company.

11. CHANGE IN CONTROL.

(a) GENERALLY. Unless the Executive elects to terminate this Agreement pursuant to subsections (b), (c) or (d) below, the Executive understands and acknowledges that the Company may be merged or consolidated with or into another entity and that such entity shall automatically succeed to the rights and obligations of the Company hereunder or that the Company may undergo another type of Change in Control. In the event such a merger or consolidation or other Change in Control is initiated prior to the end of the Term or any extension or renewal thereof, then the provisions of this Section 11 shall be applicable.

(b) NON ASSUMPTION. In the event of a Change in Control wherein the Company and the Executive have not received written notice at least five (5) business days prior to the date of the event giving rise to the Change in Control from the successor to all or a substantial portion of the Company's business or assets that such successor is willing as of the closing to assume and agrees to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company is hereby required to perform, then the Executive may, at the Executive's sole discretion, elect to terminate the Executive's employment on such Change in Control by providing written notice to the Company prior to the closing of the transaction giving rise to the Change in Control. In such case, the Executive shall receive the severance compensation as set forth in Section 5(d).

(c) EXECUTIVE'S OPTION. In any Change in Control situation, the Executive may, at the Executive's sole discretion, elect to terminate the Executive's employment upon the effective date of such Change in Control by providing written notice to the Company at least ten (10) business days prior to the closing of the transaction (or ten (10) business days after receipt of notice of such transaction, whichever is later) giving rise to the Change in Control. In such case, the Executive shall receive the severance compensation as set forth in Section 5(d).

(d) DEEMED CHANGE OF CONTROL. If, on or within one (1) year following the effective date of a Change in Control the Company or its successor terminates the Executive's employment other than for cause or if the Executive's employment with the Company is terminated by the Company within three (3) months before the effective date of a Change in Control other than for cause and it is reasonably demonstrated that such termination (i) was at the request of a third party that has taken steps reasonably calculated to effect a Change in Control, or (ii) otherwise arose in connection with or anticipation of a Change in Control, then the Executive shall receive the severance compensation as set forth in Section 5(d).

(e) EFFECTIVE DATE. Solely for purposes of applying Section 5 under the circumstances described in (b) above, the effective date of termination will be the closing date of the transaction giving rise to the Change in Control and all compensation, reimbursements and lump-sum payments due the Executive must be paid in full by the Company at or prior to such closing.

(f) DEFINITION. A "CHANGE IN CONTROL" shall be deemed to have occurred if:

(i) any person, other than the Company or benefit plan of the Company, acquires, directly or indirectly, the beneficial ownership (as defined in Section 13(d) of the

Securities Exchange Act of 1934, as amended) of any voting security of the Company and immediately after such acquisition such person is, directly or

indirectly, the beneficial owner of voting securities representing more than fifty percent (50%) or more of the total voting power of all of the then-outstanding voting securities of the Company; or

(ii) the date the individuals who constitute the Board as of the date of the Company's initial public offering (the "INCUMBENT BOARD") cease for any reason to constitute at least a majority of the members of the Board, provided that any individual becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than any individual whose nomination for election to Board membership was not endorsed by the Company's management prior to, or at the time of, such individual's initial nomination for election) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) the stockholders of the Company shall approve a merger, consolidation, recapitalization or reorganization of the Company, a reverse stock split of outstanding voting securities, the issuance of shares of Company stock in connection with the acquisition of the stock or assets of another entity, or consummation of any such transaction if stockholder approval is not obtained, but a Change in Control shall include any transaction which would result in more than fifty percent (50%) of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being beneficially owned by more than fifty percent (50%) of the holders of outstanding voting securities of the Company immediately prior to the transactions with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction; or

(iv) the stockholders of the Company shall approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or a substantial portion of the Company's assets (i.e., more than fifty percent (50%) or more of the total assets of the Company).

(g) TAX GROSS UP. The Executive shall be fully "GROSSED UP" by the Company or its successor for any excise taxes that the Executive incurs under Section 4999 of the Internal Revenue Code of 1986, as amended (as well as for income tax on the "GROSS UP" amount), as a result of any Change in Control. Such amount will be due and payable by the Company on the date of the Change of Control.

(h) VESTING. Upon the occurrence of a Change of Control, any unvested portion of any awards of stock options or stock grants pursuant to this Agreement or otherwise shall immediately vest and become exercisable to their fullest extent (notwithstanding any vesting periods specified elsewhere) and the Executive shall be entitled to all rights and privileges associated with such awards (subject to applicable securities laws and regulations). With respect to option awards which vest pursuant to this paragraph, the Executive shall have a period of twelve (12) months from the date of vesting in which to exercise such options.

12. COMPLETE AGREEMENT. This Agreement is not a promise of future employment. This Agreement embodies the entire agreement of the parties with respect to the Executive's employment, compensation, perquisites and related items and supersedes any other prior oral or written agreements, arrangements or understandings between the Executive and the Company or any of its subsidiaries or affiliates, and any such prior agreements, arrangements or understandings are hereby terminated and of no further effect. This Agreement may not be changed or terminated orally but only by an agreement in writing signed by the parties hereto.

13. WAIVER. The waiver by the Company of a breach of any provision of this Agreement by the Executive shall not operate or be construed as a waiver of any subsequent breach by him. The waiver by the Executive of a breach of any provision of this Agreement by the Company shall not operate or be construed as a waiver of any subsequent breach by the Company.

14. GOVERNING LAW; JURISDICTION; ASSIGNABILITY.

(a) GOVERNING LAW. This Agreement shall be subject to, and governed by, the laws of the Commonwealth of Virginia.

(b) JURISDICTION. Any action to enforce any of the provisions of this Agreement shall be brought in a local or federal court within the Eastern District of Virginia. The Parties consent to the jurisdiction of such court and to the service of process in any manner provided by Virginia law. Each party irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in such court and any claim that such suit, action or proceeding brought in such court has been brought in an inconvenient forum and agrees that service of process in accordance with the foregoing sentences shall be deemed in every respect effective and valid personal service of process upon such party.

(c) ASSIGNABILITY. This obligations of the Executive may not be delegated and, except with respect to the designation of beneficiaries in connection with any of the benefits payable to the Executive hereunder, the Executive may not, without the Company's written consent thereto, assign, transfer, convey, pledge, encumber, hypothecate or otherwise dispose of this Agreement or any interest herein. Any such attempted delegation or disposition shall be null and void and without effect. Subject to the express provisions of Section 11, the Company and the Executive agree that this Agreement and all of the Company's rights and obligations hereunder may be assigned or transferred by the Company to and shall be assumed by and be binding upon any successor to the Company. The term "SUCCESSOR" means, with respect to the Company or any of its subsidiaries, any corporation or other business entity which, by merger, consolidation, purchase of the assets or otherwise acquires all or a material part of the assets of the Company.

15. SEVERABILITY. If any provision of this Agreement of any part thereof, including, without limitation, Sections 6 and 7 hereof, as applied to either party or to any circumstances shall be adjudged by a court of competent jurisdiction to be void or unenforceable, the same shall in no way affect any other provision of this Agreement or remaining part thereof, which shall be given full effect without regard to the invalid or unenforceable part thereof, or the validity or enforceability of this Agreement. If any court construes any of the provisions of Sections 6 or 7 hereof, or any part thereof, to be unreasonable because of the duration of such provision or the

geographic scope thereof, such court may reduce the duration or restrict or redefine the geographic scope of such provision and enforce such provision so reduced, restricted or redefined.

16. NOTICES. All notices to the Company or the Executive permitted or required hereunder shall be in writing and shall be delivered personally, by telecopier or by courier service providing for next-day delivery or sent by registered or certified mail, return receipt requested, to the following addresses:

If to the Company:	Gladstone Capital Corporation 1750 Tysons Blvd., 4th Floor McLean, Virginia 22101 Attn.: Terry Brubaker, President Tel: (703) 744-1165
If to the Executive:	David Gladstone 1161 Crest Lane McLean, Virginia 22101 Fax: (703) 276-0305

Either party may change the address to which notices shall be sent by sending written notice of such change of address to the other party. Any such notice shall be deemed given, if delivered personally, upon receipt; if telecopied, when telecopied; if sent by courier service providing for next-day delivery, the next business day following deposit with such courier service; and if sent by certified or registered mail, three days after deposit (postage prepaid) with the U.S. mail service.

17. SECTION HEADINGS. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

18. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of June 25, 2001.

GLADSTONE CAPITAL CORPORATION

By: /s/ Terry L. Brubaker

Terry L. Brubaker, President

EXECUTIVE

/s/ David Gladstone

David Gladstone

Exhibit 99k.3

EMPLOYMENT AGREEMENT

THIS AGREEMENT ("AGREEMENT") is made between GLADSTONE CAPITAL CORPORATION, a Maryland corporation (the "COMPANY"), and Terry Lee Brubaker, a resident of the Commonwealth of Virginia (the "EXECUTIVE").

The Company wishes to secure the services of the Executive and the Executive wishes to furnish such services to the Company pursuant to the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and obligations hereinafter set forth, the parties hereto, intending to be legally bound, hereby agree as set forth below.

1. EMPLOYMENT; TERM. The Company hereby agrees to employ the Executive, and the Executive hereby agrees to enter into such employment, as President and Chief Operating Officer of the Company, for the period commencing on the date that this Agreement is executed by all parties (the "EFFECTIVE DATE") and ending on the date three (3) years from the Effective Date, unless terminated sooner pursuant to Section 5 hereof. The initial three (3)-year term shall be extended for additional successive periods of one (1) year each, on the same terms and conditions contained herein, unless three (3) months' prior written notice is given by the Company of its intention to terminate the term of this Agreement without cause. For purposes hereof, the period of Executive's employment hereunder is referred to as the "TERM."

2. DUTIES AND EXTENT OF SERVICES.

(a) The Executive shall serve as President and Chief Operating Officer of the Company with such duties and responsibilities as are consistent with such positions, and shall so serve faithfully and to the best of his ability, under the direction and supervision of the Company's Board of Directors (the "BOARD").

(b) Subject to the Company's procedures for selection and removing Board members, the Executive shall serve as a member of the Board of Directors and hold such other positions and executive offices of the Company or of any of the Company's subsidiaries or affiliates as may from time to time be authorized by the Board, provided that each such position shall be commensurate with the Executive's standing in the business community as President and Chief Operating Officer of the Company. The Executive shall not be entitled to any compensation other than the compensation provided for herein for serving during the Term as a Director of the Company or in any other office or position of the Company, or any of its subsidiaries or affiliates, unless the Board shall have specifically approved such additional compensation.

(c) The Executive shall devote the substantial majority of his business time, attention and efforts to his duties hereunder, except when necessary to fulfill his fiduciary obligations as a member of the board of directors of Heads Up Systems and River Logic, which are expected to require no more than twenty percent (20%) of Executive's time. The Executive agrees that

he will not be employed by any other entity, or serve as Chairman of the Board, co-Chairman of the Board, or non-executive Chairman of the Board of any other entity during the term of this Agreement, except as specified in the preceding sentence. The Executive shall diligently perform to the best of his ability all of the duties required of him as President and Chief Operating Officer of the Company, and in the other positions or offices of the Company or its subsidiaries or affiliates required of him hereunder. The Executive shall faithfully adhere to, execute and fulfill all policies established by the Company. Notwithstanding the foregoing provisions of this Section, the Executive may participate in charitable, civic, political, social, trade or other non-profit organizations to the extent such participation does not materially interfere with the performance of his duties hereunder, and may serve as a non-management director of business corporations (or in a like capacity in other for-profit organizations) so long as it does not materially interfere with the Executive's obligations hereunder.

(d) The Executive shall be required to live within one hundred fifty (150) miles of the greater Washington, D.C. area in order to perform his duties hereunder. The Executive understands that he will be required to travel from time to time in order to perform his duties hereunder and agrees to undertake such travel as part of his duties to the Company under the terms of this Agreement.

3. COMPENSATION.

(a) BASE SALARY.

(i) BASE SALARY PRIOR TO N-2 EFFECTIVE DATE. Up until the date that the Company's Registration Statement on Form N-2 relating to its initial public offering is declared effective by the Securities and Exchange Commission (the "N-2 EFFECTIVE DATE"), the Executive's Base Salary shall be $13,000, minus deductions and withholdings required by law, payable on a regular basis in accordance with the Company's regular payroll policies in effect from time to time, but not less frequently than monthly.

(ii) BASE SALARY AFTER N-2 EFFECTIVE DATE. After the N-2 Effective Date, the Executive's Base Salary shall be Two Hundred Thousand Dollars ($200,000) per year, minus deductions and withholdings required by law, payable on a regular basis in accordance with the Company's regular payroll policies in effect from time to time, but not less frequently than monthly. On at least an annual basis, the Board will review the Executive's performance and may make increases to such Base Salary if, in its sole discretion, any such change is warranted.

(b) INCENTIVE BONUS. Following the initial public offering, the Executive will be eligible to receive a year-end incentive bonus of up to one hundred percent (100%) of his Base Salary determined in the sole discretion of the Board or a compensation committee thereof. Subject to the provisions of Section 3(d) hereof, such bonus payments shall be made to the Executive, if earned, as soon as practicable after the end of each calendar year during the Term.

(c) DEFERRAL. The Executive may elect to defer payment of all or any part of his incentive bonus compensation amount payable in accordance with Section 3(b) hereof with respect to any calendar year during the Term, by giving the Company written notice thereof not later than June 30 of such year. Additionally, in the event that in respect of any fiscal year of the Company any amount of Base Salary, incentive bonus compensation or any other amount payable to the Executive hereunder or otherwise, shall, either alone or in combination with other amounts payable hereunder or otherwise, result in a payment by the Company that shall not be currently deductible by it pursuant to the provisions of Section 162(m) of the Internal Revenue Code, as amended, or like or successor provisions (a "NON-DEDUCTIBLE AMOUNT"), as determined by the Company's independent accountants, the Company may elect to defer the payment of the Non-Deductible Amount. Any amounts so deferred, either by election of the Executive or by election of the Company, shall be immediately invested in a brokerage money market account controlled by the Company. The entire amount invested in such account shall be paid to the Executive on a date to be chosen by the Company, but in no event later than the first anniversary of the termination of the Executive from employment with the Company.

(d) STOCK OPTIONS. Upon Board approval, the Executive shall receive an option to purchase two hundred thousand (200,000) shares of the Company's outstanding Common Stock. These options will vest according to the following schedule: one hundred thousand (100,000) shares subject to the option shall vest on the date of the grant; and the remaining one hundred thousand (100,000) shares subject to the option shall vest on the first anniversary of the date of the grant. The purchase price for the shares subject to the option shall be the fair market value of the shares on the date of the grant. The option shall be an incentive stock option to the extent permitted by law. Such options shall be subject to the Company's 2001 Equity Incentive Plan. The Executive may be required to sign additional stock agreements as a condition for receiving the option, and the option shall be subject to such agreements.

The Executive is permitted to exercise his option before it is fully vested. In the event the Executive elects to exercise his option early, the stock he receives upon such exercise will be subject to the same vesting schedule that was applicable to the option shares. The specific terms and conditions of the transfer of such stock to the Executive shall be governed by an "Early Exercise Stock Purchase Agreement" in a form approved by the Company. Generally, until the Executive satisfies the vesting requirements, he may not sell, assign or convey the shares of early exercised stock. The Company will have the right to repurchase those early exercised shares at the original price paid by the Executive for the shares, in the event the Executive's employment terminates for any reason before such shares are vested.

4. BENEFITS.

(a) STANDARD BENEFITS. During the Term, the Executive shall be entitled to participate in any and all benefit programs and arrangements now in effect and hereinafter adopted and generally made available by the Company to its senior officers, including but not limited to, four (4) weeks of paid vacation during each year of the Term in accordance with the policies and procedures of the Company as in effect from time to time for its senior officers, pension plans, contributory and non-contributory Company welfare and benefit plans, disability

plans, and medical, death benefit and life insurance plans for which the Executive shall be eligible, or may become eligible during the Term.

(b) EXPENSE REIMBURSEMENT. The Company agrees to reimburse, within thirty (30) days of presentation, the Executive for all reasonable and necessary travel, business entertainment and other business out-of-pocket expenses incurred or expended by him in connection with the performance of his duties hereunder upon presentation of proper expense statements or vouchers or such other supporting information as the Company may reasonably require of the Executive.

(c) OTHER EXECUTIVE PERQUISITES. The Company shall provide the Executive with other executive perquisites as may be available to or deemed appropriate for the Executive by the Board or a compensation committee thereof.

5. TERMINATION. This Agreement and the Executive's employment with the Company may be terminated either upon the expiration of its Term (as set forth in Section 1), or as set forth in Sections 5(a) through 5(e) or as set forth in Section 11:

(a) DEATH. In the event of the death of the Executive during the Term, this Agreement shall automatically terminate with the effective date of termination being the date of the Executive's death, and the Company shall have no further obligations hereunder except to pay all compensation due for the period up to (i) the effective date of termination, plus an amount equal to any bonus he received during the previous year and (ii) acceleration of the vesting of all options previously granted to the Executive that would have vested within the one year period commencing with the effective date of the Executive's termination had the Executive remained employed by the Company for that one (1) year period. Such options that will accelerate will vest and become exercisable on the effective date of termination.

(b) DISABILITY. In the event of the "PERMANENT DISABILITY" (as hereinafter defined) of the Executive during the Term, the Company shall have the right, to the extent permissible under applicable law and upon written notice to the Executive, to terminate the Executive's employment hereunder, effective upon the giving of such notice (or such later date as shall be specified in such notice). For purposes of this Section, "PERMANENT DISABILITY" means any disability as defined under the Company's applicable disability insurance policy or, if no such policy is available, any physical or mental disability or incapacity that renders the Executive incapable of performing the services required of him in accordance with his obligations under Section 2 hereof for a period of four (4) consecutive months or for shorter periods aggregating six (6) months during any twelve (12)-month period. In the event of such termination, and subject to the provisions of Section 5(g) below, the Company shall have no further obligations hereunder, except that the Executive shall be entitled to be paid as severance (i) his Base Salary then in effect under Section 3(a) hereof for a period of two (2) years from the effective date of termination, plus any bonus he received during the previous year; provided, however, that the Company shall only be required to pay that amount of the Executive's Base Salary which shall not be covered by long-term disability payments, if any, to the Executive, and (ii) acceleration of the vesting of all options previously granted to the Executive that would have vested within the two (2) year period commencing with the effective date of the Executive's termination had the Executive remained employed by the Company for that one year period. Such options that will accelerate will vest and become exercisable on the effective date of termination.

(c) CAUSE. The Company shall have the right, upon ten (10) days' written notice to the Executive, to terminate the Executive's employment under this Agreement for "CAUSE" (as hereinafter defined), effective upon the giving of such notice (or such later date as shall be specified in such notice), and the Company shall have no further obligations hereunder, except to pay the Executive compensation due for the period up to the effective date of termination. The Executive's right to participate in any of the Company's retirement, insurance and other benefit plans and programs shall be as determined under such programs and plans. For purposes of this Agreement, "CAUSE" means:

(i) fraud, embezzlement or gross insubordination on the part of the Executive or material breach by the Executive of his obligations under Sections 6 or 7 hereof;

(ii) a material breach of, gross negligence with respect to, or the willful failure or refusal by the Executive to perform and discharge, his duties, responsibilities or obligations under this Agreement (other than under Sections 6 and 7 hereof, which shall be governed by clause (i) above, and other than by reason of disability or death) that is not corrected within ten (10)

days following written notice thereof to the Executive by the Company, such notice to state with specificity the nature of the breach, failure or refusal; provided that if such breach, failure or refusal cannot reasonably be corrected within ten (10) days of written notice thereof, correction shall be commenced by the Executive within such period and may be corrected within a reasonable period thereafter;

(iii) conviction of, or the entry of a plea of nolo contendere by, the Executive of any felony; or

(iv) illegal drug use, alcohol abuse or drug abuse by the Executive.

(d) TERMINATION BY THE COMPANY WITHOUT CAUSE OR BY THE EMPLOYEE FOR GOOD REASON.

(1) TERMINATION BY THE COMPANY WITHOUT CAUSE. The Company shall have the right, upon thirty (30) days' written notice given to the Executive, to terminate this Agreement for any reason whatsoever. In the event of a termination without cause, the Executive shall be entitled to receive as severance (i) from the Company an amount equal to two (2) years of his Base Salary at the rate then in effect, plus any bonus he received during the previous year and (ii) acceleration of the vesting of all Options previously granted to the Executive that have not yet vested, which options shall immediately vest and be exercisable as of the effective date of termination.

(2) TERMINATION BY THE EMPLOYEE FOR GOOD REASON. In the event the Executive terminates employment for Good Reason, he shall receive the same severance as set forth in Section 5(d)(1). For purposes of the Agreement, "GOOD REASON" means:

a. a material change in the Executive's responsibilities and duties which is not agreed to by the Executive;

b. a material breach by the Company of its compensation obligations under this Agreement which is not agreed to by the Executive; or

c. a change in David Gladstone's employment status that reduces his role or time commitment to the Company.

(e) BY EXECUTIVE. The Executive shall have the right, exercisable at any time during the Term, to terminate this Agreement for any reason whatsoever, upon three (3) months written notice to the Company. In such event, the Company shall have no further obligations except to pay the Executive all compensation due for the period up to the effective date of termination, except if the Executive terminates for "Good Reason" as described above.

(f) GENERAL PROVISIONS/OPTION VESTING AND EXERCISE PERIODS. If the Executive is terminated pursuant to either Section 5(c) or 5(e), all options that are not vested as of the effective date of termination shall be forfeited. In the event the Executive has vested but unexercised options upon his termination, the exercise period for such option shall be (i) eighteen (18) months if the Executive is terminated upon death or permanent disability; (ii) twelve (12) months if the Executive's employment is terminated pursuant to Section 11; or (iii) ninety (90) days if the Executive's employment terminates for any other reason. Additional compensation subsequent to termination, if any, will be due and payable to the Executive only to the extent and in the manner expressly provided in this Agreement. In the event that the Executive secures employment with another entity during the period that any payment is continuing pursuant to the provisions of this Section 5, the amounts to be paid hereunder shall be reduced by the amount of the Executive's earnings from such other employment.

(g) SEVERANCE PAY/RELEASE. The Company's payment of severance pay (including option acceleration) pursuant to Section 5(b) and 5(d) is contingent on the Executive entering into a release in favor of the Company with language mutually agreeable to the Executive and the Company. Severance payments will be made, minus the deductions and withholdings, in installments for the duration of the severance period according to the Company's regular payroll periods commencing with the first payroll period following the effective date of the release.

6. CONFIDENTIALITY. The Executive acknowledges that, by reason of his employment by the Company, he will have access to confidential information of the Company and its subsidiaries and affiliates, including, without limitation, information and knowledge pertaining to products, inventions, discoveries, improvements, innovations, designs, ideas, trade secrets, proprietary information, manufacturing, packaging, advertising, distribution and sales methods, sales and profit figures, customer and client lists and relationships between the Company, any of its subsidiaries or affiliates and dealers, distributors, sales representatives, wholesalers, customers, clients, suppliers

and others who have business dealings with them ("CONFIDENTIAL INFORMATION"). The Executive acknowledges that such Confidential Information is a valuable and unique asset of the Company and its subsidiaries and affiliates and covenants that, both during and after the Term, he will not disclose any Confidential Information to any person (except as his duties as an employee of the Company may require) without the prior written authorization of the Board. The obligation of confidentiality imposed by this Section 6 shall not apply to Confidential Information that otherwise becomes generally known in the industry or to the public through no act of the Executive in breach of this Agreement or any other party in violation of an existing confidentiality agreement with the Company or any subsidiary or affiliate or which is required to be disclosed by court order or applicable law.

7. COVENANT NOT TO COMPETE.

(a) SCOPE OF COVENANT. The Executive agrees that during the Term and for a period equal to the longer of (i) two (2) years commencing upon the expiration or termination of the Executive's employment hereunder (for any reason whatsoever) and (ii) the period during which the Executive is receiving the full and timely payments pursuant to Section 5 hereof, the Executive shall not, directly or indirectly, for himself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation or business of whatever nature, without the prior written consent of the Company:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any business selling any products or services in direct competition with the Company within the United States (the "TERRITORY");

(ii) call upon any person who is at that time, or who was at any time within one (1) year prior to that time, an employee of the Company (including the respective subsidiaries thereof) in a managerial capacity for the purpose or with the intent of enticing such employee away from or out of the employ of the Company (including the respective subsidiaries thereof), provided that the Executive shall be permitted to call upon and hire any member of his immediate family;

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of the Company (including the respective subsidiaries thereof) within the Territory for the purpose of soliciting or selling products or services in direct competition with the Company (including the respective subsidiaries thereof) within the Territory; or

(iv) call upon any prospective acquisition candidate, on the Executive's own behalf or on behalf of any competitor, which candidate was either called upon by the Company (including the respective subsidiaries thereof) or for which the Company (including the respective subsidiaries thereof) made an acquisition analysis, for the purpose of acquiring such entity;

provided, however, that nothing in this Section 7(a) shall be construed to preclude the Executive from making any investments in the securities of any business enterprise, whether or not engaged in competition with the Company or any of its subsidiaries, to the extent that such securities are actively traded on a national securities exchange or in the over-the-counter market in the United States or on any foreign securities exchange; and provided further, however, that nothing shall preclude the Executive from serving as a member of the board of directors of Heads Up Systems and River Logic.

For purposes of this Agreement, "businesses in competition with the Company" are any entities or persons who make senior and subordinated loans to small and medium sized private

businesses that are substantially owned by buyout or venture capital funds or similar institutional investors.

(b) REASONABLENESS. It is agreed by the parties that the foregoing covenants in this Section 7 impose a reasonable restraint on the Executive in light of the activities and business of the Company (including the Company's subsidiaries) on the date of the execution of this Agreement and the current plans of the Company (including the Company's subsidiaries); but it is also the intent of the Company and the Executive that such covenants be construed and enforced in accordance with the changing activities, business and locations of the Company (including the Company's other subsidiaries) throughout the term of

this covenant.

(c) SEVERABILITY. The covenants in this Section 7 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which the court deems reasonable, and this Agreement shall thereby be reformed.

(d) ENFORCEMENT BY THE COMPANY NOT LIMITED. All of the covenants in this Section 7 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of the Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants. It is specifically agreed that the period of one (1) year stated at the beginning of this Section 7, during which the agreements and covenants of the Executive made in this Section 7 shall be effective, shall be computed by excluding from such computation any time during which the Executive is in violation of any provision of this Section 7.

(e) CHANGE OF RELEVANT LAW. Notwithstanding any of the foregoing, if any applicable law shall reduce the time period during which the Executive shall be prohibited from engaging in any competitive activity described in Section 7(a) hereof, the period of time for which the Executive shall be prohibited from engaging in competitive activities pursuant to Section 7(a) hereof shall be the maximum time permitted by law. However, in the event that the time period specified by Section 7(a) shall be so reduced, then, notwithstanding the provisions of Section 5 hereof, the Executive shall be entitled to receive from the Company his Base Salary at the rate then in effect solely for the longer of (i) the time period during which the provisions of Section 7(a) shall be enforceable under the provisions of such applicable law, or (ii) the time period during which the Executive is not engaging in any competitive activity, but in no event longer than the term provided in Section 5.

(f) WAIVER OF SEVERANCE. If the Executive's employment terminates pursuant to Section 5(d) and the Executive chooses to waive his right to severance (including option acceleration) as provided for under those Sections, this Covenant Not to Compete shall not take effect.

(g) TERMINATION FOR GOOD CAUSE. Notwithstanding the foregoing provisions of this Section, if the Executive terminates his employment for Good Reason pursuant to Section 5(d)(2) hereof, then the period of time for which the Executive shall be prohibited from

engaging in competitive activities pursuant to Section 7(a) hereof shall be one (1) year from the effective date of termination.

8. SPECIFIC PERFORMANCE. The Executive acknowledges that the services to be rendered by the Executive are of a special, unique and extraordinary character and, in connection with such services, the Executive will have access to confidential information vital to the Company's business and the business of the Company's subsidiaries and affiliates. By reason of this, the Executive consents and agrees that if the Executive violates any of the provisions of Section 6 or 7 hereof, the Company and its subsidiaries and affiliates would sustain irreparable injury and that monetary damages would not provide adequate remedy to the Company or any of its subsidiaries or affiliates. Therefore, the Executive hereby agrees that the Company and any affected subsidiary and affiliate shall be entitled to have Sections 6 or 7 hereof, specifically enforced (including, without limitation, by injunctions and restraining orders) by any court having equity jurisdiction. Nothing contained herein shall be construed as prohibiting the Company or any of its subsidiaries or affiliates from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages from the Executive.

9. DEDUCTIONS AND WITHHOLDING. The Executive agrees that the Company or its subsidiaries or affiliates, as applicable, shall withhold from any and all compensation paid to and required to be paid to the Executive pursuant to this Agreement, all Federal, state, local and/or other taxes which the Company determines are required to be withheld in accordance with applicable statutes or regulation from time to time in effect and all amounts required to be deducted in respect of the Executive's coverage under applicable employee benefit plans.

10. NO CONFLICTS. The Executive hereby represents and warrants to the Company that his execution, delivery and performance of this Agreement and any other agreement to be delivered pursuant to this Agreement will not (a) require the consent, approval or action of any other person or (b) violate, conflict with or result in the breach of any of the terms of, or constitute (or with notice or lapse of time or both, constitute) a default under, any agreement, arrangement or understanding with respect to the Executive's employment to which the Executive is a party or by which the Executive is bound or subject including,

without limitation, any non-competition or non-disclosure provisions in agreements to which the Executive is or was a party. The Executive hereby agrees to indemnify and hold harmless the Company and its directors, officers, employees, agents, representatives, subsidiaries and affiliates (and each such subsidiary's and affiliate's directors, officers, employees, agents and representatives) from and against any and all losses, liabilities or claims (including interest, penalties and attorneys' fees, disbursements and related charges) based upon or arising out of the Executive's breach of any of the foregoing representations and warranties.

11. CHANGE IN CONTROL.

(a) GENERALLY. Unless the Executive elects to terminate this Agreement pursuant to subsections (b), (c) or (d) below, the Executive understands and acknowledges that the Company may be merged or consolidated with or into another entity and that such entity shall automatically succeed to the rights and obligations of the Company hereunder or that the Company may undergo another type of Change in Control. In the event such a merger or

consolidation or other Change in Control is initiated prior to the end of the Term or any extension or renewal thereof, then the provisions of this Section 11 shall be applicable.

(b) NON ASSUMPTION. In the event of a Change in Control wherein the Company and the Executive have not received written notice at least five (5) business days prior to the date of the event giving rise to the Change in Control from the successor to all or a substantial portion of the Company's business or assets that such successor is willing as of the closing to assume and agrees to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company is hereby required to perform, then the Executive may, at the Executive's sole discretion, elect to terminate the Executive's employment on such Change in Control by providing written notice to the Company prior to the closing of the transaction giving rise to the Change in Control. In such case, the Executive shall receive the severance compensation as set forth in Section 5(d).

(c) EXECUTIVE'S OPTION. In any Change in Control situation, the Executive may, at the Executive's sole discretion, elect to terminate the Executive's employment upon the effective date of such Change in Control by providing written notice to the Company at least ten (10) business days prior to the closing of the transaction (or ten (10) business days after receipt of notice of such transaction, whichever is later) giving rise to the Change in Control. In such case, the Executive shall receive the severance compensation as set forth in Section 5(d).

(d) DEEMED CHANGE OF CONTROL. If, on or within one (1) year following the effective date of a Change in Control the Company or its successor terminates the Executive's employment other than for cause or if the Executive's employment with the Company is terminated by the Company within three (3) months before the effective date of a Change in Control other than for cause and it is reasonably demonstrated that such termination (i) was at the request of a third party that has taken steps reasonably calculated to effect a Change in Control, or (ii) otherwise arose in connection with or anticipation of a Change in Control, then the Executive shall receive the severance compensation as set forth in Section 5(d).

(e) EFFECTIVE DATE. Solely for purposes of applying Section 5 under the circumstances described in (b) above, the effective date of termination will be the closing date of the transaction giving rise to the Change in Control and all compensation, reimbursements and lump-sum payments due the Executive must be paid in full by the Company at or prior to such closing.

(f) DEFINITION. A "CHANGE IN CONTROL" shall be deemed to have occurred if:

(i) any person, other than the Company or benefit plan of the Company, acquires, directly or indirectly, the beneficial ownership (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of any voting security of the Company and immediately after such acquisition such person is, directly or indirectly, the beneficial owner of voting securities representing more than fifty percent (50%) or more of the total voting power of all of the then-outstanding voting securities of the Company; or

(ii) the date the individuals who constitute the Board as of the date of the Company's initial public offering (the "INCUMBENT BOARD") cease for any reason to constitute at

least a majority of the members of the Board, provided that any individual

becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than any individual whose nomination for election to Board membership was not endorsed by the Company's management prior to, or at the time of, such individual's initial nomination for election) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) the stockholders of the Company shall approve a merger, consolidation, recapitalization or reorganization of the Company, a reverse stock split of outstanding voting securities, the issuance of shares of Company stock in connection with the acquisition of the stock or assets of another entity, or consummation of any such transaction if stockholder approval is not obtained, but a Change in Control shall include any transaction which would result in more than fifty percent (50%) of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being beneficially owned by more than fifty percent (50%) of the holders of outstanding voting securities of the Company immediately prior to the transactions with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction; or

(iv) the stockholders of the Company shall approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or a substantial portion of the Company's assets (i.e., more than fifty percent (50%) or more of the total assets of the Company).

(g) TAX GROSS UP. The Executive shall be fully "GROSSED UP" by the Company or its successor for any excise taxes that the Executive incurs under Section 4999 of the Internal Revenue Code of 1986, as amended (as well as for income tax on the "GROSS UP" amount), as a result of any Change in Control. Such amount will be due and payable by the Company on the date of the Change of Control.

(h) VESTING. Upon the occurrence of a Change of Control, any unvested portion of any awards of stock options or stock grants pursuant to this Agreement or otherwise shall immediately vest and become exercisable to their fullest extent (notwithstanding any vesting periods specified elsewhere) and the Executive shall be entitled to all rights and privileges associated with such awards (subject to applicable securities laws and regulations). With respect to option awards which vest pursuant to this paragraph, the Executive shall have a period of twelve (12) months from the date of vesting in which to exercise such options.

12. COMPLETE AGREEMENT. This Agreement is not a promise of future employment. This Agreement embodies the entire agreement of the parties with respect to the Executive's employment, compensation, perquisites and related items and supersedes any other prior oral or written agreements, arrangements or understandings between the Executive and the Company or any of its subsidiaries or affiliates, and any such prior agreements, arrangements or understandings are hereby terminated and of no further effect. This Agreement may not be changed or terminated orally but only by an agreement in writing signed by the parties hereto.

13. WAIVER. The waiver by the Company of a breach of any provision of this Agreement by the Executive shall not operate or be construed as a waiver of any subsequent breach by him. The waiver by the Executive of a breach of any provision of this Agreement by the Company shall not operate or be construed as a waiver of any subsequent breach by the Company.

14. GOVERNING LAW; JURISDICTION; ASSIGNABILITY.

(a) GOVERNING LAW. This Agreement shall be subject to, and governed by, the laws of the Commonwealth of Virginia.

(b) JURISDICTION. Any action to enforce any of the provisions of this Agreement shall be brought in a local or federal court within the Eastern District of Virginia. The Parties consent to the jurisdiction of such court and to the service of process in any manner provided by Virginia law. Each party irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in such court and any claim that such suit, action or proceeding brought in such court has been brought in an inconvenient forum and agrees that service of process in accordance with the foregoing sentences shall be deemed in every respect effective and valid personal service of process upon such party.

(c) ASSIGNABILITY. This obligations of the Executive may not be delegated and, except with respect to the designation of beneficiaries in connection with any of the benefits payable to the Executive hereunder, the Executive may not, without the Company's written consent thereto, assign, transfer, convey, pledge, encumber, hypothecate or otherwise dispose of this Agreement or any interest herein. Any such attempted delegation or disposition shall be null and void and without effect. Subject to the express provisions of Section 11, the Company and

the Executive agree that this Agreement and all of the Company's rights and obligations hereunder may be assigned or transferred by the Company to and shall be assumed by and be binding upon any successor to the Company. The term "SUCCESSOR" means, with respect to the Company or any of its subsidiaries, any corporation or other business entity which, by merger, consolidation, purchase of the assets or otherwise acquires all or a material part of the assets of the Company.

15. SEVERABILITY. If any provision of this Agreement of any part thereof, including, without limitation, Sections 6 and 7 hereof, as applied to either party or to any circumstances shall be adjudged by a court of competent jurisdiction to be void or unenforceable, the same shall in no way affect any other provision of this Agreement or remaining part thereof, which shall be given full effect without regard to the invalid or unenforceable part thereof, or the validity or enforceability of this Agreement. If any court construes any of the provisions of Sections 6 or 7 hereof, or any part thereof, to be unreasonable because of the duration of such provision or the geographic scope thereof, such court may reduce the duration or restrict or redefine the geographic scope of such provision and enforce such provision so reduced, restricted or redefined.

16. NOTICES. All notices to the Company or the Executive permitted or required hereunder shall be in writing and shall be delivered personally, by telecopier or by courier service providing for next-day delivery or sent by registered or certified mail, return receipt requested, to the following addresses:

If to the Company: Gladstone Capital Corporation
1750 Tysons Blvd., 4th Floor
McLean, Virginia 22101
Attn.: David Gladstone, Chief Executive Officer
Tel: (703) 744-1165

If to the Executive: Terry Lee Brubaker
HCR 61 Box 152
Hartfield, Virginia 23071
Tel: (804) 776-7182

Either party may change the address to which notices shall be sent by sending written notice of such change of address to the other party. Any such notice shall be deemed given, if delivered personally, upon receipt; if telecopied, when telecopied; if sent by courier service providing for next-day delivery, the next business day following deposit with such courier service; and if sent by certified or registered mail, three days after deposit (postage prepaid) with the U.S. mail service.

17. SECTION HEADINGS. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

18. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of July 23, 2001.

GLADSTONE CAPITAL CORPORATION

By: /s/ David Gladstone

David Gladstone, Chief Executive Officer

EXECUTIVE

/s/ Terry Lee Brubaker

Terry Lee Brubaker

Exhibit 99.n.3

DAVID A.R. DULLUM

July 25, 2001

Gladstone Capital Corporation
1750 Tysons Blvd., 4th Floor
McLean, Virginia 22102

CONSENT TO REFERENCE IN PROSPECTUS

In connection with the Registration Statement on Form N-2 filed by Gladstone Capital Corporation (the "COMPANY"), File No. 333-63700, I hereby consent to the reference to me in the prospectus included in such registration statement as a future member of the board of directors of the Company.

Very truly yours,

/s/ David A.R. Dullum
David A.R. Dullum

Exhibit 99.n.4

GEORGE STELLJES, III

July 25, 2001

Gladstone Capital Corporation
1750 Tysons Blvd., 4th Floor
McLean, Virginia 22102

CONSENT TO REFERENCE IN PROSPECTUS

In connection with the Registration Statement on Form N-2 filed by Gladstone Capital Corporation (the "COMPANY"), File No. 333-63700, I hereby consent to the reference to me in the prospectus included in such registration statement as a future member of the board of directors of the Company.

Very truly yours,

/s/ George Stelljes, III

George Stelljes, III

Exhibit 99.n.5

ANTHONY W. PARKER

July 25, 2001

Gladstone Capital Corporation
1750 Tysons Blvd., 4th Floor
McLean, Virginia 22102

CONSENT TO REFERENCE IN PROSPECTUS

In connection with the Registration Statement on Form N-2 filed by Gladstone Capital Corporation (the "COMPANY"), File No. 333-63700, I hereby consent to the reference to me in the prospectus included in such registration statement as a future member of the board of directors of the Company.

Very truly yours,

/s/ Anthony W. Parker
Anthony W. Parker

Exhibit 99N.6

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated June 22, 2001 in Pre-effective Amendment No. 1 to the Registration Statement (Form N-2 No. 333-63700) and related Prospectus of Gladstone Capital Corporation for the registration of 12,400,000 shares of common stock.

/s/ Ernst & Young LLP
McLean, Virginia
June 27, 2001

Exhibit 99.r

CODE OF ETHICS
OF
GLADSTONE CAPITAL CORPORATION
AND
GLADSTONE ADVISERS, INC.

1. INTRODUCTION

THIS CODE OF ETHICS has been adopted by GLADSTONE CAPITAL CORPORATION (the "COMPANY"), and GLADSTONE ADVISERS, INC. (the "ADVISER"), in compliance with Rule 17j-1 (the "RULE") under the Investment Company Act of 1940 (the "ACT") to establish standards and procedures for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Company may abuse their fiduciary duties to the Company and to deal with other types of conflict of interest situations to which the Rule is addressed.

2. GENERAL PROHIBITIONS

The specific provisions and reporting requirements of the Rule and this Code of Ethics are concerned primarily with those investment activities of Access Persons, defined below, who are associated with the Company and who thus may benefit from or interfere with the purchase or sale of portfolio securities by the Company. However, the Rule and this Code of Ethics apply to all affiliated persons of the Company (including the Adviser) and affiliated persons of the Adviser ("COVERED PERSONS").

The Rule makes it "unlawful" for Covered Persons to engage in conduct which is deceitful, fraudulent, or manipulative, or which involves false or misleading statements, in connection with the purchase or sale, directly or indirectly, by the Covered Person of a Security held or to be acquired by the Company. Accordingly, under the Rule and this Code of Ethics no Covered Person shall use any information concerning the investments or investment intentions of the Company, or his or her ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of the Company.

In addition, no Covered Person shall, in connection with the direct or indirect purchase or sale of a "security held or to be acquired" by the Company: (a) employ any device, scheme or artifice to defraud the Company; or (b) make to the Company or the Adviser any untrue statement of a material fact or omit to state to any of the foregoing a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading; or (c) engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the Company; or (d) engage in any manipulative practice with respect to the Company.

3. GENERAL PRINCIPLES. This Code of Ethics acknowledges the general principles that Covered Persons: (A) owe a fiduciary obligation to the Company; (B) have the duty at all times to place the interests of stockholders first; (C) must conduct all personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or abuse of an individual's

position of trust and responsibility; and (D) should not take inappropriate advantage of their positions in relation to the Company.

4. DEFINITIONS.

A. "ACCESS PERSON" means (1) any officer, director or employee of the Adviser or of the Company; (2) any employee of the Adviser or Company or of any company in a control relationship to the Adviser or the Company who, in connection with his or her regular functions or duties, makes, participates in or obtains information regarding the purchase or sale of securities by the Company, or whose functions or duties relate to the making of any recommendations with respect to such purchases or sales; and (3) any natural person in a control relationship to the Adviser or the Company who obtains information concerning recommendations made for the purchase or sale of Securities by the Company.

B. "ADMINISTRATOR" has the meaning in paragraph 11 below.

C. "AFFILIATED PERSON" of another person means (1) any person directly or indirectly owning, controlling or holding with power to vote, 5% or more of the outstanding voting Securities of such other person; (2) any person 5% or more of whose outstanding voting Securities are directly or indirectly owned, controlled or held with power to vote, by such other person; (3) any person directly or indirectly controlling, controlled by, or under common control with, such other person; (4) any officer, director, partner, copartner, or employee of such other

person; and (5) any investment adviser of the Company.

D. "BENEFICIAL INTEREST" means any interest by which an Access Person or any member of his or her immediate family (relative by blood or marriage living in the same household), can directly or indirectly derive a monetary benefit from the purchase, sale (or other acquisition or disposition) or ownership of a Security, except such interests as Clearing Officers (defined below) shall determine to be too remote for the purpose of this Code of Ethics. (A transaction in which an Access Person acquires or disposes of a Security in which he or she has or thereby acquires a direct or indirect Beneficial Interest will be referred to in this Code of Ethics as a "personal securities" transaction or as a transaction for the person's "own account").

E. "CLEARING OFFICERS" has the meaning in paragraph 6 below.

F. "CONTROL" means the power to exercise a controlling influence over the management or policies of a company (unless such power is solely the result of an official position with such company). Any person who owns beneficially, directly or through one or more controlled companies, more than 25% of the voting securities of a company shall be presumed to control such company. Natural persons shall be presumed not to be controlled persons.

G. "COVERED PERSON" shall have the meaning set forth in paragraph 2 of this Code of Ethics.

H. "INVESTMENT PERSON" means an Access Person described in paragraph 4(A)(2) above.

I. "LOAN OFFICER" means an Access Person who is responsible for making decisions as to Securities to be bought or sold for the Company's portfolio.

J. "SECURITY" includes all debt obligations, stock and other instruments comprising the investments of the Company, including any warrant or option to acquire or sell a security and financial futures contracts, but excludes securities issued by the U.S. government or its agencies, bankers' acceptances, bank certificates of deposit, commercial paper and shares of a mutual fund. References to a "Security" in this Code of Ethics shall include any warrant for, option in, or security immediately convertible into that "Security."

K. A "SECURITY HELD OR TO BE ACQUIRED" by the Company means any Security (as defined above) which, within the most recent 180 days is or has been held by the Company or is being or has been considered for purchase by the Company.

L. A Security is "BEING CONSIDERED FOR PURCHASE OR SALE" from the time an amendment letter is signed by or on behalf of the Company until the closing with respect to that Security is completed or aborted.

5. PROHIBITED TRANSACTIONS. An Access Person may not effect a personal securities transaction if he or she knows or should know at the time of entering into the transaction that: (i) the Company has engaged in a transaction in the same Security within the last 180 days, or is engaging in a transaction or is going to engage in a transaction in the same Security in the next 180 days; or (ii) the Adviser has within the last 180 days considered a transaction in the same Security for the Company or is considering such a transaction in the Security or within the next 180 days is going to consider such a transaction in the Security, unless such Access Person (1) obtains advance clearance of such transaction and (2) reports to the Company the information described in paragraph 6 of this Code of Ethics.

6. ADVANCE CLEARANCE REQUIREMENT

A. PROCEDURES

(1) FROM WHOM OBTAINED. Advance clearance of a personal securities transaction required to be approved under paragraph 5 above must be obtained from any two officers of the Company who are not either parties to the transaction or a relative of a party to the transaction. These officers are referred to in this Code of Ethics as "CLEARING OFFICERS."

(2) FORM. Clearance most be obtained in writing by completing and signing a form provided for that purpose by the Company, which form shall set forth the details of the proposed transaction, and obtaining the signatures of any two of the Clearing Officers. An example of such Form is annexed hereto as Schedule A.

(3) FILING. A copy of all completed clearance forms, with all required signatures, shall be retained by the Administrator of this Code of Ethics.

B. FACTORS CONSIDERED IN CLEARANCE OF PERSONAL TRANSACTIONS. The Clearing Officers may refuse to grant clearance of a personal transaction in their sole discretion without being required to specify any reason for the refusal.

Generally, the Clearing Officers

will consider the following factors in determining whether or not to clear a proposed transaction: (1) whether the amount or nature of the transaction or person making it is likely to affect the price or market for the Security; (2) whether the individual making the proposed purchase or sale is likely to benefit from purchases or sales being made or being considered by the Company; (3) whether the Security proposed to be purchased or sold is one that would qualify for purchase or sale by the Company; (4) whether the transaction is non-volitional on the part of the individual, such as receipt of a stock dividend, bequest or inheritance.

7. EXEMPT TRANSACTIONS

Neither the prohibitions nor the reporting requirements of this Code of Ethics apply to:

A. NOT CONTROLLED SECURITIES. Purchases, sales or other acquisitions or dispositions of Securities for an account over which the Covered Person or Access Person has no direct influence or control and does not exercise indirect influence or control;

B. INELIGIBLE SECURITIES. Purchases, sales or other acquisitions or dispositions of Securities which are not eligible for purchase or sale by the Company;

C. INVOLUNTARY TRANSACTIONS. Involuntary purchases or sales made by a Covered Person or an Access Person;

D. DRPS. Purchases which are part of an automatic dividend reinvestment plan;

E. RIGHTS OFFERINGS. Purchases or other acquisitions or dispositions resulting from the exercise of rights acquired from an issuer as part of a pro rata distribution to all holders of a class of Securities of such issuer and the sale of such rights; and

F. CLEARED TRANSACTIONS. Purchases, sales or other acquisitions or dispositions which receive the prior approval of the Clearing Officers upon consideration of the factors stated in subparagraph 6 above and/or because: (1) their potential harm to the Company is remote; (2) they would be unlikely to affect a highly institutional market; or (3) they are clearly not related economically to Securities being considered for purchase or sale by the Company.

8. REPORTING REQUIREMENTS.

A. INITIAL HOLDINGS REPORT.

(1) CHANGE IN STATUS. At such time a Covered Person is deemed to be an Access Person as defined in paragraph 4A above (a "Change in Status"), such Access Person shall, with ten (10) days of such Change in Status, make a written report to the Administrator of this Code of Ethics of all non-exempt transactions by which such Access Person acquired or disposed of a Beneficial Interest in any Security on the date of the Change in Status.

(2) CONTENTS. Such report must contain the following information with respect to (i) each reportable transaction, the title, number of shares and principal amount of each Security in which the Access Person had any direct or indirect beneficial ownership on the date of the Change in Status and (ii) with respect to accounts maintained by the Access Person, the name of the broker, dealer or bank in which any Securities were held for the direct or indirect benefit of the access Person.

B. QUARTERLY REPORTS.

(1) QUARTERLY OBLIGATION. Within ten (10) days after the end of each calendar quarter, each Access Person shall make a written report to the Administrator of this Code of Ethics of (i) all non-exempt transactions occurring in the quarter by which they acquired or disposed of a Beneficial Interest in any Security and (ii) of any account established by the Access Person in which any Securities were held during the quarter for the direct or indirect benefit of the Access Person.

(2) CONTENTS. Such report must contain the following information with respect to (i) each reportable transaction: (a) date and nature of the transaction (purchase, sale or any other type of acquisition or disposition); (b) title, number of shares and principal amount of each Security and the price at which the transaction was effected; and (c) name of the broker, dealer or bank with or through whom the transaction was effected; and (ii) with respect to accounts established by the Access Person: (a) name of the broker, dealer or bank; and (b) date the account was established.

(3) DISCLAIMER. Such report may contain a statement that the report is not to be construed as an admission that the person making it has or had any direct or indirect Beneficial Interest in any Security to which the report relates.

(4) DIRECTOR EXCEPTION. Notwithstanding the quarterly reporting requirement set forth in paragraph 8(B)(1) above, a director of the Company who is not an "interested person" of the Company, as such term is defined in Section 2(a)(19) of the Act, and who would be required to make a report solely by reason of being a director of the Company, shall not be subject to such reporting requirement for a quarter as to which such director submits a signed statement that during such quarter there were no securities transactions by him or her that were subject to paragraph 5 of this Code of Ethics except those as to which such director received advance approval in accordance with paragraph 6. The signed statement shall be provided to the Administrator with ten (10) days after the end of the calendar quarter.

C. FORM OF REPORT. The report may be on the form provided by the Company or may consist of broker statements which provide at least the same information. A copy of the form is attached hereto as Schedule B.

D. ANNUAL HOLDINGS REPORTS.

(1) ANNUAL OBLIGATIONS. Within thirty (30) days after the end of the calendar year, each Access Person shall make a written report to the Administrator of this Code of Ethics of all non-exempt transactions occurring in such calendar year by which they acquired or disposed of a Beneficial Interest in any Security.

(2) CONTENTS. Such report must contain the following information with respect to (i) each reportable transaction, the title, number of shares and principal amount of each Security in which the Access Person had any direct or indirect beneficial ownership and (ii) with respect to accounts maintained by the Access Person, the name of the broker, dealer or bank in which Securities were held for the direct or indirect benefit of the Access Person.

E. RESPONSIBILITY TO REPORT. The responsibility for taking the initiative to report is imposed on each individual required to make a report. Any effort by the Company to facilitate the reporting process does not change or alter that responsibility.

F. WHERE TO FILE REPORT. All reports must be filed with the Administrator of this Code of Ethics.

9. CONFIDENTIALITY OF COMPANY TRANSACTIONS

Until disclosed in a public report to stockholders or to the SEC in the normal course, all information concerning Securities "being considered for purchase or sale" by the Company shall be kept confidential by all Access Persons and disclosed by them only on a "need to know" basis. It shall be the responsibility of the Administrator of this Code of Ethics to report any inadequacy found by him to the Board of Directors of the Company or any committee appointed by the Board of Directors to deal with such information.

10. SANCTIONS

Any violation of this Code of Ethics shall be subject to the imposition of such sanctions by the Company or the Adviser as may be deemed appropriate under the circumstances to achieve the purposes of the Rule and this Code of Ethics which may include suspension or termination of employment, a letter of censure and/or restitution of an amount equal to the difference between the price paid or received by the Company and the more advantageous price paid or received by the offending person. Sanctions for violation of this Code of Ethics by a director of the Company will be determined by a majority vote of its Independent Directors.

11. ADMINISTRATION AND CONSTRUCTION

A. THE ADMINISTRATOR. The administration of this Code of Ethics shall be the responsibility of the Secretary of the Company who shall serve as the "ADMINISTRATOR" of this Code of Ethics.

B. DUTIES. The duties of the Administrator include: (1) continuous maintenance of a current list of the names of all Access Persons, with an appropriate description of their title or employment; (2) providing each Access Person a copy of this Code of Ethics and informing them of their duties and

obligations thereunder, and assuring that Covered Persons who are not Access Persons are familiar with applicable requirements of this Code of Ethics; (3) supervising the implementation of this Code of Ethics by the Adviser and the enforcement of the terms hereof by the Adviser; (4) maintaining or supervising the maintenance of all records and reports required by this Code of Ethics; (5) preparing listings of all transactions effected by any Access Person within thirty (30) days of the date on which the same security was held, purchased or sold by the Company; (6) determining whether any particular securities transaction should be exempted pursuant to the provisions of this Code of Ethics; (7) issuing either personally or with the assistance of counsel, as may be appropriate, any interpretation of this Code of Ethics which may appear consistent with the objectives of the Rule and this Code of Ethics; (8) conducting of such inspections or investigations, including scrutiny of the listings referred to in the preceding subparagraph, as shall reasonably be required to detect and report, with recommendations, any apparent violations of this Code of Ethics to the Board of Directors of the Company or any Committee appointed by them to deal with such information; and (9) submitting a quarterly report to the directors of the Company containing a description of any violation and the sanction imposed; transactions which suggest the possibility of a violation of interpretations issued by and any exemptions or waivers found appropriate by the Administrator; and any other significant information concerning the appropriateness of this Code of Ethics.

12. REQUIRED RECORDS.

The Administrator shall maintain and cause to be maintained in an easily accessible place, the following records:

A. CODE. A copy of any Code of Ethics adopted pursuant to the Rule which has been in effect during the past five (5) years;

B. VIOLATIONS. A record of any violation of any such Code of Ethics and of any action taken as a result of such violation;

C. REPORTS. A copy of each report made by the Administrator within two (2) years from the end of the fiscal year of the Company in which such report or interpretation is made or issued and for an additional three (3) years in a place which need not be easily accessible; and

D. LIST. A list of all persons who are, or within the past five (5) years have been, required to make reports pursuant to the rule and this Code of Ethics.

13. AMENDMENTS AND MODIFICATIONS

This Code of Ethics may not be amended or modified except in a written form which is specifically approved by majority vote of the Independent Directors of the Company.

* * * * * *

SCHEDULE A
REQUEST FOR PERMISSION
TO ENGAGE IN PERSONAL TRANSACTION

I hereby request permission to effect a transaction in securities as indicated below for my own account or other account in which I have a beneficial interest or legal title.

(Use approximate dates and amounts of proposed transactions.)

PURCHASES AND ACQUISITIONS

<TABLE>
<CAPTION>

DATE	NO. OF SHARES OR PRINCIPAL AMOUNT	NAME OF SECURITY	UNIT PRICE	TOTAL PRICE	BROKER
<S>	<C>	<C>	<C>	<C>	<C>

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- ------

SALES AND OTHER DISPOSITIONS

- ------

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</TABLE>

<TABLE>

<S> <C>

Name:

Date: Signature:

Permission Granted / / Permission Denied / /

Date: Signature:

(Clearing Officer)

Date: Signature:

(Clearing Officer)

</TABLE>

SCHEDULE B
QUARTERLY SECURITIES TRANSACTIONS
CONFIDENTIAL REPORT

The following lists all transactions in securities in which I had any direct or indirect beneficial ownership during the last calendar quarter. (If no transactions took place write "None".) Sign and return to the Secretary of the Company no later than the 10th day of the month following the end of the quarter. Use reverse side if additional space is needed.

PURCHASES AND ACQUISITIONS

<TABLE>
<CAPTION>

DATE	NO. OF SHARES OR PRINCIPAL AMOUNT	NAME OF SECURITY	UNIT PRICE	TOTAL PRICE	BROKER
<S>	<C>	<C>	<C>	<C>	<C>

SALES AND OTHER DISPOSITIONS

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<S> <C>

Name:

Date:

Signature:

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