

**SHAREHOLDER DIVIDEND
REINVESTMENT PLAN**

GLADSTONE CAPITAL CORPORATION

DEAR SHAREHOLDER

We are pleased to inform you that a Dividend Reinvestment Plan (DRIP) is now available to you through The Bank of New York. This plan offers you a simple and convenient method for shareholders to invest their dividends and distributions in additional shares of Common Stock. When you enroll in the DRIP, the Company automatically reinvests your dividends by purchasing additional shares (or fractional shares) in your name. The plan is a terrific way to accumulate additional Gladstone Capital shares.

Please read the Questions and Answers section to decide if you would like to participate in the DRIP. If your shares are held for your account by a Nominee (a broker, bank, or other designated candidate) and you would like to participate in the DRIP, you should contact your Nominee to enroll on your behalf. If you hold your shares in certificate form and are on record with The Bank of New York, simply complete the attached Authorization Form, attach postage and mail it back.

Thank you for considering our Dividend Reinvestment Plan, and for investing in Gladstone Capital Corporation.

Sincerely,

DAVID GLADSTONE
Chairman of the Board

**GLADSTONE CAPITAL CORPORATION
DIVIDEND REINVESTMENT PLAN**

The following are questions and answers concerning the provisions of the Gladstone Capital Corporation's (the "Company") Dividend Reinvestment Plan (the "Plan"). The plan will be administered through The Bank of New York (the "Administrator").

PURPOSE**1. WHAT IS THE PURPOSE OF THE PLAN?**

The purpose of the plan is to provide holders of Gladstone Capital Corporation common stock with a convenient and economical method of investing their cash dividends and distributions in additional shares of common stock of the Company.

ADMINISTRATION**2. WHAT DOES THE PLAN ADMINISTRATOR DO?**

The Plan Administrator administers the Plan for Participants, keeps records, sends statement of accounts to Participants, and performs other duties relating to the Plan.

ENROLLMENT AND PARTICIPATION**3. HOW DOES A STOCKHOLDER ENROLL?**

The Plan is an "opt-in" plan. Upon notifying the Plan Administrator in writing on an Authorization Form, and if your shares are registered in

your own name, all or a portion of your dividends and distributions on your shares will be reinvested automatically in additional shares by the Plan Administrator. Authorization Forms may be obtained from the Plan Administrator. To be effective on any given dividend payment date, the Authorization Form must be received by the Plan Administrator at least five business days before the record date for such dividend payment.

4. WHAT IF THE SHARES ARE HELD BY A BROKER OR NOMINEE?

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 you may participate in the Plan.

5. WHAT IF A STOCKHOLDER WOULD RATHER RECEIVE CASH?

If you would rather receive cash, you should not enroll in the Plan or terminate participation if you are already enrolled. You may terminate your participation in the Plan at any time. The procedure for terminating participation in the Plan is explained in the answer to Question 16.

6. WHAT IF A STOCKHOLDER WISHES TO RECEIVE CASH ON ONLY SOME OF HIS OR HER SHARES?

If you wish to receive dividends and distributions in cash on some of your shares, and have the remaining dividends and distributions reinvested, you must notify the Plan Administrator,

in writing, to that effect. This can be done by completing and submitting an Authorization Form. As a partial participant, you will receive your dividends and distributions in cash only with respect to the number of shares that you have specified. With respect to any other shares registered in your name, and with respect to the shares credited to your account on the books of the Plan Administrator, the corresponding dividends and distributions will be reinvested. The number of shares on which you receive cash may be changed at any time simply by writing the Plan Administrator.

7. MAY A STOCKHOLDER ELECT TO RE-ENROLL ONCE THEY HAVE TERMINATED PARTICIPATION IN THE PLAN?

Yes. If you previously elected to receive dividends and distributions in cash and thus terminated participation in the Plan, and later wish to participate in the Plan, you may re-enroll at any time by completing an Authorization Form and delivering it to the Plan Administrator. To be effective on any given dividend payment date, such Authorization Form must be received by the Plan Administrator at least two business days prior to the record date.

PURCHASE OF SHARES UNDER THE PLAN

8. HOW DOES THE DIVIDEND REINVESTMENT PLAN WORK AND HOW ARE SHARES ALLOCATED UNDER THE PLAN?

When the Board of Directors declares a dividend or distribution, all non-participants will receive such dividend or distribution by check mailed

directly to the record holder by or under the direction of the Plan Administrator. As a Participant, the number of shares allocated to your Plan Account (a “Plan Account”) will be arrived at as follows. The Plan Administrator will buy shares of Common Stock in the open market, on Nasdaq or elsewhere, beginning on or before the payment date of the dividend or distribution, until it has expended for such purchase all of the cash that would otherwise be payable to the Participants. The number of shares that will then be credited to your Plan Account and the Plan Accounts of other Participants will be based on the average cost of the shares so purchased, including brokerage commissions. Your Plan Account will be credited with a number of shares, including fractional shares, equal to the total amount of cash dividend or distribution, net of any applicable withholding taxes, otherwise due to you, divided by the price of the shares.

Neither the Company nor any stockholder has the authority or power to direct the time or price at which shares of Common Stock may be purchased or the selection of the broker or dealer through or from whom purchases are to be made. The Company will absorb all administrative expenses connected with the operation of the Plan (except brokerage commissions, which shall be borne pro rata by the Participants). The Plan Administrator will hold the total shares of Common Stock purchased for all Participants in the name of its nominee and will have no

responsibility for the value of such shares after their purchase.

9. WHEN WILL SHARES OF COMMON STOCK BE PURCHASED UNDER THE PLAN?

After the Company declares a dividend or distribution, the Plan Administrator 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 shares were purchased by the Plan Administrator.

REPORTS TO PARTICIPANTS

10. WHAT ACCOUNTS ARE MAINTAINED FOR PARTICIPANTS AND WHAT REPORTS ON THESE ACCOUNTS DO PARTICIPANTS RECEIVE?

The Plan Administrator will maintain a separate Plan Account for each Participant. All shares issued to you under the Plan will be credited to your Plan Account. The Plan Administrator will mail to each Participant a statement confirming the issuance of shares within fifteen days after the allocation of shares is made. The statement will show the amount of the dividend or distribution, the price at which shares were credited, the number of full and fractional shares credited, the number of shares previously credited and the cumulative total of shares credited. In addition, as a Participant, you will receive copies of the Company's annual and

quarterly reports to stockholders, proxy statements and dividend income information for tax purposes.

VOTING OF SHARES

11. HOW WILL A PARTICIPANT'S SHARES BE VOTED AT MEETINGS OF STOCKHOLDERS?

You will receive a proxy card covering the total number of shares held by you of record, including shares credited to your Plan Account. If a proxy card is returned properly signed, but without indicating instructions as to the manner in which shares are to be voted with respect to any item thereon, the corresponding shares will be voted in accordance with the recommendation of the Board of Directors. If the proxy card is not returned, or it is unexecuted or improperly executed, the corresponding shares will not be voted unless you or your duly appointed representative votes in person at the meeting.

CERTIFICATES FOR SHARES

12. WILL CERTIFICATES BE ISSUED FOR SHARES ISSUED UNDER THE PLAN?

No. Certificates for shares issued under the Plan will not be furnished to you until your Plan Account is terminated or unless you request certificates in writing for a specified number of shares credited to your Plan Account. All written requests for certificates should be directed to the Plan Administrator, allowing two weeks for processing. The issuance of certificates for shares

credited to a Plan Account will not terminate your participation in the Plan. No certificate for a fractional share will be issued. If you terminate your participation in the Plan (see Question 16), the Plan Administrator will sell for your account any fractional share and send you a check for the proceeds.

13. IN WHOSE NAME WILL CERTIFICATES BE REGISTERED WHEN ISSUED?

Plan Accounts are maintained in the name in which your shares certificates were registered at the time that you became a Participant in the Plan. Certificates for whole shares issued at your request from your Plan Account will be similarly registered.

DIVIDENDS AND STOCK SPLITS

14. WHAT HAPPENS IF THE COMPANY ISSUES A STOCK DIVIDEND OR DECLARES A STOCK SPLIT?

Any Stock dividends or split shares distributed by the Company on shares held by the Plan Administrator for you will be credited to your Plan Account.

FEDERAL TAX CONSEQUENCES

15. WHAT IS THE TAX STATUS OF REINVESTED DIVIDENDS?

The automatic reinvestment of dividends and distributions will not relieve you of any income tax liability associated with such dividend or distribution. As a Participant in the Plan, you will be treated for Federal income tax purposes as having received, on the dividend payment

date, a dividend or distribution in an equal amount to the cash that you could have received instead of shares. The tax basis of such shares will equal the amount of such cash.

As a Participant, you will not realize any taxable income upon receipt of a certificate for whole shares credited to your Plan Account either upon your request for a specified number of shares or upon termination of enrollment in the Plan. As a Participant, you will receive a Form 1099 regarding the Federal income tax status of all dividends and distributions taxable during the previous year.

MODIFICATION AND TERMINATION

16. WHAT HAPPENS IF A PARTICIPANT WISHES TO TERMINATE PARTICIPATION IN THE PLAN?

You may terminate your participation in the Plan at any time by notifying the Plan Administrator in writing. To be effective for any given dividend payment date, the notice to terminate must be received by the Plan Administrator at least two business days before the record date for the dividend payment. All dividends with a record date after receipt of your notification will be sent directly to you. Upon termination of your participation, you will receive a certificate for the number of full shares of Common Stock held for you by the Plan Administrator at no charge. At the same time, you will receive a check in payment for any fractional shares in your account, valued at the then current market

price of the Company's Common Stock, less any applicable brokerage commissions and any other costs of sale. If you prefer, you can request that your full shares of Common Stock held by the Plan Administrator be sold, and you will receive a check for the proceeds, less any applicable brokerage commissions and any other costs of sale.

17. MAY THE PLAN BE CHANGED OR DISCONTINUED?

The Company and the Plan Administrator may amend, suspend or terminate the Plan at any time. Any such amendment, suspension or termination will be effective upon a designated dividend record date and notice of such amendment, suspension or termination will be sent to all Participants at least sixty days prior to such record date.

18. HOW CAN I SELL MY SHARES?

Under the terms of the Plan, you may instruct the Administrator to sell any or all shares held in your account. **Note: In no event will your sale order be executed on the day your order is placed. You should therefore anticipate a difference between the price of the stock on the date you place the order and the price at which the shares are sold.**

Sale Orders via IVR System

The recommended method for placing sale orders is via the Interactive Voice Response (IVR) System. To place a sale order, telephone the Shareholder Service Center at

1-800-524-4458 and enter your social security number or Taxpayer ID at the prompt. Select the menu option for sales. For security purposes, you will be asked to enter your account number. Daily sale orders are generally accepted until 6:00 p.m. Eastern Time. Sale orders placed via the IVR before 6:00 p.m. will generally be sold within two business days and in most cases be sold the next business day. Sales placed after 6:00 p.m. will be considered received the next business day.* The IVR is confidential, secure and provides a unique confirmation number for each transaction that you execute.

**** Sales are subject to stock exchange holidays, early closings and Company black-out periods.***

Sale Orders by Mail

You may use the stub from the Plan Statement that you receive from The Bank of New York to sell your shares. Complete and sign the stub and mail the instructions to the Plan Administrator. Be certain that all listed participants sign the instruction form. You should retain the top portion of your statement for your records. Sale orders received by mail will be executed as promptly as possible after receipt. If you need a replacement Statement, please contact our Shareholder Service Center.

19. HOW ARE SHARES SOLD?

The Plan Administrator aggregates all requests to sell shares then sells the total share amount on the open market through BNY ESI & Co.,

Inc., a wholly-owned subsidiary of The Bank of New York Company, Inc. The shares are sold daily, on any exchange on which the shares of Gladstone Capital Corporation are listed. The selling price will not be known until the sale is completed. The proceeds of the transaction, less applicable fees or charges, will be mailed to you by first class mail within two business days after the trade settlement date. The trade settlement date is the third business day after the sale order is executed. The sale check will include a stub detailing the trade, as well as Form 1099-B, which should be retained for your tax records.

Participants should be aware that the common stock price may fall during the period between a request for sale, its receipt by the Plan Administrator and the ultimate sale on the open market.

Instructions sent to the Plan Administrator to sell shares may not be rescinded.

PLAN ADMINISTRATOR RESPONSIBILITIES

20. WHAT ARE THE PLAN ADMINISTRATOR'S RESPONSIBILITIES UNDER THE PLAN?

The Plan Administrator will not be liable under the Plan for any act done by the Plan Administrator in good faith or for any good faith omission to act including, without limitation, any claims for liability (a) arising out of failure to terminate a Participant's participation in the Plan upon the Participant's death prior to receipt of notice in writing of such death; (b) with

respect to the prices at which shares are purchased or sold for the Participant's account and the time such purchases or sales are made; and (c) relating to the value of the shares acquired for the Participant's account.

WHERE YOU CAN FIND MORE INFORMATION

Gladstone Capital Corporation is subject to the informational requirements of the Securities Exchange Act of 1934 and is 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.

TO OUR SHAREHOLDERS:

Gladstone Capital Corporation's Dividend Reinvestment Plan offers shareholders a convenient method of continued investment in the Company.

Your interest in the Company is sincerely appreciated.

DAVID GLADSTONE
Chairman of the Board

Gladstone Capital Corporation
1616 Anderson Road Suite 208
McLean, Virginia 22102

To enroll in Gladstone Capital Corporation's Dividend Reinvestment Plan, or to change your address please fill out this card and return it to: The Bank of New York, Dividend Reinvestment, P.O. Box 1958, Newark, New Jersey 07101-1958.

AUTHORIZATION FORM (THIS FORM IS NOT A PROXY) **To enroll:** check one of the two options listed below and sign your name as it appears on your account.

Dividend Reinvestment — I authorize Gladstone Capital Corporation to pay to The Bank of New York for my account all dividends and other distributions payable to me on all shares of Gladstone Capital Corporation common stock registered in my name. I appoint the Bank of New York, as my agent under the terms of the plan, to apply my cash dividends to the purchase of whole and partial shares of Gladstone Capital Corporation common stock, to be credited to my account.

Partial Dividend Reinvestment — I authorize Gladstone Capital Corporation to pay to The Bank of New York for my account all dividends and other distributions payable to me on _____ shares of Gladstone Capital Corporation common stock registered in my name. I appoint The Bank of New York, as my agent under the terms of the plan, to apply my cash dividends to the purchase of whole and partial shares of Gladstone Capital Corporation common stock, to be credited to my account.

ALL PERSONS WHOSE NAMES APPEAR ON THE STOCK CERTIFICATE SHOULD SIGN THIS AUTHORIZATION CARD

Shareholder's Signature

Date

Shareholder's Signature

Date

Social Security Number

Account Number

Please Print Registration

**GLADSTONE CAPITAL
CORPORATION**