



# GLADSTONE CAPITAL

Press Release for May 13, 2004

Confirmation number:

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***HEADLINE: Gladstone Capital reports second quarter financial results for March 31, 2004.***

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McLean, VA: Gladstone Capital Corp. (NASDAQ: GLAD) announced today that its Net Increase in Stockholders' Equity Resulting from Operations for the second quarter ended March 31, 2004 was \$2,828,583 or \$0.27 per diluted common share as compared to \$3,662,015 or \$0.36 per diluted common share for the quarter ended March 31, 2003, a decrease of 23%. The decrease was due to \$305,475 in unrealized depreciation in the quarter ended March 31, 2004, compared to the unrealized appreciation of \$742,424 in the quarter ended March 31, 2003.

The Net Investment Income for the quarter ended March 31, 2004 increased from \$2,919,591 or \$0.29 per diluted common share from the prior year's quarter to \$3,121,558 or \$0.30 per diluted common share, an increase of \$201,967 or 7%. The Company pays its dividends based on Net Investment Income. Total assets were \$244,291,070 at March 31, 2004 and \$214,566,663 at September 30, 2003.

Net Increase in Stockholders' Equity Resulting from Operations for the six months ended March 31, 2004 was \$4,209,657 or \$0.41 per diluted common share as compared to \$6,074,170 or \$0.60 per diluted common share for the six months ended March 31, 2003. This was a decrease of \$1,864,513 or 31%. Net Investment Income for the six months ended March 31, 2004 was \$6,060,194 or \$0.59 per diluted common share as compared to \$5,331,746 or \$0.53 per diluted common share for the six months ended March 31, 2003. This was an increase of \$728,448 or 14%.

“In the second quarter, the Company added to two new loans to the portfolio, Medassets, Inc. at \$6 million and Woven Electronics Corp. at \$14.5 million. Since the quarter ended, Wingstop Restaurants International, Inc., the franchisor of quick-casual restaurants, paid off their entire loan of \$5.5 million. The third quarter is looking strong with a number of loans set to close.”

For further information please contact Harry Brill, Chief Financial Officer or Skye Breeden, Director of Shareholder Relations at 703-286-7000. The Company will have a

conference call at 10:30 am EDT, May 14, 2004. Please call 866-253-6509 and use the ID code 465085 and you will be placed on hold until the conference starts. An operator will monitor the call and set a queue for the questions. The replay number will be available for approximately 30 days. The replay number is 888-266-2081 and use ID code 465085 to access the call.

Readers should obtain our Form 10-Q for the period ended March 31, 2004 and review the notes as well. We have filed this Form 10-Q with the Securities and Exchange Commission ('SEC') which can be retrieved at the SEC website at [www.SEC.gov](http://www.SEC.gov) or from Gladstone Capitals web site at [www.GladstoneCapital.com](http://www.GladstoneCapital.com). A paper copy can be obtained by writing to us at 1616 Anderson Road, McLean, VA 22102.

**GLADSTONE CAPITAL CORPORATION  
CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2004 (Unaudited)</b>	<b>September 30, 2003</b>
<b>ASSETS</b>		
Investments at fair value (Cost 3/31/2004: \$140,626,669; 9/30/2003: \$109,529,893)	\$138,541,292	\$109,307,553
Cash and cash equivalents	6,809,323	21,143,972
Cash and cash equivalents pledged as collateral	95,004,939	80,022,249
Interest receivable - investments in debt securities	1,270,800	1,041,943
Interest receivable - cash and cash equivalents	361	955
Interest receivable – officers	109,262	108,657
Due from custodian	225,000	1,207,000
Prepaid assets	1,334,538	1,479,815
Other assets	<u>995,555</u>	<u>254,519</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$244,291,070</u></u></b>	<b><u><u>\$214,566,663</u></u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 86,795	\$ 23,247
Dividends payable	-	3,327,009
Borrowings under line of credit	20,500,000	-
Accrued expenses and deferred liabilities	2,184,166	1,965,025

Repurchase agreement	93,105,000	78,449,000
<b>Total Liabilities</b>	<u>\$115,875,961</u>	<u>\$ 83,764,281</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 10,105,178 and 10,081,844 shares issued and outstanding, respectively	\$ 10,105	\$ 10,082
Capital in excess of par value	140,723,063	140,416,674
Notes receivable – officers	(9,232,698)	(8,985,940)
Net unrealized depreciation on investments	(2,085,377)	(222,340)
Undistributed/(overdistributed) net investment income	(999,984)	(416,094)
<b>Total Stockholders' Equity</b>	<u>\$128,415,109</u>	<u>\$130,802,382</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$244,291,070</u>	<u>\$214,566,663</u>

**GLADSTONE CAPITAL CORPORATION  
SCHEDULE OF INVESTMENTS  
AS OF MARCH 31, 2004  
(UNAUDITED)**

<b>COMPANY (1)</b>	<b>INDUSTRY</b>	<b>INVESTMENT</b>	<b>COST</b>	<b>FAIR VALUE</b>
America's Water Heater Rentals, LLC	Water heater rentals and servicing	Senior Term Debt (2)(4)	\$12,000,000	\$12,060,000
ARI Holdings, Inc.	Manufacturing auto	Senior Term Debt(2)(3)(4)	3,583,675	3,243,226
	parts	Senior Term Debt(2)	1,387,500	1,332,000
Burt's Bees, Inc.	Personal and household products	Senior Term Debt	991,667	1,000,344

Coyne International Enterprises Corp.	Industrial services	Senior Term Debt (2)(3)(4)	15,578,330	15,403,074
Finn Corporation	Manufacturing landscape equipment	Senior Subordinated Term Debt (4) Common Stock	10,500,000	9,121,875
		Warrants for 2% Ownership	37,000	435,649
Fugate & Associates, Inc.	Imaging supplies	Senior Term Debt(4)	3,237,500	3,213,219
		Senior Term Debt(4)	1,499,999	1,494,374
GQM Acquisition Corp. d/b/a Gammill, Inc.	Designer and assembler of quilting machines and accessories	Senior Term Debt	7,312,500	7,312,500
		Senior Term Debt	7,000,000	7,000,000
Home Care Supply, Inc.	Medical equipment rental	Senior Term Debt  (2)(4)(5)	18,000,000	18,696,600
Inca Metal Products Corp. Kingway Acquisition, Inc. Clymer Acquisitions, Inc.	Material handling and storage products	Senior Term Debt  (2)(4)	2,488,164	2,239,347
Marcal Paper Mills, Inc.	Manufacturing paper products	Senior Subordinated Term Debt (2)(4)	6,800,000	6,205,000
		First Mortgage Debt (3)	9,210,334	9,210,334
Medassets, Inc.	Pharmaceutical and healthcare GPOs		6,000,000	6,000,000
Mistras Holdings, Inc.	Nondestructive testing	Senior Term Debt (2)	10,000,000	9,775,000

	instruments, systems and services	Senior Term Debt (2)	5,000,000	4,837,500
Wingstop Restaurants	Restaurant - fast food	Senior Term Debt (4)	3,500,000	3,473,750
International, Inc.		Senior Term Debt (4)	2,000,000	1,987,500
Woven Electronics Corp.	Cable and wire harness	Senior Term Debt (2)	2,500,000	2,500,000
	assemblers	Senior Term Debt (2)	6,000,000	6,000,000
		Senior Term Debt (2)	<u>6,000,000</u>	<u>6,000,000</u>
			<u>\$140,626,669</u>	<u>\$138,541,292</u>

(1) We do not "Control," and are not an "Affiliate" of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities and would be an "Affiliate" of a portfolio company if we owned 5% or more of its voting securities.

(2) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.

(3) Has some paid in kind (PIK) interest. Refer to Note 2 "Summary of Significant Accounting Policies" of Form 10-K for the fiscal year ended September 20, 2003.

(4) Fair value was based on valuation prepared and provided by Standard & Poor's Loan Evaluation Services.

(5) Includes a success fee with a fair value of \$516,600.

**GLADSTONE CAPITAL CORPORATION  
SCHEDULE OF  
INVESTMENTS  
AS OF SEPTEMBER  
30, 2003  
(UNAUDITED)**

<b>COMPANY (1)</b>	<b>INDUSTRY</b>	<b>INVESTMENT</b>	<b>COST</b>	<b>FAIR VALUE</b>
America's Water Heater Rentals, LLC	Water heater rentals and servicing	Senior Term Debt (2)(4)	\$12,000,000	\$12,000,000
ARI Holdings, Inc.	Manufacturing auto	Senior Term Debt(2)(3)	3,511,667	3,511,667
	parts	Senior Term Debt(2)	1,500,000	1,500,000
Coyne International Enterprises	Industrial services	Senior Term Debt		

Corp.		(2)(3)(4)	15,421,740	15,306,077
Finn Corporation	Manufacturing landscape	Senior Subordinated		
	equipment	Term Debt (4) Common Stock Warrants for 2%	10,500,000	10,421,250
		Ownership	37,000	431,111
Fugate & Associates, Inc.	Imaging supplies	Senior Term Debt(4)	3,412,500	3,412,500
		Senior Term Debt(4)	1,833,333	1,833,333
Home Care Supply, Inc.	Medical equipment rental	Senior Term Debt		
		(2)(4)(5)	18,000,000	18,428,400
Inca Metal Products Corp. Kingway Acquisition, Inc. Clymer Acquisitions, Inc.	Material handling and storage products	Senior Term Debt (2)(4)	5,775,000	4,995,375
Kozy Shack Enterprises, Inc.	Food production and sales	Senior Term Debt (2)(4)	900,000	909,000
Marcal Paper Mills, Inc.	Manufacturing paper products	Senior Subordinated Term Debt (2)(4) First Mortgage	6,975,000	6,922,687
		Debt (3)	9,163,653	9,163,653
Mistras Holdings, Inc.	Nondestructive testing instruments, systems and services	Senior Term Debt (2) Senior Term Debt (2)	10,000,000 5,000,000	10,000,000 5,000,000
Wingstop Restaurants International, Inc.	Restaurant - fast food	Senior Term Debt (4) Senior Term	3,500,000	3,482,500

Debt (4)	<u>2,000,000</u>	<u>1,990,000</u>
	<u>\$109,529,893</u>	<u>\$109,307,553</u>

- (1) We do not "Control," and are not an "Affiliate" of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities and would be an "Affiliate" of a portfolio company if we owned 5% or more of its voting securities
- (2) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
- (3) Has some paid in kind (PIK) interest. Refer to Note 2 "Summary of Significant Accounting Policies" of Form 10-K for the fiscal year ended September 30, 2003.
- (4) Fair value was based on valuation prepared and provided by Standard & Poor's Loan Evaluation Services.
- (5) Includes a success fee with a fair value of \$473,400

**GLADSTONE CAPITAL CORPORATION  
CONSOLIDATED STATEMENT OF OPERATIONS**

**(UNAUDITED)**

	<b>Three Months Ended March 31, 2004</b>	<b>Three Months Ended March 31, 2003</b>
<b>INVESTMENT INCOME</b>		
Interest income – investments	\$ 3,878,817	\$ 3,275,962
Interest income - cash and cash equivalents	17,334	113,338
Interest income - notes receivable from officers	109,538	109,737
Managerial assistance fees	356,231	358,000
Other income	6,000	2,256
<b>Total Investment Income</b>	<u>\$ 4,367,920</u>	<u>\$ 3,859,293</u>
<b>EXPENSES</b>		
Salaries and benefits	\$ 419,769	\$ 477,861
Rent	33,964	54,525
Professional fees	282,292	86,577
Directors fees	32,877	20,857
Insurance	63,274	73,686
Stockholder related costs	67,320	74,342
Financing fees	149,039	-
Interest	24,602	-
General and administrative	173,225	151,854
<b>Total Expenses</b>	<u>\$ 1,246,362</u>	<u>\$ 939,702</u>
<b>NET INVESTMENT INCOME</b>	<u>\$ 3,121,558</u>	<u>\$ 2,919,591</u>

Realized gain on sale of investment	12,500	-
Net unrealized (depreciation) appreciation on investments	(305,475)	742,424
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>	<u>\$ 2,828,583</u>	<u>\$ 3,662,015</u>
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE</b>		
Basic	\$ 0.28	\$ 0.36
Diluted	\$ 0.27	\$ 0.36
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING</b>		
Basic	10,087,615	10,071,844
Diluted	10,375,281	10,100,062
<b>GLADSTONE CAPITAL CORPORATION CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)</b>	<b>Six Months Ended March 31, 2004</b>	<b>Six Months Ended March 31, 2003</b>
<b>INVESTMENT INCOME</b>		
Interest income – investments	\$ 7,418,513	\$ 6,203,625
Interest income - cash and cash equivalents	65,955	311,504
Interest income - notes receivable from officers	218,170	219,341
Managerial assistance fees	611,231	358,000
Other income	22,000	2,256
<b>Total Investment Income</b>	<b>\$ 8,335,869</b>	<b>\$ 7,094,726</b>
<b>EXPENSES</b>		
Salaries and benefits	\$ 810,476	\$ 911,101
Rent	71,724	109,145
Professional fees	459,950	201,267
Directors fees	57,210	34,357
Insurance	137,285	144,841
Stockholder related costs	119,980	111,432
Financing fees	294,035	-

Interest	24,602	-
General and administrative	300,413	250,837
<b>Total Expenses</b>	<b>\$ 2,275,675</b>	<b>\$ 1,762,980</b>
<b>NET INVESTMENT INCOME</b>	<b>\$ 6,060,194</b>	<b>\$ 5,331,746</b>
Realized gain on sale of investment	12,500	-
Net unrealized (depreciation) appreciation on investments	(1,863,037)	742,424
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>	<b>\$ 4,209,657</b>	<b>\$ 6,074,170</b>
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE</b>		
Basic	\$ 0.42	\$ 0.60
Diluted	\$ 0.41	\$ 0.60
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING</b>		
Basic	10,084,729	10,071,844
Diluted	10,354,405	10,112,129

**GLADSTONE CAPITAL CORPORATION  
FINANCIAL HIGHLIGHTS  
(UNAUDITED)**

	<b>Three Months Ended March 31, 2004</b>	<b>Three Months Ended March 31, 2003</b>
<u>Per Share Data (1)</u>		
Net asset value at beginning of period	\$ 12.79	\$ 12.98
Net investment income	0.31	0.29
Realized gain on sale of investment	-	-
Net unrealized (loss)/gain on investments	(0.03)	0.07
Issuance of common stock under stock option plan	(0.03)	-
Distributions from net investment income	(0.33)	(0.25)
Repayment of principal on notes receivable	-	-
Net asset value at end of period	<u>\$ 12.71</u>	<u>\$ 13.09</u>
Per share market value at beginning of period	\$ 22.35	\$ 16.47

Per share market value at end of period	2.41	16.18
Total return (2)(3)	1.76%	-0.24%
Shares outstanding at end of period	10,105,178	10,071,844

Ratios/Supplemental Data

Net assets at end of period	\$ 128,415,109	\$ 131,902,958
Average net assets	\$ 127,521,641	\$ 132,125,265
Ratio of operating expenses to average net assets – annualized	3.87%	2.85%
Ratio of net investment income to average net assets – annualized	9.68%	11.09%

	<b>Six Months Ended March 31, 2004</b>	<b>Six Months Ended March 31, 2003</b>
<u>Per Share Data (1)</u>		
Net asset value at beginning of period	\$ 12.97	\$ 12.97
Net investment income	0.60	0.53
Realized gain on sale of investment	-	-
Net unrealized (loss)/gain on investments	(0.18)	0.07
Issuance of common stock under stock option plan	(0.03)	-
Distributions from net investment income	(0.66)	(0.48)
Repayment of principal on notes receivable	0.01	-
Net asset value at end of period	\$ 12.71	\$ 13.09

Per share market value at beginning of period	\$ 19.45	\$ 16.88
Per share market value at end of period	22.41	16.18
Total return (2)(3)	18.76%	-1.30%
Shares outstanding at end of period	10,105,178	10,071,844

Ratios/Supplemental Data

Net assets at end of period	\$ 128,415,109	\$ 131,902,958
Average net assets	\$ 128,261,840	\$ 131,844,204
Ratio of operating expenses to average net assets – annualized	3.55%	2.67%
Ratio of net investment income to average net assets – annualized	9.45%	9.21%

(1) Basic per share data.

(2) Amounts were not annualized for the results of the three and six month periods ended March 31, 2004 and March 31, 2003.

(3) Total return equals the increase of the ending market value over the beginning market value plus monthly distributions divided by the monthly beginning market value.

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*This press release may include statements that may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements with regard to the future performance of the Company. Words such as "believes," "expects," "projects" and "future" or similar expressions are intended to identify forward-looking statements. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on the Company's current plans that are believed to be reasonable as of the date of this press release. Factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements include, among others, those factors listed under the caption "Risk factors" of the Company's Form 10-K for the Fiscal Year Ended September 30, 2003, as filed with the Securities and Exchange Commission on December 11, 2003. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*