



GLADSTONE CAPITAL

Press Release for December 14, 2004

Confirmation number:

HEADLINES: Gladstone Capital reports fiscal year end results for September 30, 2004: Net Increase in Stockholders' Equity Resulting from Operations was \$10,570,290, or \$1.02 per diluted common share. Net Investment Income was \$13,292,775, or \$1.29 per diluted common share.

McLean, VA: Gladstone Capital Corp. (NASDAQ: GLAD) (the "Company") announced earnings for the fiscal year ended September 30, 2004 today. Net Increase in Stockholders' Equity Resulting from Operations was \$10,570,290, or \$1.02 per diluted common share for the fiscal year ended September 30, 2004, a decrease from \$11,073,581, or \$1.09 per diluted common share for the fiscal year ended September 30, 2003.

Net Increase in Stockholders' Equity Resulting from Operations for the three months ended September 30, 2004 was \$750,740, or \$0.07 per diluted common share compared to \$2,628,513, or \$0.26 per diluted common share for the three months ended September 30, 2003. Total assets were \$215,333,727 at September 30, 2004, an increase of \$767,064 from \$214,566,663 at September 30, 2003.

Net Investment Income for the fiscal year ended September 30, 2004 was \$13,292,775, or \$1.29 per diluted common share, compared to the fiscal year ended September 30, 2003 of \$11,295,921, or \$1.11 per diluted common share. This shows an 18% increase over the prior year.

Net Investment Income for the three months ended September 30, 2004 was \$2,501,950, or \$0.24 per diluted common share, compared to the three months ended September 30, 2003 of \$2,848,440, or \$0.28 per diluted common share.

The Company wrote off in the fourth quarter of 2004, loan fees of \$1,021,762 that it was amortizing over five years. These fees were charged by CIBC when CIBC set up a credit line for the Company. Since CIBC was leaving the lending business related to securitization and since the Company had established a new line of credit, it was necessary to write off the fees. This should be a one-time-event, but it lowered earnings for the fourth quarter of 2004.

At September 30, 2004, the Company had investments in debt securities (loans to or syndicated participations) in sixteen private companies having a cost balance of \$149.2 million and a fair value of \$146.4 million. As previously reported, several portfolio companies repaid their outstanding loan balances earlier than the scheduled maturity dates. During the fiscal year ended September 30, 2004, five loans repaid ahead of maturity date for an aggregate return of capital of approximately \$36.5 million.

In addition, the Company's cash balance was increased because in September 2004 the Company had a small secondary offering of common stock which provided net proceeds of approximately \$24.4 million for the issuance of 1,150,000 new shares of stock.

Subsequent to September 30, 2004, two loans repaid ahead of maturity date and one loan was sold for an aggregate return of capital of approximately \$25.2 million. In the fourth quarter the Company made a loan of \$4.0 million to Allied Extruders, Inc. In November 2004, the Company purchased a \$9.0 million loan in Tech Lighting Inc., and an \$8.0 million loan in Valor Telecommunications, Inc. The Company recently made loans to Global Materials Technology, Inc. for \$5.5 million and to Santana Products, Inc. for \$7.95 million.

"The fiscal year ending September 2005 is underway and our Company is already in full swing building the portfolio. The economy is stronger and showing signs of continual improvement. Our goal remains the same: to increase the dividends for our shareholders for 2005," said a spokesperson for the Company.

The financial statements below are without footnotes. We have filed a [Form 10-K](#) for the fiscal year ended September 30, 2004 with the Securities and Exchange Commission (the "SEC") and that form can be retrieved from the SEC website at www.SEC.gov or from the Company's web site at www.GladstoneCapital.com. A paper copy can be obtained by writing to us at 1616 Anderson Road, McLean, VA 22102.

The Company will hold a conference call Wednesday, December 15, 2004, at 1:00 pm EST. Please call 866-818-1223 and use the ID code 615328 to enter the conference. An operator will monitor the call and set a queue for the questions. The replay number will be available for approximately 30 days. To hear the replay, please dial 888-266-2081 and use the ID code 615328 to listen to the call.

For further information contact Harry Brill, CFO or Skye Breeden, Director of Shareholders Relations at 703-286-7000.

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 "should," "believes," "feel," "expects," "projects," "goals," 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, 2004, as filed with the Securities and Exchange Commission on December 14, 2004. 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.

**GLADSTONE CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS**

	September 30, 2004	September 30, 2003
ASSETS		
Investments at fair value (Cost 9/30/2004: \$149,189,306; 9/30/2003: \$109,529,893)	\$ 146,446,240	\$ 109,307,553
Cash and cash equivalents	15,969,890	21,143,972
Cash and cash equivalents pledged to creditors	49,984,950	80,022,249
Interest receivable – investments in debt securities	837,336	1,041,943
Interest receivable – cash and cash equivalents	-	955
Interest receivable – officers	112,960	108,657
Due from custodian	1,203,079	1,207,000
Due from affiliate	109,639	42,131
Deferred financing fees	350,737	1,086,864
Prepaid assets	191,676	392,951
Other assets	127,220	212,388
	<u>\$ 215,333,727</u>	<u>\$ 214,566,663</u>
TOTAL ASSETS		
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable	\$ 105,921	\$ 23,247
Dividends payable	-	3,327,009
Borrowings under lines of credit	40,743,547	-
Accrued expenses and deferred liabilities	911,607	1,965,025
Repurchase agreement	21,345,997	78,449,000
	<u>\$ 63,107,072</u>	<u>\$ 83,764,281</u>
Total Liabilities		
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 11,278,510 and 10,081,844 shares issued and outstanding, respectively	\$ 11,279	\$ 10,082
Capital in excess of par value	164,294,781	140,416,674
Notes receivable – officers	(9,432,678)	(8,985,940)
Net unrealized depreciation on investments	(2,743,066)	(222,340)
Unrealized depreciation on derivative	(214,259)	-
Distributions less than (in excess of) net investment income	310,598	(416,094)
	<u>\$ 152,226,655</u>	<u>\$ 130,802,382</u>
Total Stockholders' Equity		

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 215,333,727\$ 214,566,663**SCHEDULE OF INVESTMENTS AS OF SEPTEMBER
30, 2004**

<u>Company (1)</u>	<u>Industry</u>	<u>Investment (2)</u>	<u>Cost</u>	<u>Fair Value</u>
A and G, Inc. (d/b/a Alstyle)	Activewear products	Senior Term Debt (3) (6) (11.0%, Due 6/2008)	\$ 12,250,000	\$ 12,250,000
Allied Extruders, Inc.	Polyethylene film manufacturer	Senior Term Debt (3) (12.3%, Due 7/2009)	4,000,000	4,000,000
America's Water Heater Rentals	Household appliances rental	Senior Term Debt (4) (6) (8) (12.5%, Due 2/2009)	12,000,000	12,840,000
ARI Holdings, Inc.	Manufacturing-auto parts	Senior Term Debt (6) (9.75%, Due 6/2008) Senior Subordinated Term Debt (5) (6) (11%, PIK 4%, Due 12/2008)	1,190,141 3,657,164	1,188,653 3,634,306
Bear Creek Corporation	Premium horticultural and food products	Senior Subordinated Term Debt (7) (9.1%, Due 6/2010)	6,000,000	6,090,000
Benetech, Inc.	Dust management systems for the coal and electric utility industries	Senior Term Debt (6) (8.5%, Due 5/2009)	3,168,750	3,160,828
		Senior Term Debt (3) (6) (11.5%, Due 5/2009)	3,250,000	3,241,875
Burt's Bees, Inc.	Personal & household products	Senior Term Debt (7) (5.4%, Due 11/2009)	975,000	987,188
Coyne International Enterprises	Industrial services	Senior Term Debt (3) (5) (6) (13.0%, PIK 2%, Due 7/2007)	15,700,625	15,308,110
Finn Corporation	Manufacturing-landscape equipment	Senior Subordinated Term Debt (6) (13.0%, Due 2/2006)	10,500,000	7,612,500
		Common Stock Warrants	37,000	474,984
Gammill, Inc.	Designer and assembler of quilting machine and accessories	Senior Term Debt (6) (9.5%, Due 12/2008) Senior Term Debt (3) (6)	4,708,013 4,750,000	4,731,553 4,767,813

		(12.0%, Due 12/2008)		
Inca Metal Products Corporation Kingway Acquisition, Inc. Clymer Acquisition, Inc.	Material handling and storage products	Senior Term Debt (3) (6) (4.6%, Due 9/2006)	2,387,548	2,136,855
Maidenform, Inc.	Intimate apparel	Senior Subordinated Term Debt (7) (9.4%, Due 5/2011)	10,003,571	10,175,000
Marcal Paper Mills, Inc.	Manufacturing-paper products	Senior Subordinated Term Debt (6) (13.0%, Due 12/2006) First Mortgage Loan (5) (16%, Due 12/2006)	6,800,000 9,254,715	6,188,000 9,254,715
MedAssets, Inc.	Pharmaceuticals and healthcare GPO	Senior Term Debt (7) (5.9%, Due 3/2007) Senior Subordinated Term Debt (7) (11.2%, Due 3/2008)	1,815,497 6,503,282	1,806,887 6,500,000
Mistras Holdings Corp.	Nondestructive testing instruments, systems and services	Senior Term Debt (3) (6) (10.5%, Due 8/2008) Senior Term Debt (3) (6) (12.5%, Due 8/2008) Senior Term Debt (3) (6) (13.5%, Due 8/2008)	9,833,333 4,916,667 1,000,000	9,759,583 4,867,500 1,000,000
Woven Electronics Corporation	Custom electrical cable assemblies	Senior Term Debt (3) (6) (6.5%, Due 3/2009) Senior Term Debt (4) (6) (11.5%, Due 3/2009)	2,488,000 12,000,000	2,484,890 11,985,000
Total:			<u>\$149,189,306</u>	<u>\$146,446,240</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) Percentage represents interest rates in effect at September 30, 2004 and due date represents the contractual maturity date.

(3) 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.

(4) 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, however the debt is junior to another Last Out Tranche.

(5) 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, 2004.

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

(7) Marketable securities are valued based on the bid price, as of September 30, 2004, from the respective originating syndication agent's trading desk.

(8) Includes a success fee with a fair value of \$660,000 and no cost basis.

**SCHEDULE OF INVESTMENTS AS OF SEPTEMBER
30, 2003**

<u>Company (1)</u>	<u>Industry</u>	<u>Investment (2)</u>	<u>Cost</u>	<u>Fair Value</u>
America's Water Heater Rentals	Household appliances rental	Senior Term Debt (3) (5) (12.5%, Due 2/2009)	12,000,000	12,000,000
ARI Holdings, Inc.	Manufacturing-auto parts	Second Lien Term Debt (3) (5.1%, Due 6/2008)	1,500,000	1,500,000
		Senior Term Debt (3) (4) (8.0%, PIK 4%, Due 12/2008)	3,511,667	3,511,667
Coyne International Enterprises	Industrial services	Senior Term Debt (3) (4) (5) (13.0%, PIK 2%, Due 7/2007)	15,421,740	15,306,077
Finn Corporation	Manufacturing-landscape equipment	Senior Subordinated Term Debt (6) (13.0%, Due 2/2006)	10,500,000	10,421,250
		Common Stock Warrants	37,000	431,111
Fugate and Associates, Inc. (d/b/a ERS Imaging)	Aggregator & Reseller - Printer Cartridges, etc.	Senior Term Debt (5) (12.0%, Due 4/2007)	3,412,500	3,412,500
		Senior Term Debt (5) (9.0%, Due 4/2007)	1,833,333	1,833,333
Home Care Supply, Inc.	Medical equipment rental	Senior Term Debt (3) (5) (6) (12.0%, Due 10/2008)	18,000,000	18,428,400
Inca Metal Products Corporation Kingway Acquisition, Inc. Clymer Acquisition, Inc.	Material handling and storage products	Senior Term Debt (3) (5) (12.5%, Due 9/2007)	5,775,000	4,995,375
Kozy Schack Enterprises, Inc.	Food production and sales	Senior Term Debt (3) (5) (18.0%, Due 5/2006)	900,000	909,000
Marcal Paper Mills, Inc.	Manufacturing-paper products	Senior Term Debt (3) (5) (13.0%, Due 12/2006)	6,975,000	6,922,687
		First Mortgage Debt (4) (16.0%, PIK 1%, Due 12/2006)	9,163,653	9,163,653

Mistras Holdings Corp.	Nondestructive testing instruments, systems and services	Senior Term Debt (3) (10.5%, Due 8/2008)	10,000,000	10,000,000
		Senior Term Debt (3) (12.5%, Due 8/2008)	5,000,000	5,000,000
Wingstop Restaurants International, Inc.	Restaurant - fast food	Senior Term Debt (5) (12.5%, Due 1/2008)	3,500,000	3,482,500
		Senior Debt (5) (8.5%, Due 1/2008)	2,000,000	1,990,000
Total:			\$ 109,529,893	\$109,307,553

(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) Percentage represents interest rates in effect at September 30, 2003 and due date represents the contractual maturity date.

(3) 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.

(4) 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, 2004.

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

(6) Includes a success fee with a fair value of \$473,400 and no cost basis.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended September 30,	
	2004	2003
INVESTMENT INCOME		
Interest income – investments	\$18,176,617	\$ 13,248,415
Interest income – cash and cash equivalents	84,273	466,316
Interest income – notes receivable from officers	443,658	437,737
Managerial assistance fees	1,118,106	885,500
Other income	573,314	116,906
Total investment income	<u>20,395,968</u>	<u>15,154,874</u>
EXPENSES		
Salaries and benefits	2,554,490	2,018,004
Rent	139,399	209,864
Professional fees	579,599	409,826
Directors fees	112,210	73,647
Insurance	258,358	275,511

Stockholder related costs	140,090	143,273
Financing fees	1,373,415	222,038
Interest	741,621	-
Loan servicing	501,670	-
General and administrative	702,341	506,790
Total expenses	<u>7,103,193</u>	<u>3,858,953</u>
NET INVESTMENT INCOME	<u>13,292,775</u>	<u>11,295,921</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Realized gain on sale of investment	12,500	-
Unrealized depreciation on derivative	(214,259)	-
Net unrealized depreciation on investments	<u>(2,520,726)</u>	<u>(222,340)</u>
Net loss on investments	(2,722,485)	(222,340)
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	<u>\$ 10,570,290</u>	<u>\$ 11,073,581</u>

NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE:

Basic	<u>\$ 1.05</u>	<u>\$ 1.10</u>
Diluted	<u>\$ 1.02</u>	<u>\$ 1.09</u>

WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:

Basic	10,101,341	10,072,677
Diluted	10,344,388	10,188,488

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)	Three Months Ended September 30,	
	2004	2003
INVESTMENT INCOME		
Interest income – investments	\$ 5,057,965	\$ 3,360,506
Interest income – cash and cash equivalents	3,050	75,739
Interest income – notes receivable from officers	112,960	108,659
Managerial assistance fees	107,500	402,500
Other income	68,814	53,001
Total investment income	<u>5,350,289</u>	<u>4,000,405</u>
EXPENSES		
Salaries and benefits	490,941	613,002
Rent	32,802	45,820
Professional fees	119,007	107,348
Directors fees	27,000	19,000
Insurance	57,704	58,787
Stockholder related costs	9,467	19,614

Financing fees	1,122,118	159,683
Interest	340,385	-
Loan servicing	501,670	-
General and administrative	147,245	128,711
Total expenses	<u>2,848,339</u>	<u>1,151,965</u>
NET INVESTMENT INCOME	<u>2,501,950</u>	<u>2,848,440</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net unrealized depreciation on investments	(1,671,594)	(219,927)
Unrealized depreciation on derivative	<u>(79,616)</u>	<u>-</u>
Net loss on investments	(1,751,210)	(219,927)
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	<u>\$ 750,740</u>	<u>\$ 2,628,513</u>
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE:		
Basic	<u>\$ 0.07</u>	<u>\$ 0.26</u>
Diluted	<u>\$ 0.07</u>	<u>\$ 0.26</u>
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic	10,130,635	10,072,677
Diluted	10,397,151	10,270,403

**FINANCIAL HIGHLIGHTS
(UNAUDITED)**

	Year Ended September 30, 2004	Year Ended September 30, 2003
<u>Per Share Data</u> ⁽¹⁾		
Net asset value at beginning of period	\$ 12.97	\$ 12.97
<i>Income from investment operations:</i>		
Net investment income ⁽⁴⁾	1.32	1.12
Realized gain on sale of investment ⁽⁴⁾	-	-
Net unrealized gain/(loss) on investments ⁽⁴⁾	(0.25)	(0.02)
Net unrealized (loss) on derivatives ⁽⁴⁾	<u>(0.02)</u>	<u>-</u>
Total from investment operations	<u>1.05</u>	<u>1.10</u>
Less distributions:		
Distributions from net investment income	(1.28)	(1.10)
Tax return of capital distribution	<u>(0.09)</u>	<u>-</u>
Total distributions	<u>(1.37)</u>	<u>(1.10)</u>
Issuance of common stock under shelf offering	0.99	-

Issuance of common stock under stock option plan	0.01	-
Offering costs and underwriting discount	(0.16)	-
Repayment of principal on notes receivable	0.01	-
Net asset value at end of period	<u>\$ 13.50</u>	<u>\$ 12.97</u>
Per share market value at beginning of period	\$ 19.45	\$ 16.88
Per share market value at end of period	22.71	19.45
Total Return ⁽²⁾⁽³⁾	24.40%	21.74%
Shares outstanding at end of period	11,278,510	10,081,844
<u>Ratios/Supplemental Data</u>		
Net assets at end of period	\$ 152,226,655	\$ 130,802,382
Average net assets	\$ 130,385,129	\$ 132,196,505
Ratio of expenses to average net assets	5.45%	2.92%
Ratio of net investment income to average net assets	10.20%	8.38%

(1) Basic per share data.

(2) For the fiscal year ended September 30, 2004, the total return equals the increase of the ending market value over the beginning market value plus monthly dividends divided by the monthly beginning market value

assuming monthly dividend reinvestment. For the fiscal year ended September 30, 2004, total return equals the increase of the ending market value over the beginning market value, plus distributions, divided by the beginning market value assuming quarterly dividend reinvestment.

(3) Amounts were not annualized.

(4) Weighted average per share data was used.

FINANCIAL HIGHLIGHTS (UNAUDITED)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
<u>Per Share Data</u> ⁽¹⁾		
Net asset value at beginning of period	\$ 12.91	\$ 13.04
<i>Income from investment operations:</i>		
Net investment income ⁽⁴⁾	0.25	0.28
Realized gain on sale of investment ⁽⁴⁾	-	-
Net unrealized gain/(loss) on investments ⁽⁴⁾	(0.17)	(0.02)
Net unrealized (loss) on derivatives ⁽⁴⁾	(0.01)	-
Total from investment operations	<u>0.07</u>	<u>0.26</u>
Less distributions:		
Distributions from net investment income	(0.24)	(0.33)
Tax return of capital distribution	(0.12)	-
Total distributions	<u>(0.36)</u>	<u>(0.33)</u>
Issuance of common stock under shelf	1.04	-

offering

Issuance of common stock under stock option plan

Offering costs and underwriting discount	(0.16)	-
Repayment of principal on notes receivable	-	-
Net asset value at end of period	<u>\$ 13.50</u>	<u>\$ 12.97</u>

Per share market value at beginning of period	\$ 20.15	\$ 16.88
Per share market value at end of period	22.71	19.45
Total Return ⁽²⁾⁽³⁾	14.54%	21.74%
Shares outstanding at end of period	11,278,510	10,081,844

Ratios/Supplemental Data

Net assets at end of period	\$152,226,655	\$130,802,382
Average net assets	\$136,731,528	\$132,196,505
Ratio of expenses to average net assets-annualized	8.33%	2.92%
Ratio of net investment income to average net assets-annualized	7.32%	8.38%

(1) Basic per share data.

(2) For the fiscal year ended September 30, 2004, the total return equals the increase of the ending market value over the beginning market value plus monthly dividends divided by the monthly beginning market value assuming monthly dividend reinvestment. For the fiscal year ended September 30, 2004, total return equals the increase of the ending market value over the beginning market value, plus distributions, divided by the beginning market value assuming quarterly dividend reinvestment.

(3) Amounts were not annualized.

(4) Weighted average per share data was used.