



Gladstone Capital Corporation Reports Third Quarter 2005 Results

- **Net Investment Income was \$4.4 million or \$0.38 per diluted common share**
- **Net Increase in Stockholders' Equity was \$3.9 million or \$0.34 per diluted common share**

McLean, VA, August 3, 2005: Gladstone Capital Corp. (NASDAQ: GLAD) (the "Company") today announced earnings for the third fiscal quarter and nine months ended June 30, 2005.

Net Investment Income for the quarter ended June 30, 2005 was \$4,372,426, or \$0.39 per basic share and \$0.38 per diluted share, as compared to \$4,725,564, or \$0.47 per basic share and \$0.46 per diluted share for the quarter ended June 30, 2004. Net Investment Income for the nine months ended June 30, 2005 was \$13,481,088, or \$1.19 per basic share and \$1.16 per diluted share, as compared to \$10,790,825, or \$1.07 per basic share and \$1.04 per diluted share for the nine months ended June 30, 2004.

Net Increase in Stockholders' Equity Resulting from Operations for the quarter ended June 30, 2005 was \$3,934,153, or \$0.34 per diluted weighted average common share, as compared to \$5,609,893 or \$0.54 per diluted weighted average common share for the same period one year ago. For the nine months ending June 30, 2005, Net Increase in Stockholders' Equity Resulting from Operations was \$13,154,479, or \$1.13 per diluted weighted average common share, as compared to \$9,819,550 or \$0.95 for the same period one year ago.

The Company also recorded net unrealized depreciation on its investments of \$389,229 for the three months ended June 30, 2005, as compared to net unrealized appreciation of \$1,013,905 for the three months ended June 30, 2004. For the nine months ended June 30, 2005, the Company recorded net unrealized depreciation on its investments of \$298,352, as compared to net unrealized depreciation on investments of \$849,132 for the nine months ended June 30, 2004.

Total assets were \$209,320,463 at June 30, 2005, as compared to \$215,333,727 at September 30, 2004. Net asset value was \$153,805,834, or \$13.61 per actual common share outstanding, at June 30, 2005 as compared to \$152,226,655, or \$13.50 per actual common share outstanding, at September 30, 2004.

During the third quarter ended June 30, 2005, the Company recorded the following activity:

- Recorded new loans of \$34.7 million to seven companies

For the nine months ended June 30, 2005, the Company recorded the following activity:

- Recorded \$126.2 million of new loans to 19 companies
- Sold two investments for a cumulative gain of \$29,750, and received principal repayments of \$78.0 million, which included scheduled principal repayments
- Received full repayment of eight investments
- Received prepayment penalties of approximately \$1.0 million
- Received \$1.2 million of success fees in connection with the repayment of one investment

At June 30, 2005, the Company had investments in debt securities in 26 private companies having an aggregate cost balance of \$197.7 million and a fair value of \$194.7 million.

Subsequent to June 30, 2005, the Company had one portfolio company remit approximately \$7.9 million for the full repayment of two notes ahead of scheduled maturity.

“We have been able to continue to produce positive results from our investments in a diversified portfolio. These positive results, as evidenced in the third quarter results, have allowed us to reward our shareholders with our recent announcement to increase the monthly dividend 12.5% from \$0.13 to \$0.135 per share”, said Chip Stelljes, Executive Vice President and Chief Investment Officer.

The financial statements below are without footnotes. We have filed a Form 10-Q today for the quarter ended June 30, 2005 with the Securities and Exchange Commission (the “SEC”), which can be retrieved from the SEC’s 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 1521 Westbranch Drive, Suite 200, McLean, VA 22102.

[Gladstone Capital](http://www.GladstoneCapital.com) will host a conference call at 9:30 am EDT, August 4, 2005. To enter the call please dial 888-413-5357 and use the confirmation code 745631. An operator will monitor the call and set a queue for questions. To hear the replay of the call please dial 888-266-2081 and use the confirmation code 745631.

For further information contact our Investor Relations Manager, [Kelly Sargent](#) at 703-287-5835.

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 (Unaudited)

| | June 30, 2005 | September 30, 2004 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Investments at fair value (Cost 6/30/2005: \$197,749,877; 9/30/2004: \$149,189,306) | \$ 194,708,459 | \$ 146,446,240 |
| Cash and cash equivalents | 766,922 | 15,969,890 |
| Cash and cash equivalents pledged to creditors | - | 49,984,950 |
| Interest receivable – investments in debt securities | 1,199,684 | 837,336 |
| Interest receivable – employees | 90,915 | 112,960 |
| Due from custodian | 12,230,425 | 1,203,079 |
| Due from affiliate | - | 109,639 |
| Deferred financing costs | 171,250 | 350,737 |
| Prepaid assets | 71,622 | 191,676 |
| Other assets | 81,186 | 127,220 |
| | <u>\$ 209,320,463</u> | <u>\$ 215,333,727</u> |
| TOTAL ASSETS | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Accounts payable | \$ 206,399 | \$ 105,921 |
| Fees due to affiliate | 319,411 | 113,511 |
| Borrowings under lines of credit | 54,590,000 | 40,743,547 |
| Accrued expenses and deferred liabilities | 198,819 | 798,096 |
| Funds held in escrow | 200,000 | - |
| Repurchase agreement | - | 21,345,997 |
| | <u>\$ 55,514,629</u> | <u>\$ 63,107,072</u> |
| Total Liabilities | \$ 55,514,629 | \$ 63,107,072 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, \$0.001 par value, 50,000,000 shares authorized and 11,303,510 and 11,278,510 shares issued and outstanding, respectively | \$ 11,304 | \$ 11,279 |
| Capital in excess of par value | 164,610,873 | 164,294,781 |
| Notes receivable for sale of stock to employees | (8,792,349) | (9,432,678) |
| Net unrealized depreciation on investments | (3,041,418) | (2,743,066) |
| Unrealized depreciation on derivative | (272,266) | (214,259) |
| Realized gain on sale of investments | 42,250 | 12,500 |
| Distributions less than net investment income | 1,247,440 | 298,098 |
| | <u>\$ 153,805,834</u> | <u>\$ 152,226,655</u> |
| Total Stockholders' Equity | \$ 153,805,834 | \$ 152,226,655 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 209,320,463 | \$ 215,333,727 |

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

| | Three Months Ended June 30, | |
|---|-----------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> |
| INVESTMENT INCOME | | |
| Interest income – investments | \$ 5,766,233 | \$ 5,700,139 |
| Interest income – cash and cash equivalents | 7,631 | 15,268 |
| Interest income – notes receivable from employees | 108,065 | 112,528 |
| Fee income | - | 399,375 |
| Other income | 245,297 | 482,500 |
| Total investment income | <u>6,127,226</u> | <u>6,709,810</u> |
| EXPENSES | | |
| Loan servicing | 687,971 | - |
| Management fee | 358,631 | - |
| Professional fees | 133,505 | 36,746 |
| Amortization of deferred financing costs | 100,663 | 99,365 |
| Interest | 563,336 | 211,085 |
| Stockholder related costs | 16,475 | 10,643 |
| Directors fees | 26,624 | 28,000 |
| Insurance | 43,891 | 63,369 |
| Salaries and benefits | - | 1,253,073 |
| Rent | - | 34,873 |
| General and administrative | 64,304 | 247,092 |
| Expenses before credit from Gladstone Management | <u>1,995,400</u> | <u>1,984,246</u> |
| Credit to management fee for fees collected by Gladstone Management | (240,600) | - |
| Total expenses net of credit to management fee | <u>1,754,800</u> | <u>1,984,246</u> |
| NET INVESTMENT INCOME BEFORE INCOME TAXES | <u>4,372,426</u> | <u>4,725,564</u> |
| Income tax expense | - | - |
| NET INVESTMENT INCOME | <u>4,372,426</u> | <u>4,725,564</u> |
| UNREALIZED GAIN (LOSS) ON INVESTMENTS: | | |
| Unrealized depreciation on derivative | (49,044) | (129,576) |
| Net unrealized (depreciation)/appreciation on investments | <u>(389,229)</u> | <u>1,013,905</u> |
| Net unrealized (loss) gain on investments | (438,273) | 884,329 |
| NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS | <u>\$ 3,934,153</u> | <u>\$ 5,609,893</u> |
| NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE: | | |
| Basic | <u>\$ 0.35</u> | <u>\$ 0.56</u> |
| Diluted | <u>\$ 0.34</u> | <u>\$ 0.54</u> |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: | | |
| Basic | 11,299,010 | 10,105,270 |
| Diluted | 11,578,637 | 10,301,390 |

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

Nine Months Ended June 30,

| | <u>2005</u> | <u>2004</u> |
|---|----------------------|---------------------|
| INVESTMENT INCOME | | |
| Interest income – investments | \$ 16,671,756 | \$ 13,118,652 |
| Interest income – cash and cash equivalents | 29,101 | 81,223 |
| Interest income – notes receivable from employees | 336,382 | 330,698 |
| Fee income | - | 1,010,606 |
| Other income | 1,054,917 | 504,500 |
| Total investment income | <u>18,092,156</u> | <u>15,045,679</u> |
| EXPENSES | | |
| Loan servicing | 1,804,465 | - |
| Management fee | 1,075,940 | - |
| Professional fees | 528,610 | 460,592 |
| Amortization of deferred financing costs | 284,487 | 252,797 |
| Interest | 1,174,587 | 391,237 |
| Stockholder related costs | 192,785 | 130,623 |
| Directors fees | 77,624 | 85,210 |
| Insurance | 134,053 | 200,654 |
| Salaries and benefits | - | 2,063,549 |
| Rent | - | 106,597 |
| General and administrative | 176,939 | 563,595 |
| Expenses before credit from Gladstone Management | <u>5,449,490</u> | <u>4,254,854</u> |
| Credit to management fee for fees collected by Gladstone Management | <u>(977,100)</u> | <u>-</u> |
| Total expenses net of credit to management fee | <u>4,472,390</u> | <u>4,254,854</u> |
| NET INVESTMENT INCOME BEFORE INCOME TAXES | <u>13,619,766</u> | <u>10,790,825</u> |
| Income tax expense | 138,678 | - |
| NET INVESTMENT INCOME | <u>13,481,088</u> | <u>10,790,825</u> |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS: | | |
| Realized gain on sale of investment | 29,750 | 12,500 |
| Unrealized depreciation on derivative | (58,007) | (134,643) |
| Net unrealized depreciation on investments | <u>(298,352)</u> | <u>(849,132)</u> |
| Net realized and unrealized gain (loss) on investments | <u>(326,609)</u> | <u>(971,275)</u> |
| NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS | <u>\$ 13,154,479</u> | <u>\$ 9,819,550</u> |
| NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS PER COMMON SHARE: | | |
| Basic | <u>\$ 1.17</u> | <u>\$ 0.97</u> |
| Diluted | <u>\$ 1.13</u> | <u>\$ 0.95</u> |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: | | |
| Basic | 11,288,784 | 10,091,576 |
| Diluted | 11,602,986 | 10,336,733 |

GLADSTONE CAPITAL CORPORATION
FINANCIAL HIGHLIGHTS
(UNAUDITED)

| | Three Months Ended June 30, | |
|---|-----------------------------|-----------------|
| | 2005 | 2004 |
| <u>Per Share Data</u> ⁽¹⁾ | | |
| Net asset value at beginning of period | \$ 13.64 | \$ 12.71 |
| <i>Income from investment operations:</i> | | |
| Net investment income ⁽²⁾ | 0.39 | 0.47 |
| Realized gain on sale of investment ⁽²⁾ | - | - |
| Net unrealized gain/(loss) on investments ⁽²⁾ | (0.03) | 0.10 |
| Net unrealized (loss) on derivatives ⁽²⁾ | - | (0.01) |
| Total from investment operations | <u>0.36</u> | <u>0.56</u> |
| Less distributions: | | |
| Distributions from net investment income | <u>(0.39)</u> | <u>(0.34)</u> |
| Total distributions | <u>(0.39)</u> | <u>(0.34)</u> |
| Issuance of common stock under stock option plan | - | 0.01 |
| Repayment of principal on notes receivable | - | 0.01 |
| Dilutive effect of share issuance | - | (0.03) |
| Net asset value at end of period | <u>\$ 13.61</u> | <u>\$ 12.92</u> |
| | | |
| Per share market value at beginning of period | \$ 21.22 | \$ 22.41 |
| Per share market value at end of period | 23.40 | 20.15 |
| Total Return ⁽³⁾⁽⁴⁾ | 12.19% | -5.73% |
| Shares outstanding at end of period | 11,303,510 | 10,113,444 |
| | | |
| <u>Ratios/Supplemental Data</u> | | |
| Net assets at end of period | \$ 153,805,834 | \$ 130,668,575 |
| Average net assets | \$ 152,484,868 | \$ 128,285,309 |
| Ratio of expenses to average net assets - annualized ⁽⁵⁾ | 5.23% | 6.59% |
| Ratio of net expenses to average net assets - annualized ⁽⁶⁾ | 4.60% | 6.59% |
| Ratio of net investment income to average net assets - annualized | 11.47% | 14.33% |
| | | |
| | Nine Months Ended June 30, | |
| | 2005 | 2004 |
| <u>Per Share Data</u> ⁽¹⁾ | | |
| Net asset value at beginning of period | \$ 13.50 | \$ 12.97 |
| <i>Income from investment operations:</i> | | |
| Net investment income ⁽²⁾ | 1.19 | 1.07 |
| Realized gain on sale of investment ⁽²⁾ | - | - |
| Net unrealized gain/(loss) on investments ⁽²⁾ | (0.03) | (0.08) |
| Net unrealized (loss) on derivatives ⁽²⁾ | (0.01) | (0.01) |
| Total from investment operations | <u>1.15</u> | <u>0.98</u> |
| Less distributions: | | |
| Distributions from net investment income | <u>(1.11)</u> | <u>(1.01)</u> |
| Total distributions | <u>(1.11)</u> | <u>(1.01)</u> |
| Offering costs | (0.01) | - |
| Issuance of common stock under stock option plan | 0.02 | 0.01 |
| Repayment of principal on notes receivable | 0.07 | 0.01 |
| Dilutive effect of share issuance | (0.01) | (0.04) |
| Net asset value at end of period | <u>\$ 13.61</u> | <u>\$ 12.92</u> |
| | | |
| Per share market value at beginning of period | \$ 22.71 | \$ 19.45 |
| Per share market value at end of period | 23.40 | 20.15 |
| Total Return ⁽³⁾⁽⁴⁾ | 8.08% | 8.61% |
| Shares outstanding at end of period | 11,303,510 | 10,113,444 |
| | | |
| <u>Ratios/Supplemental Data</u> | | |
| Net assets at end of period | \$ 153,805,834 | \$ 130,668,575 |
| Average net assets | \$ 152,067,700 | \$ 128,269,663 |
| Ratio of expenses to average net assets - annualized ⁽⁵⁾ | 4.90% | 4.56% |
| Ratio of net expenses to average net assets - annualized ⁽⁶⁾ | 4.04% | 4.56% |
| Ratio of net investment income to average net assets - annualized | 11.82% | 11.08% |

(1) Basic per share data.

(2) Based on weighted average basic per share data.

(3) 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.

(4) Amounts were not annualized.

(5) Ratio of expenses to average net assets is computed using expenses before credit from Gladstone Management and income tax expense.

(6) Ratio of net expenses to average net assets is computed using total expenses net of credits to management fee and income tax expense.