# Gladstone Capital Corporation Reports Results for the First Quarter Ended December 31, 2010 

- Net Investment Income for the three months ended December 31, 2010 was $\$ 4.6$ million or $\$ 0.22$ per common share
- Net Increase in Net Assets Resulting from Operations for the three months ended December 31, 2010 was $\$ 2.1$ million or $\$ 0.10$ per common share

MCLEAN, Va., Feb. 7, 2011 /PRNewswire/ -- Gladstone Capital Corporation (Nasdaq: GLAD) (the "Company") today announced earnings for the first quarter ended December 31, 2010. All per share references are per basic and diluted weighted average common share outstanding, unless otherwise noted.
(Logo: https://photos.prnewswire.com/prnh/20101005/GLADSTONECAPITAL )
Net Investment Income for 3 Months: Net Investment Income for the quarter ended December 31, 2010 was $\$ 4.6$ million, or $\$ 0.22$ per share, as compared to $\$ 4.4$ million, or $\$ 0.21$ per share, for the prior year period, an increase in Net Investment Income of 4.7\%. Net Investment Income increased primarily due to lower interest expenses due to lower borrowings outstanding and the reversal of related fees during the quarter ended December 31, 2010, partially offset by decreased interest income resulting from the reduction in the size of the Company's investment portfolio prior to September 30, 2010.

Net Increase in Net Assets Resulting from Operations for 3 Months: Net Increase in Net Assets Resulting from Operations for the quarter ended December 31, 2010 was $\$ 2.1$ million, or $\$ 0.10$ per share, as compared to $\$ 6.3$ million, or $\$ 0.30$ per share, for the prior year period. The decrease in Net Increase in Net Assets Resulting from Operations from the prior year was primarily driven by net unrealized depreciation of the Company's investment portfolio of $\$ 2.9$ million for the quarter ended December 31, 2010 compared to net unrealized appreciation of $\$ 2.6$ million for the prior year period.

Investment Portfolio Fair Value: The aggregate investment portfolio depreciated during the three months ended December 31, 2010, primarily due to depreciation in the debt of certain of the Company's proprietary investments. As of December 31, 2010, the entire portfolio was fair valued at $85.1 \%$ of cost, which was a decrease of $1.1 \%$ from September 30, 2010.

Net Asset Value: Net asset value was\$11.74 per share outstanding as of December 31, 2010, as compared to $\$ 11.85$ per share outstanding as of September 30, 2010.

Asset Characteristics: Total assets were $\$ 275.5$ million as of December 31, 2010, as compared to $\$ 270.5$ million as of September 30, 2010. At December 31, 2010, the Company had investments in 41 portfolio companies with an aggregate cost basis of $\$ 296.6$ million and an aggregate fair value of $\$ 252.5$ million. As of December 31, 2010, the Company's investment portfolio at fair value was comprised of $97.8 \%$ in debt securities and $2.2 \%$ in equity securities.

Investment Yield: The annualized weighted average yield on the Company's interestbearing portfolio, excluding cash and cash equivalents, was $11.37 \%$ for the quarter ended December 31, 2010, as compared to $10.79 \%$ for the prior year period. The weighted average yield varies from period to period based on the current stated interest rate on interest-bearing investments and the amounts of loans for which interest is not accruing. The increase in the weighted average yield for the quarter ended December 31, 2010 resulted primarily from the repayment of loans with lower stated interest rates subsequent to December 31, 2009.

Highlights for Quarter: For the quarter endedDecember 31, 2010, the Company reported the following significant activity:

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-- New Investment Activity: Funded $9.0 million to five new portfolio
    companies and $2.8 million of investments to existing portfolio
    companies through revolver draws or addition of new term notes, for an
    aggregate of $11.8 million.
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-- Principal Repayments: Received principal repayments of $\$ 13.2$ million,
which included scheduled principal payments and two full repayments.
-- Credit Facility: Amended its credit facility which resulted in a
decreased interest rate (LIBOR subject to a minimum rate of $1.5 \%$, plus
$3.75 \%$ per annum, compared to a prior rate of LIBOR subject to a minimum
rate of $2.0 \%$, plus $4.5 \%$ per annum). In addition, the Company is no
longer obligated to pay an annual minimum earnings shortfall fee to the
committed lenders.
-- Distributions: Paid monthly cash distributions of $\$ 0.07$ per share for each of the months of October, November and December 2010.

Subsequent Events: Subsequent to December 31, 2010, the Company:
-- Additional Investments: Funded $\$ 2.7$ million of additional investments to existing portfolio companies.
-- Principal Repayments: Received $\$ 11.4$ million of repayments, including scheduled amortizations and a repayment from one company.
-- Distributions Declared:

| Declared Ex-Dividend | Record Date Payment Date Cash Distribution |  |  |
| :--- | :--- | :--- | :--- | :--- |
| January 11 January 19 January 21 | January 31 | $\$ 0.07$ |  |
| January 11 February 16* February 21 February 28 | 0.07 |  |  |
| January 11 March 17 | March 21 | March 31 | 0.07 |
| Total for the Quarter: |  | 0.21 |  |

*Please note that the Company's press release, dated January 11, 2011, had erroneously identified an ex-dividend date of February 17, 2011. The proper ex-dividend date for the February distribution is February 16, 2011.


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As of: December 31, 2010 September 30, 2010
Fair value as a percent of cost 85.1 % 86.2 %
    Net asset value per share
        Number of investments
    Total assets

Net asset value per share
Number of investments

Total assets

Fair value as a percent of cost 85.1 \%
\$ 11.74
41
\$ 275,497
86.2 \%
\$ 11.85
39
\(\$ 270,518\)

Comments from President Chip Stelljes: "During the quarter, we invested \(\$ 9.0\) million in five new portfolio companies and received proceeds from repayments of approximately \(\$ 13.2\) million, including the successful exit of two investments. With a current outstanding balance of \(\$ 6.6\) million on our \(\$ 127.0\) million line of credit, we are actively reviewing new investment opportunities, and we believe that we will be able to increase our new investment activity over the next twelve months."

Conference Call for Stockholders: The Company will hold a conference call onTuesday, February 8, 2011 at 8:30 am EST. Please call (800) 860-2442 to enter the conference. An operator will monitor the call and set a queue for questions. A replay of the conference call will be available through March 10, 2011. To hear the replay, please dial (877) 344-7529, and use conference number 447117. The replay will be available approximately one hour after the call concludes.

The live audio broadcast of the Company's quarterly conference call will be available online at www.GladstoneCapital.com. The event will be archived and available for replay on the Company's website through April 9, 2011.

Warning: The financial statements below are without footnotes so readers should obtain and carefully review the Company's Form 10-Q for the quarter ended December 31, 2010, including the footnotes to the financial statements contained therein. The Company has filed the Form 10-Q today with the SEC, which can be retrieved from the SEC's website at www.sec.gov or from the Company's website atwww.GladstoneCapital.com. A paper copy can be obtained free of charge by writing to us at 1521 Westbranch Drive, Suite 200, McLean, VA 22102.

Who we are: Gladstone Capital Corporation is a specialty finance company that invests in debt securities consisting primarily of senior term loans, second term lien loans, and senior subordinated term loans in small and medium-sized businesses. Information on the business activities of all the Gladstone funds can be found atwww.gladstonecompanies.com.

For Investor Relations inquiries related to any of the monthly dividend payingGladstone funds, please visit www.gladstone.com.

The statements in this press release regarding the timing and the Company's ability to
increase new investment activity are "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 to differ from these forwardlooking statements include, among others, the duration and potential future effects of the current economic downturn on its portfolio companies and on the senior loan market, and those factors listed under the caption "Risk Factors" of the Company's Form 10-K for the fiscal year ended September 30, 2010, as filed with the SEC onNovember 22, 2010. The risk factors set forth in the Form 10-K under the caption "Risk Factors" are specifically incorporated by reference into this press release. 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
CONDENSED CONSOLIDATED STATEMENTS OF ASSETS \& LIABILITIES
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)
\begin{tabular}{ll} 
December 31, September 30, \\
2010 & 2010
\end{tabular}

ASSETS
\begin{tabular}{|c|c|c|}
\hline Cash & \$ 6,434 & \$ 7,734 \\
\hline Investments at fair value & & \\
\hline Non-Control/Non-Affiliate investments (Cost of \(\$ 242,058\) and \(\$ 244,140\), respectively) & 216,612 & 223,737 \\
\hline Control investments (Cost of \$54,499 and \$54,076, respectively) & 35,893 & 33,372 \\
\hline Total investments at fair value (Cost of \(\$ 296,557\) and \(\$ 298,216\), respectively) & 252,505 & 257,109 \\
\hline Interest receivable - investments in debt securities & 2,722 & 2,648 \\
\hline Interest receivable - employees & 112 & 104 \\
\hline Due from custodian & 10,764 & 255 \\
\hline Deferred financing fees & 1,651 & 1,266 \\
\hline Prepaid assets & 814 & 799 \\
\hline Other assets & 495 & 603 \\
\hline TOTAL ASSETS & \$ 275,497 & \$ 270,518 \\
\hline
\end{tabular}

LIABILITIES
\begin{tabular}{lll} 
Borrowings at fair value (Cost of \(\$ 24,600\) and & \\
\(\$ 16,800\), respectively) & \(\$ 25,301\) & \(\$ 17,940\) \\
Accounts payable and accrued expenses & 379 & 752 \\
Interest payable & 115 & 693 \\
Fee due to Administrator & 186 & 267 \\
Fees due to Adviser & 1,816 & 673 \\
Other liabilities & 740 & 947 \\
TOTAL LIABILITIES & 28,537 & 21,272 \\
& & \(\$ 246,960\)
\end{tabular}

ANALYSIS OF NET ASSETS
\begin{tabular}{llc} 
Common stock, \(\$ 0.001\) par value, \(50,000,000\) \\
shares authorized and \(21,039,242\) shares issued \\
and outstanding at December 31,2010 and \\
September 30,2010 & \(\$ 21\) & \(\$ 21\) \\
Capital in excess of par value & 326,935 & 326,935 \\
Notes receivable - employees & \((7,103)\) & \((7,103)\) \\
Net unrealized depreciation on investments & \((44,052)\) & \((41,108)\) \\
Net unrealized appreciation on borrowings & \((701)\) & \((1,140)\) \\
Overdistributed net investment income & - & \((1,103)\) \\
Accumulated net realized losses & \((28,140)\) & \((27,256)\) \\
TOTAL NET ASSETS & \(\$ 246,960\) & \(\$ 249,246\) \\
NET ASSETS PER SHARE & \(\$ 11.74\) & \(\$ 11.85\)
\end{tabular}
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

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| Net unrealized (depreciation) appreciation on |  | $(2,944)$ |
| :--- | :--- | :--- |
| investments |  | 2,599 |
| Net unrealized depreciation on borrowings | 439 | 219 |
| Net (loss) gain on investments and borrowings |  |  |

NET INCREASE IN NET ASSETS RESULTING FROM
OPERATIONS \$ 2,132 \$ 6,326
NET INCREASE IN NET ASSETS RESULTING FROM
OPERATIONS PER COMMON SHARE:
Basic and Diluted \$ 0.10 \$ 0.30
WEIGHTED AVERAGE SHARES OF COMMON STOCK
OUTSTANDING:
Basic and Diluted 21,039,242 21,087,574
GLADSTONE CAPITAL CORPORATION
FINANCIAL HIGHLIGHTS
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT DATA)
(UNAUDITED)

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Three Months Ended December 31,
\(2010 \quad 2009\)
Per Share Data(1)
Net asset value at beginning of period \$11.85 \$11.81
Income from investment operations:
Net investment income (2)
    0.22
    0.21
Net realized loss on investments (2) (0.04)
Net unrealized (depreciation) appreciation on
investments (2)
    (0.14) 0.12
\begin{tabular}{|c|c|c|}
\hline Net unrealized depreciation on borrowings (2) & 0.02 & 0.01 \\
\hline Total from investment operations & 0.10 & 0.30 \\
\hline Distributions to stockholders(3) & (0.21) & (0.21) \\
\hline Reclassification of principal on employee note & - & 02 \\
\hline Net asset value at end of period & \$ 11.74 & \$ 11.92 \\
\hline Per share market value at beginning of period & \$ 11.27 & \$ 8.93 \\
\hline Per share market value at end of period & 11.52 & 7.69 \\
\hline Total return(4)(5) & 4.96\% & (11.58) \% \\
\hline Shares outstanding at end of period & 21,039,242 & 21,087,574 \\
\hline Statement of Assets and Liabilities Data: & & \\
\hline Net assets at end of period & \$ 246,960 & \$ 251,449 \\
\hline Average net assets(6) & 247,513 & 248,874 \\
\hline Senior Securities Data: & & \\
\hline Total borrowings at fair value & 25,301 & 73,531 \\
\hline Asset coverage ratio(7)(8) & 1,061\% & 442\% \\
\hline Asset coverage per unit(8) & \$ 10,612 & \$ 4,420 \\
\hline \multicolumn{3}{|l|}{Ratios/Supplemental Data:} \\
\hline \multicolumn{3}{|l|}{Ratio of expenses to average net assets-annualized(9)
\[
5.53 \% \quad 8.69 \%
\]} \\
\hline \multicolumn{3}{|l|}{Ratio of net expenses to average net assets-annualized(10)} \\
\hline Ratio of net investment income to average net assets-annualized & 7.49 & 7.12 \\
\hline
\end{tabular}
(1) Based on actual shares outstanding at the end of the corresponding period.
(2) Based on weighted average basic per share data.
(3) Distributions are determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under accounting principles generally accepted in the United States of America.
(4) Total return equals the change in the ending market value of the Company's common stock from the beginning of the period taking into account distributions reinvested in accordance with the terms of the Company's
dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital.
(5) Amounts were not annualized.
(6) Average net assets are computed using the average of the balance of net assets at the end of each month of the reporting period.
(7) As a business development company, the Company is generally required to maintain a ratio of at least 200\% of total assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings and guaranty commitments.
(8) Asset coverage ratio is the ratio of the carrying value of the Company's total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness (including interest payable and guarantees). Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.
(9) Ratio of expenses to average net assets is computed using expenses before credits from our Adviser to the base management and incentive fees but includes income tax expense.
(10) Ratio of net expenses to average net assets is computed using total expenses net of credits from our Adviser to the base management and incentive fees but includes income tax expense.```

