

Gladstone Capital Reports Results for the First Quarter Ended December 31, 2006

-- Net Investment Income was \$5.2 million or \$0.42 per diluted common share

-- Net Increase in Net Assets was \$4.2 million or \$0.34 per diluted common share

MCLEAN, Va.--(BUSINESS WIRE)--

Gladstone Capital Corp. (NASDAQ:GLAD) (the "Company") today announced earnings for the first quarter ended December 31, 2006. All per share references are based on fully diluted weighted average common shares outstanding, unless otherwise noted.

Net Investment Income for the quarter ended December 31, 2006 was \$5,162,926, or \$0.42 per share, as compared to \$4,442,414, or \$0.38 per share, for the quarter ended December 31, 2005, an increase of 10.5% per share.

Net Increase in Net Assets Resulting from Operations for the quarter ended December 31, 2006 was \$4,163,603, or \$0.34 per share, as compared to \$8,233,349, or \$0.71 per share, for the quarter ended December 31, 2005, a decrease of 52.1% per share. The primary difference between the current and prior year periods is the result of net unrealized depreciation and appreciation on the Company's investment portfolio. The Company recorded net unrealized depreciation on its investments of \$1,004,379 for the quarter ended December 31, 2006 as compared to net unrealized appreciation on its investments of \$4,972,422 for the quarter ended December 31, 2005.

Total assets were \$257,420,187 at December 31, 2006, as compared to \$225,783,215 at September 30, 2006. Net asset value was \$13.88 per actual common share outstanding at December 31, 2006, as compared to \$14.02 per actual common share outstanding at September 30, 2006.

The annualized weighted average yield on the Company's portfolio for the quarter ended December 31, 2006 was 13.7% as compared to 12.6% for the quarter ended December 31, 2005.

For the first quarter ended December 31, 2006, the Company reported the following activity:

- Funded approximately \$52.3 million of new investments;
- Received principal repayments of approximately \$24.0 million, which included scheduled principal repayments and full repayments;
- Received approximately \$1.2 million of success fees in

connection with the full repayment of two investments; and

- Implemented the amended and restated investment advisory and management agreement with Gladstone Management Corporation and an administration agreement with Gladstone Administration, LLC.

At December 31, 2006, the Company had investments in debt and equity securities and syndicated loan participations in 48 private companies with an aggregate cost basis of approximately \$244.5 million and a fair value of approximately \$245.0 million.

"We are very pleased with our first quarter results, noting a 10.5% growth in per share net investment income over the prior year period. We continue to have a steady flow of investment opportunities and are pleased with our activity subsequent to the end of the first quarter," said Chip Stelljes, President and Chief Investment Officer. "We expect the strong portfolio performance to continue through our second quarter."

Subsequent to December 31, 2006, the Company:

- Funded approximately \$25.7 million of new investments;
- Purchased approximately \$21.6 million of syndicated loan participations;
- Refinanced an existing \$13.3 million portfolio company investment in exchange for a new \$9.8 million investment and received approximately \$0.5 million of success fees; and
- Declared monthly cash dividends of \$0.14 per common share for each of the months of January, February, and March 2007.

The financial statements below are without footnotes. We have filed a Form 10-Q today for the first quarter ended December 31, 2006 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 free of charge by writing to us at 1521 Westbranch Drive, Suite 200, McLean, VA 22102.

The Company will hold a conference call Wednesday, February 7, 2007 at 8:30 am EST to discuss first quarter earnings. Please call (877) 407-8031 to enter the conference. An operator will monitor the call and set a queue for the questions. The conference call replay will be available two hours after the call for approximately 30 days. To hear the replay, please dial (877) 660-6853, access playback account 286 and use conference ID code 229420.

The live audio broadcast of Gladstone Capital's quarterly conference call will be available online at www.GladstoneCapital.com and www.investorcalendar.com. The event will be archived and available for replay on the Company's website.

For further information contact Investor Relations 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," "strive," "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, 2006, as filed with the Securities and Exchange Commission on December 6, 2006. 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 STATEMENTS OF ASSETS & LIABILITIES
(Unaudited)

| | December 31, 2006 | September 30, 2006 |
|--|----------------------|-----------------------|
| | ----- | ----- |
| ASSETS | | |
| Investments at fair value (Cost 12/31/2006: \$244,537,584; 9/30/2006: \$216,202,986) | \$244,972,971 | \$217,642,750 |
| Cash and cash equivalents | 5,996,680 | 731,744 |
| Interest receivable - investments in debt securities | 1,923,478 | 1,394,942 |
| Interest receivable - employees | 39,130 | 37,396 |
| Due from custodian | 3,884,561 | 3,587,152 |
| Deferred financing fees | 113,666 | 145,691 |
| Prepaid assets | 280,431 | 226,747 |
| Due from employees | - | 1,803,283 |
| Other assets | 209,270 | 213,510 |
| | ----- | ----- |
| TOTAL ASSETS | \$257,420,187 | \$225,783,215 |
| | ===== | ===== |
| LIABILITIES | | |
| Accounts payable | \$ 10,931 | \$ 4,072 |
| Interest payable | 358,605 | 247,530 |
| Administration fee due to Administrator | 126,085 | - |
| Fees due to Adviser | 849,106 | 240,363 |
| Borrowings under line of credit | 85,186,000 | 49,993,000 |
| Withholding taxes payable | - | 1,803,283 |
| Accrued expenses and deferred liabilities | 603,098 | 721,287 |
| Funds held in escrow | 203,240 | 203,193 |
| | ----- | ----- |
| TOTAL LIABILITIES | 87,337,065 | 53,212,728 |
| | ----- | ----- |
| NET ASSETS | \$170,083,122 | \$172,570,487 |
| | ===== | ===== |
| ANALYSIS OF NET ASSETS | | |
| Common stock, \$0.001 par value, 50,000,000 shares authorized and 12,249,683 and 12,305,008 shares issued and outstanding, respectively | \$ 12,250 | \$ 12,305 |
| Capital in excess of par value | 179,782,427 | 181,270,565 |
| Notes receivable - employees | (10,248,156) | (10,248,308) |

| | | |
|---|---------------|---------------|
| Net unrealized appreciation on investments | 435,385 | 1,439,764 |
| Unrealized depreciation on derivative | (263,528) | (253,716) |
| Realized loss on sale of investments | (859,381) | (861,695) |
| Realized gain on settlement of derivative | 27,568 | 15,014 |
| Accumulated undistributed net investment income | 1,196,557 | 1,196,558 |
| | ----- | ----- |
| TOTAL NET ASSETS | \$170,083,122 | \$172,570,487 |
| | ===== | ===== |
| NET ASSETS PER SHARE | \$ 13.88 | \$ 14.02 |
| | ===== | ===== |

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended December 31, | |
|---|------------------------------------|--------------|
| | 2006 | 2005 |
| | ----- | ----- |
| INVESTMENT INCOME | | |
| Interest income - investments | \$ 7,898,600 | \$ 5,847,107 |
| Interest income - cash and cash equivalents | 37,269 | 8,912 |
| Interest income - notes receivable from employees | 138,191 | 107,093 |
| Prepayment fees and other income | 159,658 | 67,207 |
| | ----- | ----- |
| Total investment income | 8,233,718 | 6,030,319 |
| | ----- | ----- |
| EXPENSES | | |
| Loan servicing | 719,152 | 715,415 |
| Base management fee | 398,432 | 268,701 |
| Incentive fee | 1,148,483 | - |
| Administration fee | 126,085 | - |
| Professional fees | 110,920 | 122,466 |
| Amortization of deferred financing fees | 58,300 | 26,250 |
| Interest expense | 1,120,257 | 652,078 |
| Stockholder related costs | 63,728 | 128,935 |
| Directors fees | 54,250 | 24,000 |
| Insurance expense | 62,694 | 50,777 |
| Stock option compensation | - | 43,257 |
| Other expenses | 88,485 | 55,789 |
| | ----- | ----- |
| Expenses before credit from Adviser | 3,950,786 | 2,087,668 |
| | ----- | ----- |
| Credits to base management and incentive fees | (879,994) | (550,000) |
| | ----- | ----- |
| Total expenses net of credits to base management and incentive fees | 3,070,792 | 1,537,668 |
| | ----- | ----- |
| NET INVESTMENT INCOME BEFORE INCOME TAXES | 5,162,926 | 4,492,651 |
| | ----- | ----- |
| Income tax expense | - | 50,237 |
| | ----- | ----- |
| NET INVESTMENT INCOME | 5,162,926 | 4,442,414 |
| | ----- | ----- |

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:

| | | |
|--|--------------|--------------|
| Net realized gain (loss) on sale of investments | 2,314 | (1,180,595) |
| Realized gain on settlement of derivative | 12,554 | - |
| Unrealized depreciation on derivative | (9,812) | (892) |
| Net unrealized (depreciation) appreciation on investments | (1,004,379) | 4,972,422 |
| | ----- | ----- |
| Net (loss) gain on investments | (999,323) | 3,790,935 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | \$ 4,163,603 | \$ 8,233,349 |
| | ===== | ===== |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE: | | |
| Basic | \$ 0.34 | \$ 0.73 |
| | ===== | ===== |
| Diluted | \$ 0.34 | \$ 0.71 |
| | ===== | ===== |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: | | |
| Basic | 12,294,340 | 11,306,510 |
| Diluted | 12,294,340 | 11,573,620 |

GLADSTONE CAPITAL CORPORATION
FINANCIAL HIGHLIGHTS
(Unaudited)

| | Three Months Ended December 31, | |
|--|---------------------------------|----------|
| | 2006 | 2005 |
| | ----- | ----- |
| Per Share Data (1) | | |
| ----- | | |
| Net asset value at beginning of period | \$ 14.02 | \$ 13.41 |
| | ----- | ----- |
| Income from investment operations: | | |
| Net investment income (2) | 0.42 | 0.39 |
| Realized gain (loss) on sale of investments (2) | - | (0.10) |
| Net unrealized (loss) gain on investments (2) | (0.08) | 0.44 |
| | ----- | ----- |
| Total from investment operations | 0.34 | 0.73 |
| | ----- | ----- |
| Less distributions: | | |
| Distributions from net investment income | (0.42) | (0.41) |
| | ----- | ----- |
| Total distributions | (0.42) | (0.41) |
| | ----- | ----- |
| Issuance of common stock under stock option plan | - | 0.01 |
| Dilutive effect of shares surrendered | (0.06) | - |
| | ----- | ----- |
| Net asset value at end of period | \$ 13.88 | \$ 13.74 |
| | ===== | ===== |
| Per share market value at beginning of period | \$ 22.01 | \$ 22.55 |
| Per share market value at end of | | |

| | | |
|-------------------------------------|------------|------------|
| period | 23.86 | 21.38 |
| Total return (3) (4) | 10.31% | -3.44% |
| Shares outstanding at end of period | 12,249,683 | 11,308,510 |

Ratios/Supplemental Data

| | | |
|--|----------------|----------------|
| Net assets at end of period | \$ 170,083,122 | \$ 155,417,011 |
| Average net assets (5) | \$ 170,331,785 | \$ 150,961,590 |
| Ratio of expenses to average net assets-annualized (6) | 9.28% | 5.66% |
| Ratio of net expenses to average net assets-annualized (7) | 7.21% | 4.21% |
| Ratio of net investment income to average net assets | 12.12% | 11.77% |

(1) Based on actual shares outstanding at the end of the corresponding period.

(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) Average net assets are computed using the average of the balance of net assets at the end of each month of the reporting period.

(6) Ratio of expenses to average net assets is computed using expenses before credits from Adviser to the base management and incentive fees and including income tax expense.

(7) Ratio of net expenses to average net assets is computed using total expenses net of credits from Adviser to the base management and incentive fees and including income tax expense.

Source: Gladstone Capital Corp.