



Gladstone Capital Corporation

*Financial and Portfolio Overview
for the quarter June 30, 2014*

Legal Disclaimer

This presentation may include forward-looking statements. These forward-looking statements include comments with respect to our objectives and strategies, and the results of our operations and our business.

However, by their nature, these forward-looking statements involve numerous assumptions, uncertainties and opportunities, both general and specific. The risk exists that these statements may not be fulfilled. We caution readers of this presentation not to place undue reliance on these forward-looking statements as a number of factors could cause future company results to differ materially from these statements including those factors listed under the caption “Risk Factors” in our Form 10K and Form 10Q filings and our registration statement as filed with the Securities and Exchange Commission, all of which can be found on our web site at www.GladstoneCapital.com or the SEC’s web site, www.SEC.gov.

Forward-looking statements may be influenced in particular by factors such as fluctuations in interest rates and stock indices, the effects of competition in the areas in which we operate, and changes in economic, political, regulatory and technological conditions. We caution that the foregoing list is not exhaustive. When relying on forward-looking statements to make decisions, investors should carefully consider the aforementioned factors as well as other uncertainties and events.

The Company undertakes no obligation to update the information contained herein to reflect subsequently occurring events or circumstances, except as required by applicable securities laws and regulations.

Company Overview

Gladstone Capital Corporation:

- A business development company (BDC) that invests primarily in senior and subordinated debt securities of small and medium-sized U.S. businesses backed by private equity sponsors and owner-operators
- Publicly traded common stock (NASDAQ: GLAD) and preferred stock (NASDAQ: GLADO)
- Managed by Gladstone Management Corporation, an investment adviser registered with the SEC that manages more than \$1.4 billion in assets
- One of a family of funds known as The Gladstone Companies (www.gladstone.com)
- Common stock annual dividend is currently \$0.84 per share; paid monthly at \$0.07 per share
- Preferred stock annual dividend rate is 6.75% or \$0.140625 per share paid monthly

Investment Focus:

- Maintain and grow current income from our debt investment portfolio
- Provide stockholders with long-term capital appreciation in the value of our assets by generating capital gains from our equity co-investments
- Invest in companies with profitable operations and successful track records led by strong management teams
- Preserve monthly dividend payments to common and preferred stockholders as we have successively done since going public in 2001

Portfolio Overview:

- Over \$265 million at fair value as of June 30, 2014
- Invested in 49 companies across 23 states and 18 industries as of June 30, 2014

Disclaimer: Past performance is not an indication of future performance



What is a Business Development Company (BDC)?

- BDCs are publicly traded closed-end funds that enable investors to participate in high yielding private market investing while maintaining daily liquidity
- BDCs are regulated under the Investment Company Act of 1940 and have the following characteristics:
 - Diversification – BDCs must maintain certain asset diversification criteria
 - Transparency – Required annual and quarterly SEC filings
 - Fair Value – All investments are marked at fair value quarterly
 - Low Leverage - Maximum debt-to-equity ratio of 1:1
- BDCs have a regulated investment company tax structure
 - Eliminates corporate level income tax
 - Earnings and capital gains are passed through to investors (similar to a REIT)
 - BDCs must distribute at least 90% of any taxable income

Experienced Management Team

David Gladstone, Chairman & CEO

- Over 30 years of experience investing in mid-sized and small private businesses
- Current Chairman and CEO of all four Gladstone public funds; these are public companies #7 - #10 in his career (*most recent IPO in January 2013*)
- Past Chairman of Allied Capital and American Capital while both were very profitable
- MBA from Harvard Business School; MA from American University; BA from University of Virginia

Terry Brubaker, Vice-Chairman & COO

- More than 30 years experience in managing businesses
- Current COO of all four Gladstone public funds
- Past group VP of two operating divisions at James River (2,300 employees, \$440 million in revenue and 14 locations); past CEO of two businesses (800 employees, \$250 million in revenue and 4 locations)
- Formerly with McKinsey & Company
- MBA from Harvard Business School; BSE in Aeronautical Engineering from Princeton University

Bob Marcotte, President

- More than 30 years of diversified financial markets experience including the last 12 years originating and managing middle market debt investments
- Past Executive Vice President and Co-Head of Asset Management with MCG Capital Corporation
- Prior experiences include investment banking at Goldman, Sachs & Co. and Merrill Lynch and lending at GE Capital and Mellon Bank
- BSBA from Georgetown University

Melissa Morrison, CFO & Asst Treasurer

- Over 15 years experience in controller and SEC reporting and other accounting/finance roles in various middle market industries
- Formerly with PricewaterhouseCoopers and Cisco Systems
- BBA, magna cum laude at The College of William and Mary
- CPA in the Commonwealth of VA; member VSCPA and AICPA

Our Adviser has over 35 professionals concentrating on sourcing, due diligence and portfolio management, with 12 exclusively focused on Gladstone Capital, and supported by 19 professionals in accounting, legal, compliance, treasury and reporting under Gladstone Administration.

Investment Strategy and Risk Management

Investment Focus:

- Provide debt investments to lower middle market companies in stable industries which demonstrate a sustainable cash flow and ability to service a leveraged capital structure
- Companies with financial results which produce operating cashflow (EBITDA) in the range of \$3-\$15 million
- Target investment positions of between \$8-20 million
- Industries where we believe opportunity exists include light and specialty manufacturing, industrial products and services, business and information services, added-value distribution/logistics and healthcare services
- Industries we typically avoid include housing, banking, high technology, venture capital, commodities and highly cyclical industries

Deal Sourcing:

- Dedicated origination team across 4 regional offices to provide local support and responsiveness
- Regional coverage of designated middle market private equity firms, investment banks and other sources
- Leverage reputation and investor oriented financing approach to deliver added-value financing solutions

Due Diligence:

- Thorough multi-disciplinary approach – blending internal industry experience, onsite visits and management assessments, supplemented with third party quality of earnings reports, industry/management assessments, background checks, and customary legal and insurance investigations, etc.

Risk Management:

- Board level participation which reinforces close relationship with management and equity holders
- Ongoing senior management review and quarterly board oversight

Target Market

Why we target companies in the lower middle market:

- Smaller companies typically offer a more compelling investment profile than larger companies in several respects:
 - Generally smaller company purchase valuations (multiples) are lower and thus growth prospects are higher than larger more established businesses
 - Lower purchase prices translate into reduced debt financing requirements and may carry more attractive investment returns, as they are too small to attract a broad base of larger commercial lenders
 - Better asset collateral coverage and enhanced lender protective covenants
 - More opportunity to make equity co-investments thus capitalizing on the anticipated growth and increase in valuation with the size of the company

We generally avoid investing in:

- Banks and financial institutions
- Start-up, early stage and high technology companies
- The housing industry and any type of home mortgages

Gladstone Capital Business Model

- Small manufacturer of a product or a service business needs money to grow
- Banks will make short-term loans if the business has collateral and solid cash flow to support rapid loan amortization
- The business gets from us:
 - Investment expertise to understand the business investment and growth strategy,
 - A long-term loan in the amount needed to fund the plan and a repayment structure which is tailored to the cash flow profile of the business
 - The loan will carry a higher interest rate but the expected growth of the business and appreciation of the equity value of the business is generally greater
 - In some instances, an equity co-investment to further support the business plan
- We typically receive an attractive long-term loan that pays monthly interest that we can pass on as monthly dividends to our shareholders and may receive income and/or realized gains from associated equity co-investment

Typical Investment Structure

Senior & Senior Subordinated Debt (95%)

- Senior - variable interest rates subject to a minimum rate floor generating current cash payments of 8-10%
- Subordinated - variable rate with a floor or fixed rates with current cash payments of 12-15%
- 5-7 year term with limited amortization
- Typically includes 1st or 2nd lien on assets and borrower's stock
- Subordinated debt terms include a strong inter-creditor agreement that preserves continuing interest payments
- Financial covenants including prudent leverage ratios, as well as, reasonable cash flow coverage of debt service and other fixed charges
- Closing, prepayment or success fees to enhance the overall return by 2-3%

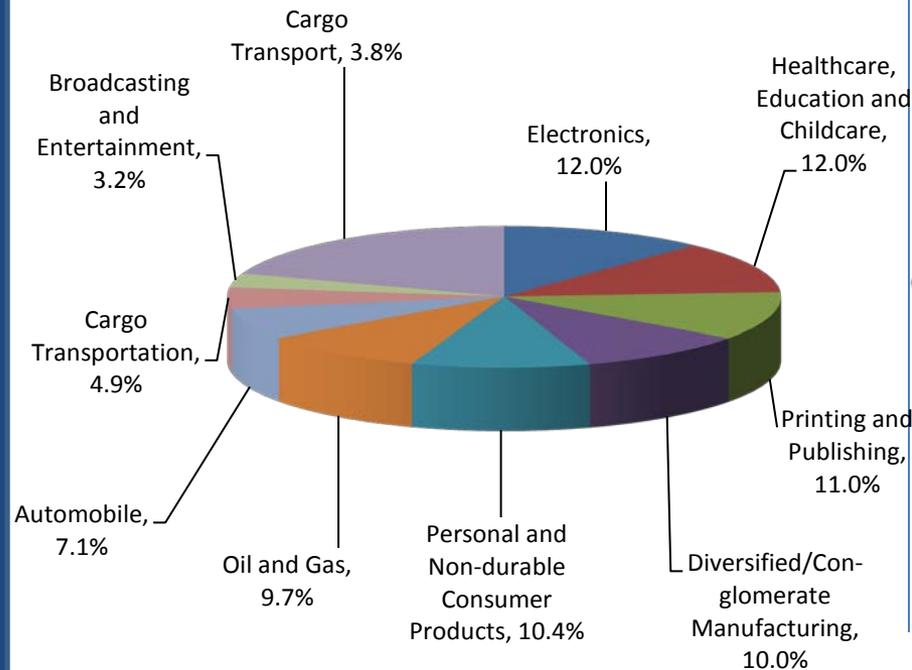
Preferred & Common Stock (5%)

- Preferred stock
 - Dividend paid or accrued (6% -8% /yr)
 - Pro-rata participation in the equity appreciation of the company
 - Redemption required after 5 years or 6 months post debt maturity
- Common stock
 - May include the option to participate in any follow-on equity fundings
 - Usually accompanied by a requirement that the borrower repurchase these once the debt investment has been repaid
- Expected gross return on equity is 25% to 30%, depending on risk profile

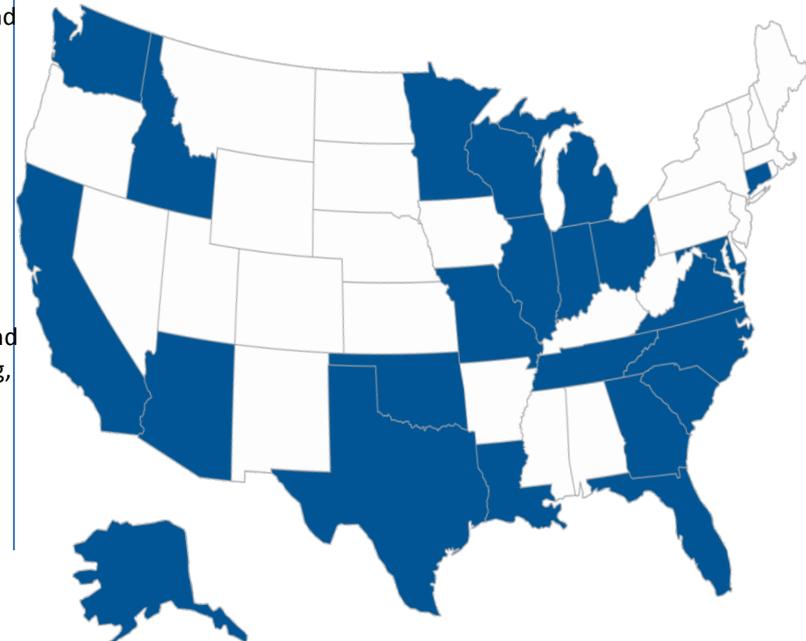
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Industry and Geographic Diversification

Our portfolio is diversified across 18 industries, with limited concentrations in any one company or industry



Geographically diverse portfolio, with investments in the Midwest, South, West and Northeast

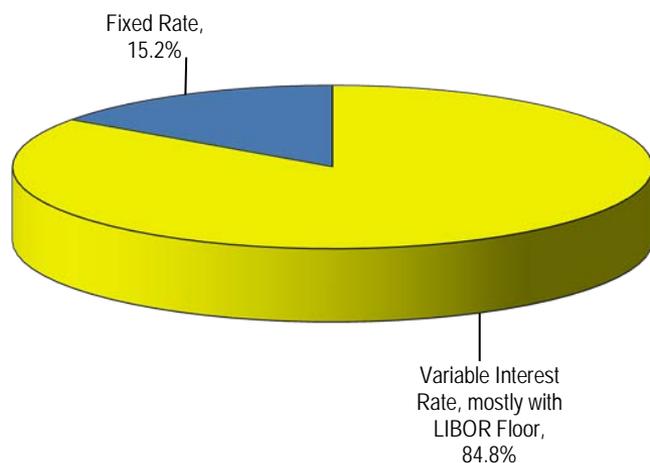


As of June 30, 2014

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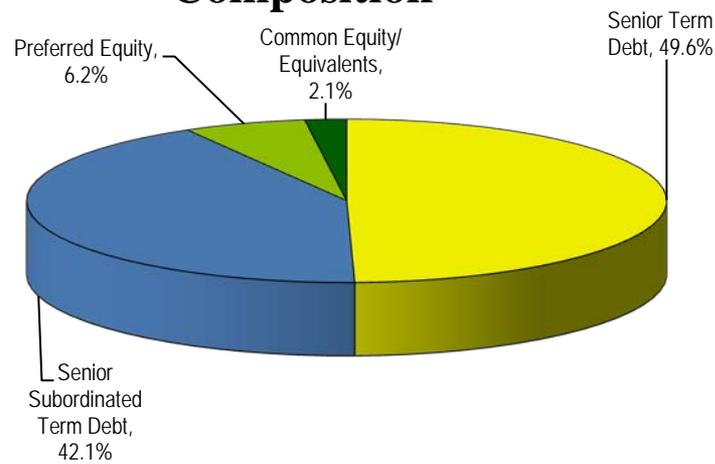
Portfolio Composition and Success Fees

Investment Interest Rate Composition*



*As of 6/30/2014 based on principal

Investment Capital Structure Composition**



**As of 6/30/2014 based on fair value

Success Fees – An alternative to paid-in-kind income (“PIK”)

- Unlike PIK, we generally record success fees upon receipt of cash (which limits our non-cash income).
- 44% of our interest bearing debt has associated success fees with an average contractual rate of 2.4% per annum.
- As of June 30, 2014, success fees payable upon a change of control approximated \$11.0 million, or about \$0.52 per common share.
- There is no guarantee that we will be able to collect all, or any of the success fees, or have any control over their timing.
- If we accrued success fees as we would PIK, our weighted average yield on interest bearing assets would be approximately 12.6% for the three months ended June 30, 2014.

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Quarterly Financial Summary*

Quarterly Financial Summary

	Three Months Ended			
	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014
Interest Income	\$ 8,580	\$ 8,191	\$ 8,170	\$ 8,184
Other Investment Income	773	201	1,161	1,996
Total Investment Income	9,353	8,392	9,331	10,180
Expenses:				
Fees to Advisor & Admin	2,567	1,755	2,511	2,879
Interest Expense	766	615	669	710
Preferred Dividend Expense	686	686	686	937
Operating Expense	627	926	980	591
Total Expenses	4,646	3,982	4,846	5,117
Net Investment Income (NII)	4,707	4,410	4,485	5,063
Weighted Average Shares	21,000	21,000	21,000	21,000
NII Per WAVG Share	\$ 0.22	\$ 0.21	\$ 0.21	\$ 0.24
Dividend Per WAVG Share	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21
Weighted Avg Yield**	11.7%	11.6%	11.6%	11.5%
Gross Originations	\$ 19,300	\$ 44,881	\$ 34,730	\$ 3,360
Portfolio at Fair Value	256,878	283,206	293,320	265,083
Debt (LOC & Preferred Stock)	85,397	86,197	98,697	96,100
Net Asset Value (NAV)	205,992	212,088	205,576	180,991
NAV Per Share	\$ 9.81	\$ 10.10	\$ 9.79	\$ 8.62

**weighted average yield on interest bearing debt investments

*The financial information above is not comprehensive and is without notes, so readers should obtain and carefully review GLAD's Form 10-Q for the reporting periods ended June 30, 2014, March 31, 2014, and December 31, 2013 and Form 10-K for the fiscal year ended September 30, 2013, as filed with the SEC, including the notes to the consolidated financial statements contained therein..

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Our Debt Capital and Liquidity

- **Line of Credit**
 - \$137 million aggregate commitment from three lenders
 - Revolving period end date is January 19, 2016, with 11 month amortization period
 - Interest Rate: L+375 (~4.0%)
- **Mandatorily Redeemable Preferred Stock (6.75%)**
 - Unsecured term debt
 - \$61 million, consisting of approximately 2.4 million shares at \$25 per share
 - Redemption date June 30, 2021
 - NASDAQ: GLADO
- **Weighted average leverage** during the latest quarter was 31% of investment assets (approximately \$1 debt for every \$4 of assets)
- **Weighted average debt cost of capital: 6.6%***
- **Liquidity**, or dry powder, as of August 5, 2014 was \$78 million consisting of \$6 million of cash and \$72 million of undrawn capacity on our line

*Amortization of deferred financing fees excluded and includes term preferred stock.

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Gladstone Capital Statistics vs. Public Market BDCs

	GLAD ⁽¹⁾	BDC Median ⁽¹⁾
Price to Net Asset Value per Common Share	1.06x	0.97x
Debt to Common Equity	54%	67%
Common Dividend Yield	9.2%	9.5%
Total Market Value (Common Shares)(\$mm)	\$192	\$249
LTM Total Return ⁽²⁾	17%	3%
Price/2014E EPS ⁽³⁾	10.5x	10.9x
Institutional Ownership ⁽⁴⁾	24%	28%

(1) Source: Raymond James BDC Industry Weekly Newsletter, August 1, 2014

(2) Assumes dividends are reinvested

(3) Calendar year earnings estimates are FactSet mean EPS estimates

(4) As of 3/31/14 (most recently available)

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Investment Highlights

- **Management Expertise:** Operating team with a successful track record underwriting private businesses
- **Successful CEO:** Has a “brand name” reputation demonstrated by the success of 10 public companies, including the 4 currently advised by Gladstone Management Corporation.
- **Conservative Business Model:** Emphasis on maintaining relatively low leverage, with investments in secure, income-producing portfolio companies, typically in the underserved lower end of the middle market
- **Prudent Underwriting:** Focused on the sustainable cash flow of small value-oriented businesses with lower relative debt levels, better lender protections and more attractive yield opportunities
- **Consistent Dividends:** Debt investments generate interest income and support the payment of monthly dividends to our shareholders

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Representative Portfolio Investments

REPRESENTATIVE PORTFOLIO INVESTMENTS



WADECO SPECIALTIES, INC. provides production well chemicals to oil well operators used for corrosion prevention; separating oil, gas and water once extracted; bacteria growth management; and conditioning water utilized for hydraulic fracturing.



BEHRENS MANUFACTURING, LLC is a manufacturer and marketer of high quality, classic looking, utility products and containers.



EDGE ADHESIVES is an innovative developer and manufacturer of adhesives, sealants, tapes, gaskets, and related materials for the construction, transportation, electrical, HVAC, and other markets.



J.AMERICA, INC. is an established leading supplier of licensed decorated and undecorated apparel and headwear.



NORTH AMERICAN AIRCRAFT SERVICES, INC. repairs and maintains aircraft fuel tanks and fuel systems through 20 locations in the United States, Europe and Panama.



WESTLAND TECHNOLOGIES INCORPORATED is a manufacturer of radar and acoustic absorption tiles that are applied to the hulls and interiors of U.S. Navy submarines and surface ships.



LIGNETICS, INC. manufactures and distributes branded wood pellets which are used as a renewable fuel for home and industrial heating, animal bedding, moisture absorption products, and firelogs and fire starters.



MERIDIAN RACK & PINION, INC. is a provider of aftermarket and OEM replacement automotive parts, which it sells through both wholesale channels and online.



ALLOY DIE CASTING CO. is a manufacturer of high quality, finished aluminum and zinc castings for aerospace, defense, aftermarket automotive and industrial applications.



FUNKO, LLC is a designer, importer, and marketer of pop-culture collectibles.



AG TRUCKING, INC. is a regional food grade liquid and dry bulk carrier based in Goshen, Indiana whose services are critical to their customer's ability to maintain tight production schedules.



FRANCIS DRILLING FLUIDS, LTD. is a provider of logistics solutions for the U.S. oil and natural gas industry.

Why Own GLAD Common Stock?

- **High Monthly Dividends Paid from Cash Earnings:**
 - Common stock yield in range of 8.5 - 10.0% over last several quarters
 - Dividends have been 100% covered by cash earnings over the past 3 years
 - Paid 130 consecutive monthly common dividends (+ 8 quarterly ones prior to that) since IPO (over 12 years)
- **Strong Historical Annual (CAGR) Returns:** 19% for 1 year; 50% for 3 years and 48% over 5 years
- **Conservative Balance Sheet with Low Leverage:** historically funded 60 – 80% of its balance sheet with equity; our debt-to-equity ratio of 0.5x is low relative to our peers
- **Diversification:** Investments in multiple companies in various states and industries
- **Strong and Experienced Management:** Investment manager operating team of 60+ professionals with successful track record of investing in small and mid-size private businesses
- **Liquidity for Investors:** Common stock listed on NASDAQ: GLAD

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Corporate Data

Executive Officers

David Gladstone
Chairman & CEO

Terry Lee Brubaker
Vice Chairman & COO

Bob Marcotte
President

Melissa Morrison
CFO & Asst Treasurer

Research Coverage

BB&T Capital Markets
Vernon C. Plack

Hilliard Lyons
Ross A. Demmerle

Janney Montgomery Scott
J.T. Rogers

Keefe, Bruyette & Woods
Troy Ward

Websites

Gladstone Capital:
www.gladstonecapital.com

Investment Adviser:
www.gladstonemanagement.com

Information on all Funds:
www.gladstone.com

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Michela A. English

John Outland

Anthony W. Parker

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K&L Gates LLP

Transfer Agent:
Computershare

Auditors:
PricewaterhouseCoopers LLP

NASDAQ Listings

Common: GLAD
2021 Term Preferred: GLADO

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