



MCG Capital Corporation Announces 2001 Fourth Quarter and Annual Results

Arlington, VA – February 13, 2002 – MCG Capital Corporation (Nasdaq: MCGC) announced today its results for the quarter and year ended December 31, 2001.

MCG closed its initial public offering on December 4, 2001 becoming a business development company (“BDC”) and will be treated as a regulated investment company for federal income tax purposes effective January 1, 2002. Since these changes in corporate structure require that the consolidated financial statements be prepared on a different basis of accounting than those used in periods prior to the IPO, the discussion will be broken down in a way to make the period comparisons more meaningful.

Total operating income for the year ended December 31, 2001 totaled \$71.8 million compared to \$63.8 million for the year ended December 31, 2000, an increase of 12.6%. The increase in operating income was primarily the result of a \$12.0 million increase in interest income that resulted from loan growth and an increase in interest spreads offset by a decrease in LIBOR. Loans grew 18% during 2001 with originations totaling \$148 million. The year over year average balance rose 40% from \$400 million to \$561 million, contributing \$17.2 million to the increase in income. The majority of the loans are priced as a spread to LIBOR and the coupon spread increased 115 basis points from 6.33% in 2000 to 7.48% in 2001 resulting in an addition to income of \$5.7 million. Average three month LIBOR decreased 272 basis points over the period from 6.53% in 2000 to 3.81% in 2001 decreasing income by \$10.9 million.

Borrowing costs remained flat for the year. The impact of a 37% increase in average borrowings was offset by the decline in LIBOR. Spreads to LIBOR also decreased slightly for the year. On December 27, 2001, the Company issued investment grade asset backed bonds with a blended coupon spread of 75 basis points over LIBOR and, along with a portion of the IPO proceeds, replaced a debt facility priced at LIBOR plus 175 basis points.

Other operating costs are comprised of two main components. The first is baseline expenses, which include salaries, occupancy, professional fees, and general and administrative expenses. These expenses increased from \$10.0 million in 2000 to \$14.1 million in 2001 to accommodate overall company growth and to establish and maintain the infrastructure of a public company, including investments in the accounting and compliance areas. Headcount in 2001 increased from 47 to 57. The second operating expense component is long-term incentive compensation for MCG’s employees. This represents costs associated with the termination of the Company’s stock option plan and issuance of restricted stock prior to the BDC conversion. The expense totals \$4.9 million and reflects the amortization of the stock value over the vesting periods, certain cash payments made to administrative staff to pay for associated taxes, and dividends on unvested shares classified as an expense under the applicable accounting convention.

Net operating income (NOI) for the year ended December 31, 2001 totaled \$26.9 million compared with \$27.1 million for year ended December 31, 2000. NOI for 2001, excluding the long-term incentive compensation expense, totaled \$31.8 million, a 17.5% increase from the prior year.

Accounting conventions associated with asset valuation and credit impairment costs changed with the BDC conversion. Prior to the conversion MCG maintained an allowance for loan losses by accruing a periodic provision expense and marking to fair value only certain equity investments. As a BDC, MCG records all of its investments at fair value. The following compares these costs by combining all of the related income statement items for the period. For 2001, these costs totaled \$17.4 million comprising provision for loan losses (\$10.3 million), investment valuation-related conversion adjustments (\$5.5 million) and fair value adjustments (\$1.6 million). Comparable costs for 2000 totaled (\$5.9 million). The increase in credit cost for 2001 was primarily due to provision accruals and fair value adjustments for assets in the communication and publishing sectors.

MCG took charge-offs of \$14.8 million against the allowance for loan losses prior to the conversion to an investment company at the end of November 2001. The Company had no charge-offs for the year ended December 31, 2000. At December 31, 2001, there were \$8.6 million of loans greater than 60 days past due and \$0.2 million of loans on non-accrual status. At December 31, 2000, no loans were on non-accrual status.

In addition to various risk management and monitoring tools, MCG also uses an investment rating system to characterize and monitor our expected level of returns on each investment in our portfolio. We use the following 1 to 5 investment rating scale. Below is a description of the conditions associated with each investment rating:

1. Capital gain expected
2. Full return of principal and interest or dividend expected with customer performing in accordance with plan
3. Full return of principal and interest or dividend expected but customer requires closer monitoring
4. Some loss of interest or dividend expected but still expecting an overall positive interest rate of return on the investment
5. Loss of interest or dividend and some loss of principal investment expected which would result in an overall negative internal rate of return on the investment

The following table shows the fair value of our investments, commercial loans and equity investments, on the 1 to 5 investment rating scale, as of December 31, 2001 and September 30, 2001:

We invite interested parties to join our analyst call today at 1:30 p.m. EST for a further discussion of our 2001 financial results. The dial-in number for the call is (800) 289-0468. International callers should dial (913) 981-5517. The call may also be accessed via an audio webcast available on the MCG website at <http://investor.mcgcapi.com>. Click on the February 13, 2002, Conference Call to access the call.

Forward-looking Statements

This press release contains forward-looking statements that describe MCG's future plans and objectives. These statements include (a) statements regarding the Company's expectation to generate sufficient cash to support projected growth for the next year and (b) statements regarding the positioning of the Company for future growth. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially, including, without limitation (1) an economic downturn could impair our customers' ability to repay our loans and increase our non-performing assets, (2) an economic downturn could disproportionately impact the media, communications, technology and information services industries in which MCG concentrates causing the Company to suffer losses in its portfolio and experience diminished demand for capital in these industry sectors, (3) a contraction of available credit and/or an inability to access the equity markets could impair the Company's lending and investment activities, (4) interest rate volatility could adversely affect the Company's results and (5) additional risks and uncertainties detailed in the Company's filings with the Securities and Exchange Commission (including MCG's final prospectus filed on November 29, 2001). The forward-looking statements in this release are made as of this date and the Company undertakes no obligation to update such statements to reflect subsequent events.

