GLADSTONE INVESTMENT CORPORATION\DE
Form 497
October 03, 2012
Table of Contents

Filed pursuant to Rule 497
Registration No. 333-181879

PROSPECTUS SUPPLEMENT

(to Prospectus dated July 26, 2012)

4,000,000 Shares

Common Stock

We are offering 4,000,000 shares of our common stock. These shares are being offered at a discount from our most recently determined net asset value, or NAV, per share pursuant to authority granted by our common stockholders at our annual meeting of stockholders held on August 9, 2012, and as subsequently approved by our Board of Directors. Sales of common stock at prices below NAV per share dilute the interest of existing stockholders, having the effect of reducing our NAV per share and may reduce our market price per share. See Risk Factors beginning on page 9 of the accompanying prospectus and Sales of Common Stock Below Net Asset Value beginning on page S-15 of this prospectus supplement and page 67 of the accompanying prospectus.

Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported closing price of our common stock on October 1, 2012 was $7.80 per share. The NAV per share of our common stock at June 30, 2012 (the last date prior to the date of this prospectus supplement on which we determined NAV) was $9.10.

Investing in our common stock involves a high degree of risk. You could lose some or all of your investment. You should carefully consider each of the factors described under Risk Factors beginning on page S-8 of this prospectus supplement and beginning on page 9 of the accompanying prospectus before you invest in the common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$ 7.500	$ 30,000,000
Underwriting Discounts and Commissions	$ 0.375	$ 1,500,000
Proceeds to Gladstone Investment Corporation, before expenses	$ 7.125	$ 28,500,000

Delivery of the common stock is expected to be made on or about October 5, 2012. We have granted the underwriters an option for a period of 30 days to purchase an additional 600,000 shares of common stock. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $1,725,000, and the total proceeds to us, before expenses, will be $32,775,000.

Sole Book-Running Manager

Jefferies

Joint Lead Manager

Janney Montgomery Scott

Co-Managers

J.J.B. Hilliard, W.L. Lyons, LLC	**Ladenburg Thalmann & Co. Inc.**	**Wunderlich Securities**

Prospectus Supplement dated October 2, 2012

Table of Contents

TABLE OF CONTENTS

	PAGE
Prospectus Supplement	
About this Prospectus Supplement	S-i
Prospectus Supplement Summary	S-1
Risk Factors	S-8
Special Note Regarding Forward-Looking Statements	S-10
Fees and Expenses	S-11
Use of Proceeds	S-13
Capitalization	S-14
Sales of Common Stock Below Net Asset Value	S-15
Price Range of Common Stock and Distributions	S-19
Share Price Data	S-19
Selected Financial Information	S-20
Management s Discussion and Analysis of Financial Condition and Results of Operations	S-22
Underwriting	S-44
Custodian, Transfer Agent, Dividend Disbursing Agent and Paying Agent	S-48
Where You Can Find More Information	S-48
Legal Matters	S-48
Interim Condensed Consolidated Financial Statements	S-F-1
Prospectus	
Prospectus Summary	1
Additional Information	8
Risk Factors	9
Special Note Regarding Forward-Looking Statements	29
Use of Proceeds	29
Price Range of Common Stock and Distributions	29
Common Share Price Data	31
Ratios of Earnings to Fixed Charges	31
Consolidated Selected Financial and Other Data	32
Management s Discussion and Analysis of Financial Condition and Results of Operations	34
Sales of Common Stock Below Net Asset Value	67
Senior Securities	73
Business	74
Portfolio Companies	87
Management	95
Control Persons and Principal Stockholders	109
Dividend Reinvestment Plan	111
Material U.S. Federal Income Tax Considerations	112
Regulation as a Business Development Company	115
Description of Our Securities	119
Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws	124
Share Repurchases	127
Plan of Distribution	128
Custodian, Transfer and Dividend Paying Agent and Registrar	129
Brokerage Allocation and Other Practices	130
Proxy Voting Policies and Procedures	130
Legal Matters	132
Experts	132
Financial Statements	F-1

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement, together with the accompanying prospectus, sets forth the information that you should know before investing. You should read the prospectus supplement and accompanying prospectus, which contain important information, before deciding whether to invest in our common stock.

We also file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may inspect such reports, proxy statements and other information, as well as this prospectus supplement, and the accompanying prospectus and the exhibits and schedules to the registration statement of which the accompanying prospectus is a part, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC s website is http://www.sec.gov. You may also obtain copies of such material from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

You may request a free copy of this prospectus supplement, the accompanying prospectus, our annual reports to stockholders, when available, and other information about us, and make stockholder inquiries by calling (866) 366-5745 or by writing to us at 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102, or from our website (http://www.GladstoneInvestment.com). The information contained in, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We also furnish to our stockholders annual reports, which include annual financial information that has been examined and reported on, with an opinion expressed, by our independent registered public accounting firm.

This prospectus supplement, which describes the specific terms of this offering, also adds to and updates information contained in the accompanying prospectus. The accompanying prospectus gives more general information, some of which may not apply to this offering. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.

The common stock does not represent a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

PROSPECTUS SUPPLEMENT SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this prospectus supplement and in the accompanying prospectus, prior to making an investment in our common stock, and especially the information set forth under the heading Risk Factors in this prospectus supplement and in the accompanying prospectus. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the Company, we, us or our refers to Gladstone Investment Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; and Gladstone Companies refers to our Adviser and its affiliated companies. Unless otherwise stated, the information in this prospectus supplement and the accompanying prospectus does not take into account the possible exercise by the underwriters of their option to purchase additional shares of common stock.

Gladstone Investment Corporation

Gladstone Investment Corporation is an externally managed specialty finance company that invests in subordinated loans, mezzanine debt, preferred stock and common stock as well as warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. When we invest in buyouts, we typically do so with the management team of the company being purchased and with other buyout funds. We also sometimes invest in senior secured loans, common stock and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments.

As of June 30, 2012, our portfolio consisted of loans to 18 companies in 13 states in 13 different industries with a fair value of $229.8 million, consisting of senior term debt, subordinated term debt, preferred equity and common equity. Since October 2010, we have invested $167 million in debt and equity securities of nine new portfolio companies, including $43.5 million in two new portfolio companies subsequent to June 30, 2012. Our weighted average yield on our interest-bearing investments for the three months ended June 30, 2012, excluding cash and cash equivalents and receipts recorded as other income, was 12.5%. For the fiscal years ended March 31, 2012 and 2011, our weighted average yield on our interest-bearing investments was 12.3% and 11.4%, respectively.

We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, or the 1940 Act. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code.

As of June 30, 2012, we had 22,080,133 shares of our common stock, par value $0.001 per share, outstanding and 1,600,000 shares of our 7.125% Series A Cumulative Term Preferred Stock, par value $0.001 per share, which we refer to as our Term Preferred Stock, outstanding. Since our initial public offering in June 2005, we have made 87 consecutive monthly distributions on our common stock, which is currently at a monthly distribution of $0.05 per share.

Our principal executive offices are located at 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102, and our telephone number is (703) 287-5800. Our corporate website is located at http://www.GladstoneInvestment.com. Information on our website is not incorporated into or a part of this prospectus supplement or the accompanying prospectus.

Investment Strategy

We seek to achieve returns from current interest income from owning senior, subordinated and mezzanine debt, and capital gains from the sale of preferred stock, warrants to purchase common stock and common stock that we purchase in connection with buyouts and recapitalizations of small and mid-sized companies. We seek to make investments that generally range between $10 million and $40 million each, although this investment size may vary proportionately as the size of our capital base changes. Typically, our debt investments mature in no more than seven years. Our debt investments accrue interest at fixed or variable rates

and most have minimum interest rates. We invest either by ourselves or jointly with other buyout funds or management of the company. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were to be investing alone. We expect that the majority of the investments we make will consist of term debt of private companies that cannot or will not expend the resources to have their debt securities rated by a credit rating agency. We cannot accurately predict what ratings these loans might receive if they were rated, and thus cannot determine whether or not they could be considered investment grade quality. However, for loans that lack a rating by a credit rating agency, investors should assume that most of these loans will be below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds, and may be considered high risk compared to investment grade debt instruments.

We expect that our target portfolio over time will include mostly subordinated loans, mezzanine debt, preferred stock, and warrants to buy common stock. Structurally, subordinated loans and mezzanine loans usually rank lower in priority of payment to senior debt, such as senior bank debt, and may be unsecured. However, subordinated debt and mezzanine loans rank senior to common and preferred equity in a borrower s capital structure. Typically, subordinated debt and mezzanine loans have elements of both debt and equity instruments, offering returns in the form of interest payments associated with senior debt, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity position. Due to its higher risk profile and often less restrictive covenants as compared to senior debt, mezzanine debt generally earns a higher interest rate of return than senior secured debt. Any warrants associated with mezzanine loans are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine debt also may include a put feature, which permits the holder to sell its equity interest back to the borrower at a price determined through a pre-determined formula.

Our Investment Adviser and Administrator

Gladstone Management Corporation, our Adviser, is our affiliate and investment adviser, led by a management team which has extensive experience in our line of business. Another of our affiliates, Gladstone Administration, LLC, a privately-held company that we refer to as our Administrator, employs our chief financial officer and treasurer, chief compliance officer, internal legal counsel and their respective staffs. All of our executive officers serve as either directors or executive officers, or both, of Gladstone Capital, a publicly traded BDC and RIC. Excluding our chief financial officer and treasurer, all of our executive officers serve as either directors or executive officers, or both, of Gladstone Commercial, a publicly traded real estate investment trust; our Adviser; and our Administrator.

Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to certain of our other affiliates, including, but not limited to, Gladstone Commercial; Gladstone Capital; Gladstone Partners Fund, L.P., which we refer to as Gladstone Partners, a private partnership fund formed primarily to co-invest with us and Gladstone Capital Corporation, which we refer to as Gladstone Capital; Gladstone Land Corporation, which we refer to as Gladstone Land, a private agricultural real estate company owned by David Gladstone, our chairman and chief executive officer; and Gladstone Lending Corporation, which we refer to as Gladstone Lending, a private corporation that was formed primarily to invest in first and second lien term loans and that has filed a registration statement on Form N-2 with the Securities and Exchange Commission, or SEC, but has not yet commenced operations. In the future, our Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds, both public and private.

We have been externally managed by our Adviser pursuant to an investment advisory and management agreement, which we refer to as our Advisory Agreement, since our inception. At a meeting of our Board of Directors held on July 10, 2012, our Board of Directors unanimously voted to approve the extension of the term of the Advisory Agreement through August 31, 2013. Our Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington, D.C.

Table of Contents

Recent Developments

Modification of Investment Objectives and Strategies

We recently approved revised investment objectives and strategies, which will be effective on or about January 1, 2013. They are as follows below. For a discussion of our current investment objectives and strategies, see Investment Strategy above.

Revised Investment Objectives:

To achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time.

To provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

Revised Investment Strategy:

Overview

To achieve our objectives, we will seek to invest in several categories of debt and equity securities, with each investment generally ranging from $5 million to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment.

In general, our investments in debt securities will have a term of no more than seven years, accrue interest at variable rates (based on the London Interbank Offered Rate, or LIBOR) and, to a lesser extent, at fixed rates. We will seek debt instruments that pay interest monthly or, at a minimum, quarterly, have a success fee or deferred interest provision and are primarily interest only with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due upon a change of control in the business. Some debt securities have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called paid in kind, or PIK.

Typically, our equity investments will consist of common stock, preferred stock, limited liability company interests, or warrants to purchase the foregoing. Often, these equity investments will occur in connection with our original investment, recapitalizing a business, or refinancing existing debt. Although at times we will enter into co-investment transactions with our sister funds, including Gladstone Capital, in relation to one another, we generally will invest a greater portion of our assets in equity securities while Gladstone Capital generally will invest a greater portion of its assets in debt securities.

Target Portfolio

Our investments will typically take the following forms:

Senior Debt Securities: We will seek to invest a portion of our assets in senior debt securities also known as senior loans, senior term loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses senior debt to cover a substantial portion of the funding needs of the business. The senior debt security usually takes the form of first priority liens on the assets of the business. Senior debt securities may include our participation and investment in the syndicated loan market.

Senior Subordinated Debt Securities: We will seek to invest a portion of our assets in senior subordinated debt securities, also known as senior subordinated loans and senior subordinated notes. These senior subordinated debts also include second lien notes and may include participation and investment in syndicated second lien loans. Additionally, we may receive other yield enhancements in connection with these senior subordinated debt securities.

Table of Contents

Junior Subordinated Debt Securities: We will seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior subordinated debts include second lien notes and unsecured loans. Additionally, we may receive other yield enhancements and warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.

Preferred and Common Equity: In some cases we will purchase equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In some cases, we will own a significant portion of the equity and in other cases we may have voting control of the businesses in which we invest.

Cash and Cash Equivalents: At times, we may hold cash or cash equivalents.

Other Investments: Pursuant to the 1940 Act, we must maintain at least 70% of assets in qualifying assets, which generally include each of the asset types listed above. Therefore, the 1940 Act permits us to invest up to 30% of our assets in other assets.

Portfolio Company Characteristics

We will seek to invest in businesses with all or some of the following characteristics:

Value-and-Income Orientation and Positive Cash Flow. Our revised investment philosophy will place a premium on fundamental analysis from an investor s perspective and has a distinct value-and-income orientation. In seeking value, we will focus on companies in which we can invest at relatively low multiples of earnings before interest, taxes, depreciation and amortization, or EBITDA, and that have positive operating cash flow at the time of investment. In seeking income, we will typically invest in companies that generate relatively stable to growing sales and cash flow to provide some assurance that they will be able to service their debt and pay any required distributions on preferred stock. Typically, we do not expect to invest in start-up companies or companies with what we believe to be speculative business plans.

Experienced Management. We will generally require that the businesses in which we invest have an experienced management team. We will also require the businesses to have in place proper incentives to induce management to succeed and act in concert with our interests as investors, including having significant equity or other interests in the financial performance of their companies.

Strong Competitive Position in an Industry. We will seek to invest in businesses that have developed strong market positions within their respective markets and that we believe are well-positioned to capitalize on growth opportunities. We will seek businesses that demonstrate significant competitive advantages versus their competitors, which we believe will help to protect their market positions and profitability.

Liquidation Value of Assets. The projected liquidation value of the assets, if any, will be an important factor in our investment analysis in collateralizing our debt securities.

Stockholder Vote

At our 2012 annual stockholders meeting on August 9, 2012, our stockholders approved our ability to issue and sell shares of our common stock at a price below the then current NAV per common share, which we refer to as the Stockholder Approval, during a period beginning on August 9, 2012 and expiring on the first anniversary of such date.

Exemptive Order

On November 22, 2005, the SEC granted us exemptive relief that permits us to engage in limited co-investment transactions with an affiliated private investment pool, which we refer to as the Original Order. Under the terms of the Original Order, we, or Gladstone Capital, or any future formed BDC or closed-end management investment company that is advised by our Adviser, was permitted to co-invest with Gladstone Partners.

Table of Contents

On July 26, 2012, the SEC granted us an additional exemptive order that supersedes the Original Order and permits us, under certain circumstances, to co-invest with Gladstone Capital, Gladstone Partners, Gladstone Lending, any BDC or closed-end management investment company that is advised by our Adviser (or sub-advised by our Adviser if it also controls the fund), or any combination of the foregoing.

Table of Contents

THE OFFERING

Issuer	Gladstone Investment Corporation
Common stock offered by us	4,000,000 shares (or 4,600,000 shares if the underwriters exercise their option to purchase additional shares of common stock in this offering in full).
Common stock outstanding prior to this offering	22,080,133 shares
Common stock to be outstanding after this offering	26,080,133 shares (or 26,680,133 shares if the underwriters exercise their option to purchase additional shares of common stock in this offering in full).
Use of proceeds	We intend to use the net proceeds from this offering to initially pay down existing short-term debt under our revolving credit facility and then to make investments in small- and mid-sized businesses in accordance with our investment objectives, with any remaining net proceeds to be used for other general corporate purposes. We anticipate that substantially all of the net proceeds of this offering will be utilized in the manner described above within three months of the completion of this offering.
NASDAQ ticker symbol	GAIN
Dividends and distributions	We have paid monthly distributions to the holders of our common stock since our inception in July 2005 and intend to continue to do so. We made our first distribution on our Term Preferred Stock in March 2012, and have made monthly distributions thereafter. The amount of the monthly distribution on our common stock is determined by our Board of Directors on a quarterly basis and is based on our estimate of our annual investment company taxable income and net short-term taxable capital gains, if any. See Price Range of Common Stock and Distributions on page S-19 of this prospectus supplement and page 29 in the accompanying prospectus. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of securities will likely pay distributions in accordance with their terms.
Taxation	We intend to continue to elect to be treated for federal income tax purposes as a RIC. So long as we continue to qualify, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. See Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

Table of Contents

Trading at a discount	Shares of closed-end investment companies frequently trade at a discount to their NAV per share. The possibility that our shares may trade at such discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether our shares will trade above, at or below NAV per share, although during the past three years, our common stock has always traded, and at times significantly, below NAV per share.
Certain anti-takeover provisions	Our Board of Directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain provisions of Delaware law and other measures we have adopted. See Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws in the accompanying prospectus.
Management arrangements	Gladstone Management Corporation serves as our investment adviser, and Gladstone Administration, LLC serves serve as our administrator. For a description of our Adviser, our Administrator, the Gladstone Companies and our contractual arrangements with these companies, see Management Certain Transactions Investment Advisory and Management Agreement, Management Certain Transactions Administration Agreement and Management Certain Transactions Loan Servicing Agreement in the accompanying prospectus.
Risk factors	Your investment in our common stock involves a high degree of risk. See Risk Factors beginning on page S-8 of this prospectus supplement and page 9 of the accompanying prospectus for a discussion of factors you should carefully consider before investing in our common stock.
U.S. federal income taxes	Prospective investors are urged to consult their own tax advisors regarding these matters in light of their personal investment circumstances.
	We have elected to be treated, and intend to continue to so qualify each year, as a RIC under Subchapter M of the Code, and we generally do not expect to be subject to U.S. federal income tax.

Table of Contents

RISK FACTORS

You should carefully consider the risks described below and the risks described in Risk Factors beginning on page 9 of the accompanying prospectus and the special note regarding forward-looking statements in this prospectus supplement and the accompanying prospectus before deciding to invest in our common stock. The risks and uncertainties described in this prospectus supplement and the accompanying prospectus are not the only ones we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance and the value of our common stock. If any of the risks described in this prospectus supplement and the accompanying prospectus actually occur, our business, financial condition or results of operations could be materially adversely affected, and the value of our common stock may be impaired. If that happens, the trading price of our common stock could decline, and you may lose all or part of your investment.

There are significant potential conflicts of interest which could impact our investment returns.

Our executive officers and directors, and the officers and directors of our Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman and chief executive officer of our Adviser, Gladstone Capital, Gladstone Commercial, Gladstone Lending and the chairman, chief executive officer and the sole stockholder of Gladstone Land. In addition, Mr. Brubaker, our co-vice chairman, chief operating officer and secretary, is the vice chairman, chief operating officer and secretary of our Adviser, Gladstone Capital, Gladstone Land and Gladstone Lending and co-vice chairman, chief operating officer and secretary of Gladstone Commercial. Mr. Stelljes, our co-vice chairman and chief investment officer, is also the president and chief investment officer of our Adviser, Gladstone Capital, Gladstone Lending and Gladstone Land, and co-vice chairman and chief investment officer of Gladstone Commercial. Mr. Dullum, our president and a director, is a director of Gladstone Capital and Gladstone Commercial. Moreover, our Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with those of ours and accordingly may invest in, whether principally or secondarily, asset classes similar to those we target. While our Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, our Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Gladstone affiliate with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of our Adviser may face conflicts in the allocation of investment opportunities to other entities managed by our Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other members of the Gladstone Companies or investment funds managed by investment managers affiliated with our Adviser. On September 21, 2012, the Board of Directors approved a revision to our investment objectives and strategies, effective on or about January 1, 2013, which may enhance the potential for conflicts in the allocation of investment opportunities to us and other entities managed by our Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of October 1, 2012, our Board of Directors has approved the following types of co-investment transactions:

- Our affiliate, Gladstone Commercial, may, under certain circumstances, lease property to portfolio companies that we do not control. We may pursue such transactions only if (i) the portfolio company is not controlled by us or any of our affiliates, (ii) the portfolio company satisfies the tenant underwriting criteria of Gladstone Commercial and (iii) the transaction is approved by a majority of our independent directors and a majority of the independent directors of Gladstone Commercial. We expect that any such negotiations between Gladstone Commercial and our portfolio companies would result in lease terms consistent with the terms that the portfolio companies would be likely to receive were they not portfolio companies of ours.

- We may invest simultaneously with our affiliate Gladstone Capital in senior syndicated loans whereby neither we nor any affiliate has the ability to dictate the terms of the loans.

- Additionally, pursuant to an exemptive order granted by the SEC, under certain circumstances, we may co-invest with Gladstone Capital, Gladstone Partners, Gladstone Lending and any future BDC or closed-end management investment company that is advised by our Adviser (or sub-advised by our Adviser if it controls the fund) or any combination of the foregoing.

Certain of our officers who are also officers of our Adviser may from time to time serve as directors of certain of our portfolio companies. If an officer serves in such capacity with one of our portfolio companies, such officer will owe fiduciary duties to all stockholders of the portfolio company, which duties may from time to time conflict with the interests of our stockholders.

In the course of our investing activities, we will pay management and incentive fees to our Adviser and will reimburse our Administrator for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through our investors themselves making direct investments. As a result of this arrangement, there may be times when the management team of our Adviser has interests that differ from those of our stockholders, giving rise to a conflict. In addition, as a BDC, we make available significant managerial assistance to our portfolio companies and may provide other services to such portfolio companies. Although neither we nor our Adviser currently receives fees in connection with managerial assistance, our Adviser may provide other services to our portfolio companies and receive fees for these other services.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, futur growth, plan, intend, expect, should, would, if, seek, possible, potential, likely or the negative of such terms or comparable forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our 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. Such factors include, among others:

- the duration and effects of the current economic instability;
- our ability to access debt and equity capital;
- ability to identify and make investments that are consistent with our investment objectives;
- adverse changes in the economy and the capital markets;
- risks associated with negotiation and consummation of pending and future transactions;
- the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, George Stelljes III or David Dullum;
- changes in our business strategy;
- availability, terms and deployment of capital;
- changes in our industry, interest rates, exchange rates or the general economy;
- the degree and nature of our competition; and
- those factors described in the Risk Factors sections of this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus supplement. The forward-looking statements contained in this prospectus supplement or the accompanying prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, or the Securities Act.

Table of Contents

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us. The following percentages were calculated based on actual expenses incurred in the quarter ended June 30, 2012 and average net assets for the quarter ended June 30, 2012.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)	5.00%
Offering expenses (as a percentage of offering price)	0.78%
Dividend reinvestment plan expenses [1]	
Total stockholder transaction expenses	5.78%
Annual expenses (as a percentage of net assets attributable to common stock):	
Management fees [2]	1.97%
Incentive fees payable under Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) [3]	
Interest payments on borrowed funds [4]	0.37%
Dividend expense on mandatorily redeemable preferred stock	1.59%
Other expenses [5]	1.28%
Total annual expenses [2] [5]	5.21%

(1) The expenses of the reinvestment plan are included in stock record expenses, a component of Other expenses. We do not have a cash purchase plan. The participants in the dividend reinvestment plan will bear a pro rata share of brokerage commissions incurred with respect to open market purchases, if any. See Dividend Reinvestment Plan in the accompanying prospectus for information on the dividend reinvestment plan.

(2) Our annual base management fee is 2% (0.5% quarterly) of our average gross assets, which are defined as our total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. For the quarter ended June 30, 2012, our Adviser voluntarily agreed to waive a portion of the annual base management fee of 2% to 0.5% attributable to senior syndicated loans. However, because we held no senior syndicated loans purchased using borrowings under our revolving credit facility during the quarter ended June 30, 2012, the waiver did not impact our expenses for that period, as reflected in the table above. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus and footnote 3 below.

(3) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide our Adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 2 above). The capital gains-based incentive fee equals 20% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year.

The following are examples of how the incentive fee is calculated:

n

Assuming pre-incentive fee net investment income of 0.55%, there would be no income-based incentive fee because such income would not exceed the hurdle rate of 1.75%.

n Assuming pre-incentive fee net investment income of 2.00%, the income-based incentive fee would be as follows:

= 100% × (2.00%   1.75%)

= 0.25%

Table of Contents

- n Assuming pre-incentive fee net investment income of 2.30%, the income-based incentive fee would be as follows:

= (100% × (catch-up : 2.1875% 1.75%)) + (20% × (2.30% 2.1875%))

= (100% × 0.4375%) + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

- n Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains-based incentive fee would be as follows:

= 20% × (6% 1%)

= 20% × 5%

= 1%

For a more detailed discussion of the calculation of the two-part incentive fee, see Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus.

(4) Includes deferred financing costs. We entered into a revolving credit facility, effective October 26, 2011, under which our borrowing capacity is $60 million. We have drawn down on this credit facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of our senior securities. Assuming that we borrowed $60 million at an interest rate of 1-month LIBOR plus an additional fee related to borrowings of 3.75%, for an aggregate rate of 4.05%, interest payments and amortization of deferred financing costs on borrowed funds would have been 1.38% of our average net assets for the quarter ended June 30, 2012.

(5) Includes our overhead expenses, including payments under the administration agreement between us and our Administrator, which we refer to as the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under the Administration Agreement. See Management Certain Transactions Administration Agreement in the accompanying prospectus.

Example

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that (1) stockholder transaction expenses will be at the levels set forth in the table above; and (2) our annual operating expenses would remain at the levels set forth in the table above. The examples below and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, incentive fees, if any, and other expenses) may be greater or less than those shown.

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
You would pay the following expenses on a $1,000 investment:				
assuming a 5% annual return consisting entirely of ordinary income (1) (2)	$ 109	$ 212	$ 313	$ 562
assuming a 5% annual return consisting entirely of capital gains (2) (3)	$ 118	$ 237	$ 352	$ 625

(1) While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. For purposes of this example, we have assumed that the entire amount of such 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the Advisory Agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of the this example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments.

(2) While the example assumes reinvestment of all dividends and distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See Dividend Reinvestment Plan in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

(3) While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. For purposes of this example, we have assumed that the entire amount of such 5% annual return would constitute capital gains.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 4,000,000 shares of our common stock that we are offering, after deducting underwriting discounts and commissions and expenses of this offering payable by us, will be approximately $28.3 million (or $32.5 million, if the underwriters exercise their option to purchase additional shares in full) based on the public offering price of $7.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering to initially pay down existing short-term debt under our revolving credit facility and then to make investments in small- and mid-sized businesses in accordance with our investment objectives, with any remaining net proceeds to be used for other general corporate purposes. As of October 1, 2012, we had $56 million of borrowings outstanding under our revolving credit facility. Indebtedness under our revolving credit facility currently accrues interest at the rate of approximately 4% and matures on October 25, 2014. We anticipate that substantially all of the net proceeds of the offering will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of the offering primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2012:

- on an actual basis; and
- on an as adjusted basis to give effect to the completion of this offering and the application of the estimated net proceeds of this offering, after deducting underwriters discounts and commissions and estimated offering expenses payable by us (and assuming the underwriters option to purchase additional shares of common stock is not exercised).

	AS OF JUNE 30, 2012	
	ACTUAL	AS ADJUSTED
	(Unaudited) (Dollars in thousands)	
Borrowings		
Borrowings at fair value (cost: $107,010, actual; $78,745, as adjusted) [1]	$ 107,502	$ 79,237
Preferred Stock		
7.125% Series A Cumulative Term Preferred Stock, $0.001 par value per share; $25 liquidation preference per share; 1,610,000 shares authorized and 1,600,000 issued and outstanding, actual and as adjusted [2]	40,000	40,000
Net Assets Applicable to Common Stockholders		
Common stock, $0.001 par value per share, 100,000,000 shares authorized, actual; 22,080,133 shares issued and outstanding, actual and 26,080,133 shares issued and outstanding, as adjusted [2]	22	26
Capital in excess of par value	257,131	285,392
Cumulative net unrealized depreciation on investments	(46,460)	(46,460)
Cumulative net unrealized depreciation on other	(519)	(519)
Undistributed net investment income	321	321
Accumulated net realized losses	(9,608)	(9,608)
Total Net Assets Available to Common Stockholders	$ 200,887	$ 229,152
Total Capitalization	$ 348,389	$ 348,389

[1] Our borrowings have not been fair-value adjusted for the as adjusted presentation as of June 30, 2012.
[2] None of these outstanding shares are held by us or for our account.

The following are our outstanding classes of securities as of June 30, 2012:

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUNT HELD BY US OR FOR OUR ACCOUNT	AMOUNT OUTSTANDING (EXCLUSIVE OF AMOUNTS HELD BY US OR FOR OUR ACCOUNT)
Common Stock	100,000,000		22,080,133
Preferred Stock	10,000,000		1,600,000

Table of Contents

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2012 annual stockholders meeting on August 9, 2012, our stockholders approved our ability to issue and sell shares of our common stock at a price below the then current NAV per common share during a period beginning on August 9, 2012 and expiring on the first anniversary of such date. The offering of common stock being made pursuant to this prospectus supplement is at a price below the most recently reported NAV on June 30, 2012 of $9.10 per share. To sell shares of common stock at below NAV per share, pursuant to the Stockholder Approval, the 1940 Act mandates that a majority of our directors who have no financial interest in the sale and a majority of our independent directors have determined (i) that such sale and issuance is in our best interests and in the best interests of our stockholders and (ii) immediately prior to issuance, and in good faith and in consultation with the underwriters of the offering, that the price at which such shares of common stock are to be sold is not less than a price which closely approximates the market value of those shares of common stock, less any distributing commission or discount.

In addition to the mandates of the 1940 Act pertaining to issuances and sales of common stock at a price below NAV per share, our Stockholder Approval requires that any offering of common stock at a price below NAV per share satisfy the following: (i) the total number of shares issued and sold pursuant to such Stockholder Approval may not exceed 25% of our currently outstanding common stock immediately prior to each such sale; and (ii) the Board concludes that there are attractive near-term investment opportunities that it reasonably believes will lead to a long-term increase in NAV per share. This offering meets these additional requirements.

This offering of common stock below its NAV per share is designed to raise capital for investment in accordance with our investment objectives.

In making a determination that an offering of common stock below its NAV per share is in our and our stockholders best interests, our Board of Directors has considered a variety of factors including, but not limited to:

- the effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- the amount per share by which the offering price per share and the net proceeds per share are less than our most recently determined NAV per share;
- the relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- whether the estimated offering price would closely approximate the market value of shares of our common stock;
- the potential market impact of being able to raise capital during the current financial market difficulties;
- the nature of any new investors anticipated to acquire shares of our common stock in the offering;
- the anticipated rate of return on and quality, type and availability of investments; and
- the leverage available to us.

Our Board of Directors has also considered the fact that sales of shares of common stock at a discount will benefit our Adviser as our Adviser will ultimately earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at a premium to NAV per share.

Sales by us of our common stock at a discount from NAV per share pose potential risks for our existing stockholders whether or not they participate in this offering, as well as for new investors who participate in this offering. Any sale of common stock at a price below NAV per share results in an immediate dilution to existing common stockholders who do not participate in such sale on at least a pro-rata basis. See Risk Factors Risks Related to an Investment in Our Common Stock or Preferred Stock in the accompanying prospectus.

Table of Contents

The following three headings and accompanying tables explain and provide hypothetical examples on the impact of this offering of our common stock at a price less than NAV per share on three different types of investors:

- existing stockholders who do not purchase any shares in the offering;
- existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and
- new investors who become stockholders by purchasing shares in the offering.

Impact on Existing Stockholders Who Do Not Participate in the Offering

Our existing common stockholders who do not participate in this offering or who do not buy additional shares in the secondary market at the same or lower price we obtain in this offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate dilution in the NAV of the common shares they hold and their NAV per common share. These common stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to this offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per common share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

The following table illustrates the level of NAV dilution that could be experienced by a common stockholder that does not participate in this offering. It is not possible to predict the level of market price decline that may occur. The table below is based upon financial information as of June 30, 2012. NAV has not been finally determined for any day after June 30, 2012. The following example assumes a sale of 4,000,000 shares of common stock at a public offering price of $7.50 per share, with a 5% underwriting discount and commission and $235,000 of offering expenses ($7.07 per share, net).

	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE
Offering Price			
Price per common share to public		$ 7.50	
Net proceeds per common share to us		$ 7.07	
Decrease to NAV			
Total common shares outstanding	22,080,133	26,080,133	18.12%
NAV per common share	$ 9.10	$ 8.79	(3.43)%
Dilution to Stockholder			
Common shares held by common stockholder	22,080	22,080	
Percentage held by common stockholder	0.10%	0.08%	(15.34)%
Total Asset Values			
Total NAV held by common stockholder	$ 200,929	$ 194,042	(3.43)%
Total investment by common stockholder (Assumed to be $9.10 per common share on common shares held prior to sale)	$ 200,929	$ 200,929	
Total dilution to common stockholder (Total NAV less total investment)		$ (6,887)	
Per Share Amounts			
NAV per share held by common stockholder	9.10	$ 8.79	(3.43)%

Investment per share held by common stockholder (Assumed to be $9.10 per common share on common shares held prior to sale)	$	9.10	$	9.10	
Dilution per common share held by stockholder (NAV per common share less investment per share)			$	(0.31)	
Percentage dilution to common stockholder (Dilution per common share divided by investment per common share)					(3.43)%

Table of Contents

Impact on Existing Stockholders Who Do Participate in the Offering

Our existing common stockholders who participate in this offering or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating common stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our common shares immediately prior to the offering. The level of NAV dilution will decrease as the number of common shares such stockholders purchases increases. Existing common stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing common stockholders who purchase less than their proportionate share of this offering, experience accretion in NAV per common share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to this offering. The level of accretion will increase as the excess number of shares such common stockholder purchases increases. Even a common stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such common stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following table illustrates the level of dilution and accretion for a common stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 20,000 shares, which is 0.50% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 60,000 shares, which is 1.50% of an offering rather than its 0.10% proportionate share). The table below is shown based upon financial information as of June 30, 2012. NAV per share has not been finally determined for any day after June 30, 2012. The following example assumes a sale of 4,000,000 shares of common stock at a public offering price of $7.50 per share, with a 5% underwriting discount and commission and $235,000 of offering expenses ($7.07 per share, net).

	PRIOR TO SALE BELOW NAV	50% PARTICIPATION		150% PARTICIPATION	
		FOLLOWING SALE	% CHANGE	FOLLOWING SALE	% CHANGE
Offering Price					
Price per common share to public		$ 7.50		$ 7.50	
Net Proceeds per common share to issuer		$ 7.07		$ 7.07	
Increases in Shares and Decrease to NAV					
Total common shares outstanding	22,080,133	26,080,133	18.12%	26,080,133	18.12%
NAV per common share	$ 9.10	$ 8.79	(3.43)%	$ 8.79	(3.43)%
Dilution/Accretion to Common Stockholder					
Common shares held by stockholder	22,080	24,080	9.06%	28,080	27.17%
Percentage held by common stockholder	0.10%	0.09%	(7.67)%	0.11%	7.67%
Total Asset Values					
Total NAV held by common stockholder	$ 200,929	$ 211,618	5.32%	$ 246,770	22.81%
Total investment by common stockholder (Assumed to be $9.10 per common share on common shares held prior to sale)	$ 200,929	$ 215,929	7.47%	$ 245,929	22.40%
Total dilution/accretion to common stockholder (Total NAV less total investment)		$ (4,311)		$ 841	
Per Common Share Amounts					
NAV per common share held by stockholder	$ 9.10	$ 8.79	(3.43)%	$ 8.79	(3.43)%
Investment per common share held by stockholder (Assumed to be $9.10 per common share on common shares held prior to sale)	$ 9.10	$ 8.97	(1.46)%	$ 8.76	(3.76)%
		$ (0.18)		$ 0.03	

Dilution/accretion per common share held by stockholder (NAV per common share less investment per common share)		
Percentage dilution/accretion to stockholder (Dilution/accretion per common share divided by investment per common share)	(2.00)%	0.34%

Table of Contents

Impact on New Investors

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per common share is greater than the resulting NAV per share (due to selling compensation and expenses paid by us) will experience an immediate decrease in the NAV of their shares and their NAV per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in this offering and whose investment per common share is also less than the resulting NAV per common share due to selling compensation and expenses paid by the issuer being significantly less than the discount per common share will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares of common stock. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new common stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following table illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same percentage (0.10%) of the common shares in the offering as the common stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of June 30, 2012. NAV has not been finally determined for any day after June 30, 2012. The following example assumes a sale of 4,000,000 shares of common stock at a public offering price of $7.50 per share, with a 5% underwriting discount and commission and $235,000 of offering expenses ($7.07 per share, net).

	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE
Offering Price			
Price per common share to public		$ 7.50	
Net proceeds per common share to issuer		$ 7.07	
Decrease to NAV			
Total common shares outstanding	22,080,133	26,080,133	18.12%
NAV per common share	$ 9.10	$ 8.79	(3.43)%
Dilution/Accretion to New Investor			
Common shares held by new investor	0	4,000	
Percentage held by new investor	0.0%	0.02%	
Total Asset Values			
Total NAV held by new investor	0	$ 35,152	
Total investment by new investor (At price to public)	0	$ 30,000	
Total accretion to new investor (Total NAV less total investment)		$ 5,152	
Per Common Share Amounts			
NAV per common share held by new investor		$ 8.79	
Investment per share held by new investor (At price to public)		$ 7.50	
Accretion per common share held by new investor (NAV per common share less investment per common share)		$ 1.29	
Percentage accretion to new investor (accretion per common share divided by investment per common share)			17.17%

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash dividends a minimum of 90% of our ordinary income and short-term capital gains, if any, on a quarterly basis to our stockholders in the form of monthly dividends. We intend to retain long-term capital gains and treat them as deemed distributions for tax purposes. We report the estimated tax characteristics of each distribution when declared while the actual tax characteristics of distributions are reported annually to each stockholder on Form 1099 DIV. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of record of common stock, all cash distributions can be reinvested automatically under our dividend reinvestment plan in additional whole and fractional shares. A stockholder whose shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in our dividend reinvestment plan on the stockholder s behalf. See Risk Factors We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

SHARE PRICE DATA

Our common stock is traded on The NASDAQ Global Select Market, or the NASDAQ, under the symbol GAIN The following table reflects, by quarter, the high and low sales prices per share of our common stock on the NASDAQ, the sales prices as a percentage of NAV and quarterly distributions declared per share for each fiscal quarter during the last two completed fiscal years and the current fiscal year through September 30, 2012.

	NET ASSET VALUE PER SHARE (1)	SALES PRICE HIGH	SALES PRICE LOW	DIVIDEND DECLARED	PREMIUM OR (DISCOUNT) OF HIGH SALES PRICE TO NET ASSET VALUE (2)	PREMIUM OR (DISCOUNT) OF LOW SALES PRICE TO NET ASSET VALUE (2)
Fiscal Year ended March 31, 2011						
First Quarter	$ 8.86	$ 6.91	$ 5.07	$ 0.120	(22)%	(43)%
Second Quarter	8.43	6.94	5.50	0.120	(18)	(35)
Third Quarter	9.00	8.00	6.50	0.120	(11)	(28)
Fourth Quarter	9.00	8.55	6.81	0.120	(5)	(24)
Fiscal Year ended March 31, 2012						
First Quarter	9.06	7.92	6.75	0.135	(13)	(25)
Second Quarter	9.48	7.68	6.22	0.150	(19)	(34)
Third Quarter	9.58	7.72	6.06	0.150	(19)	(37)
Fourth Quarter	9.38	8.50	7.22	0.180	(9)	(23)
Fiscal Year ending March 31, 2013						
First Quarter	9.10	7.81	6.90	0.150	(14)	(24)
Second Quarter	*	8.07	7.20	0.150	*	*

(1) NAV per share is determined as of the last day in the relevant quarter and, therefore, may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on the number of outstanding shares at the end of each period.

(2) The discounts set forth in these columns represent the high or low, as applicable, sale prices per share for the relevant quarter minus the NAV per share as of the end of such quarter, and therefore may not reflect the discount to NAV per share on the date of the high and low sales prices.

* Not yet available, as the NAV per share as of the end of this quarter has not yet been determined.

As of September 28, 2012, there were approximately 28 record owners of our common stock.

Table of Contents

SELECTED FINANCIAL INFORMATION

We have derived the selected financial information presented in the first table below as of June 30, 2012 and 2011 and for the fiscal years ended March 31, 2012, 2011 and 2010 from our audited consolidated financial statements included in the accompanying prospectus. We have derived the selected financial information presented in the first table below as of and for the three months ended June 30, 2012 and 2011 from our unaudited consolidated financial statements included elsewhere in this prospectus supplement. The selected financial information presented in the first table below as of March 30, 2010, 2009 and 2008 and for the fiscal years ended March 31, 2009 and 2008 is derived from our audited consolidated financial statements that are not included in this prospectus supplement or the accompanying prospectus. The information included in the second table below is unaudited.

You should read this data together with our consolidated financial statements and notes to such financial statements presented elsewhere in this prospectus supplement and the accompanying prospectus, as well as the information under Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations in the accompanying prospectus for more information.

	THREE MONTHS ENDED JUNE 30,		YEARS ENDED MARCH 31,				
	2012 (Unaudited)	2011 (Unaudited)	2012	2011	2010	2009	2008
			(Dollar amounts in thousands, except per share and per unit data)				
Statement of operations data:							
Total investment income	$ 5,905	$ 5,262	$ 21,242	$ 26,064	$ 20,785	$ 25,812	$ 27,894
Total expenses net of credits from Adviser	2,667	1,762	7,499	9,893	10,187	12,424	14,842
Net investment income	3,238	3,500	13,743	16,171	10,598	13,388	13,052
Net gain (loss) on investments	(6,255)	687	8,223	268	(21,669)	(24,837)	(13,993)
Net increase (decrease) in net assets resulting from operations	$ (3,017)	$ 4,187	$ 21,966	$ 16,439	$ (11,071)	$ (11,449)	$ (941)
Per share data [1]:							
Net increase (decrease) in net assets resulting from operations per share of Common stock basic and diluted	$ (0.13)	$ 0.19	$ 0.99	$ 0.74	$ (0.50)	$ (0.53)	$ (0.06)
Net investment income before net gain (loss) on investments per share of Common Stock basic and diluted	$ 0.15	$ 0.16	$ 0.62	$ 0.73	$ 0.48	$ 0.62	$ 0.79
Weighted shares of common stock outstanding							
Basic	22,080,133	22,080,133	22,080,133	22,080,133	22,080,133	22,080,133	16,560,100
Diluted	22,080,133	22,080,133	22,080,133	22,080,133	22,080,133	22,080,133	16,560,100
Cash distributions declared per share	$ (0.15)	$ (0.13)	$ (0.61)	$ (0.48)	$ (0.48)	$ (0.96)	$ (0.93)

Statement of assets and liabilities data:							
Total assets	$ 350,357	$ 242,132	$ 325,297	$ 241,109	$ 297,161	$ 326,843	$ 352,293
Net assets	$ 200,887	$ 200,035	$ 207,216	$ 198,829	$ 192,978	$ 214,802	$ 206,445
Net asset value per share	$ 9.10	$ 9.06	$ 9.38	$ 9.00	$ 8.74	$ 9.73	$ 12.47
Shares of common stock outstanding	22,080,133	22,080,133	22,080,133	22,080,133	22,080,133	22,080,133	16,560,100
Senior securities data:							
Total borrowings (2)	$ 147,010	$ 40,000	$ 116,005	$ 40,000	$ 102,812	$ 110,265	$ 144,835
Asset coverage ratio (3) (4)	230%	537%	268%	534%	281%	293%	243%
Asset coverage per unit (4)	$ 2,300	$ 5,371	$ 2,676	$ 5,344	$ 2,814	$ 2,930	$ 3,513

S-20

(1) Per share data for net increase (decrease) in net assets resulting from operations is based on the weighted average common stock outstanding for both basic and diluted.
(2) See Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and the accompanying prospectus for more information regarding our level of indebtedness.
(3) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200% on our Senior Securities representing indebtedness and our Senior Securities that are stock. Our Term Preferred Stock is a Senior Security that is stock.
(4) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

	THREE MONTHS ENDED JUNE 30,		YEARS ENDED MARCH 31,				
	2012	2011	2012	2011	2010	2009	2008
	(Dollar amounts in thousands)						
Other unaudited data:							
Number of portfolio companies	18	17	17	17	16	46	52
Average size of portfolio company investment at cost	$ 15,346	$ 12,603	$ 15,670	$ 11,600	$ 14,223	$ 7,586	$ 6,746
Principal amount of new investments	$ (12,765)	$ (22,453)	$ (91,298)	$ (43,634)	$ (4,788)	$ (49,959)	$ (175,255)
Proceeds from loan repayments and investments sold	$ 2,859	$ 11,136	$ 27,185	$ 97,491	$ 90,240	$ 46,742	$ 96,438
Weighted average yield on investments [1]:	12.48%	12.03%	12.32%	11.36%	11.02%	8.22%	8.91%
Total return [2]	(0.38)%	(6.67)%	5.58%	38.56%	79.80%	(51.65)%	(31.54)%

(1) Weighted average yield on investments equals interest income on investments divided by the annualized weighted average investment balance throughout the year.

Total return equals the increase (decrease) of the ending market value over the beginning market value plus monthly distributions divided by the monthly beginning market value.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollar amounts in thousands, except per share data or unless otherwise indicated)

You should read the following analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes contained elsewhere in this prospectus supplement and in the accompanying prospectus.

Overview

General

We were incorporated under the General Corporation Law of the State of Delaware on February 18, 2005. We were established for the purpose of investing in debt and equity securities of established private businesses in the United States. These investments take the form of subordinated loans, mezzanine debt, preferred stock, common stock and warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. We also invest in senior secured loans and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments. We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or 1940 Act. In addition, for tax purposes, we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or Code.

We focus on investing in small and medium-sized private U.S. businesses that meet certain criteria, including some but not all of the following: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower s cash flow, reasonable capitalization of the borrower (usually provided by leveraged buyout funds or venture capital funds) and the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering of the borrower s stock or by exercising our right to require the borrower to repurchase our warrants, though there can be no assurance that we will always have these rights. We lend to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

Business Environment

The direction and relative strength of the global economy, and the U.S. economy in particular, continue to be uncertain and volatile, and we remain cautious about a long-term economic recovery. The recent recession in general, and the disruptions in the capital markets in particular, have impacted our liquidity options and increased the cost of debt and equity capital. Many of our portfolio companies, as well as those companies that we evaluate for possible investments, are impacted by these economic conditions. If these conditions persist, it may affect their ability to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering.

Despite the challenges in these uncertain economic times, over the past year, we have been able to complete both a renewal and increase in borrowing capacity under our line of credit, which we refer to as our Credit Facility, and a preferred stock public offering. In October 2011, we entered into a fourth amended and restated credit agreement that increased the commitment amount to $60.0 million, reduced the interest rate and extended the maturity of our Credit Facility until 2014. In March 2012, we issued 1,600,000 shares of 7.125% Series A Cumulative Term Preferred Stock, which we refer to as our Term Preferred Stock, for gross proceeds of $40.0 million. In addition, on July 26, 2012, we were granted relief by the SEC that expands our ability to co-invest in portfolio companies with certain affiliated investment funds, subject to certain circumstances, which we believe will enhance our ability to further our investment strategy and objectives. We discuss each of the foregoing in detail below under *Recent Developments*.

While conditions remain challenging, we are seeing an increase in the number of new investment opportunities consistent with our investing strategy of providing a combination of subordinated debt with equity enhancement features and direct equity in support of management and sponsor-led buyouts of small and medium-sized companies in the U.S. These new investment opportunities have translated into us investing approximately $167.2 million into eight new proprietary debt and equity deals since October 2010. During the three months ended June 30, 2012, we invested $9.5 million in Packerland Whey Products, Inc., or Packerland, a processor of raw fluid whey, specializing in the production of protein supplements for dairy and beef cattle. Additionally, subsequent to quarter-end, we invested $22.5 million in Ginsey Holdings, Inc., which designs and markets a broad line of branded juvenile and adult bath products, and we invested $21.3 million in Drew Foam Companies, Inc., which is an expanded polystyrene foam molder and fabricator for a variety of applications in construction and packaging.

The increased investing opportunities in the marketplace have also presented opportunities for us to achieve realized gains and other income. In April 2011, we sold our equity investment and received partial redemption of our preferred stock, while investing new subordinated debt, in Cavert II Holding Corporation, or Cavert, as part of a recapitalization. The gross cash proceeds to us from the sale of our equity in Cavert were $5.6 million, resulting in a realized gain of $5.5 million. At the same time, we received $2.3 million in a partial redemption of our preferred stock, received $0.7 million in preferred dividends and invested $5.7 million in new subordinated debt of Cavert. In fiscal year 2011, we achieved a significant amount of liquidity and realized gains with the sales of A. Stucki Holding Corp., or A. Stucki, and Chase II Holding Corp., or Chase, for total proceeds of $83.9 million and an aggregate realized gain of $23.5 million. In addition, we recorded $9.1 million of other income, including success fee and dividend income, resulting from these exits.

The A. Stucki, Chase, and Cavert sales were our first management-supported buyout liquidity events, and each was an equity investment success, highlighting our investment strategy of striving to achieve returns through current income from debt investments and capital gains from equity investments. We will strive to utilize the existing borrowing availability under our Credit Facility to make new investments that will potentially increase our net investment income and generate capital gains to enhance our ability to pay dividends to our stockholders.

Due to the limited number of investments in our portfolio, our current asset composition has affected our ability to satisfy certain elements of the Code s rules for maintenance of our RIC status. To maintain our status as a RIC, in addition to other requirements, as of the close of each quarter, we must meet the asset diversification test, which requires that at least 50% of the value of our assets consist of cash, cash items, U.S. government securities or certain other qualified securities, which we refer to as the 50% threshold. At June 30, 2012, we satisfied the 50% threshold, as we have for each quarter end since June 30, 2009, even though we fell below the 50% threshold at times during the quarter.

Failure to meet the 50% threshold alone will not result in our loss of RIC status. In circumstances where the failure to meet the 50% threshold is the result of fluctuations in the value of assets, including as a result of the sale of assets, we will still be deemed to have satisfied the 50% threshold and, therefore, maintain our RIC status, provided that we have not made any new investments, including additional investments in our existing portfolio companies (such as advances under outstanding lines of credit), since the time that we fell below the 50% threshold. At June 30, 2012, we satisfied the 50% threshold primarily through the purchase of short-term qualified securities, which was funded through a short-term loan agreement. Subsequent to the June 30, 2012 measurement date, the short-term qualified securities matured and we repaid the short-term loan. See Recent Developments Short-Term Loan for more information regarding this transaction. As of the date of this filing, we remain below the 50% threshold.

Thus, while we currently qualify as a RIC despite our recent inability to meet the 50% threshold and potential inability to do so in the future, if we make any new or additional investments before regaining compliance with the asset diversification test, our RIC status will be threatened. If we make a new or additional investment and fail to regain compliance with the 50% threshold on the next quarterly measurement date following such investment, we will be in non-compliance with the RIC rules and will have thirty days to cure our failure to meet the 50% threshold to avoid the loss of our RIC status. Potential cures for failure of the asset diversification test include raising additional equity or debt capital, or changing the composition of our assets, which could include full or partial divestitures of investments, such that we would once again exceed the 50% threshold on a consistent basis.

Table of Contents

Until the composition of our assets is above the required 50% threshold on a consistent basis, we will continue to seek to employ similar purchases of qualified securities using short-term loans that would allow us to satisfy the 50% threshold, thereby allowing us to make additional investments. There can be no assurance, however, that we will be able to enter into such a transaction on reasonable terms, if at all. We also continue to explore a number of other strategies, including changing the composition of our assets, which could include full or partial divestitures of investments, and raising additional equity or debt capital, such that we would once again exceed the 50% threshold on a consistent basis. Our ability to implement any of these strategies will be subject to market conditions and a number of risks and uncertainties that are, in part, beyond our control.

Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have an asset coverage ratio (as defined in Section 18(h) of the 1940 Act), of at least 200% on our senior securities. As of June 30, 2012, our asset coverage ratio was 230%. The ratio is impacted, in part, by our need to obtain a short-term loan at quarter end to satisfy the 50% threshold for our RIC status. Between the quarter end measurement dates, when we do not have a short-term loan outstanding, our leverage and asset coverage ratio improve. However, until the composition of our assets is above the required 50% threshold on a consistent basis, we will have to continue to obtain short-term loans to purchase U.S. government securities or certain other qualified securities on a quarterly basis. This strategy, while allowing us to satisfy the 50% threshold for our RIC status, limits our ability to use increased debt capital to make new investments, due to our asset coverage ratio limitations under the 1940 Act.

Market conditions have also presumably affected the trading price of our common stock and thus our ability to finance new investments through the issuance of equity. On October 1, 2012, the closing market price of our common stock was $7.80, which represented a 14% discount to our June 30, 2012, NAV per share of $9.10. When our common stock trades below NAV, our ability to issue additional shares of common stock is constrained by provisions of the 1940 Act, which generally prohibits such issuance at a price below NAV per share without stockholder approval other than through sales to our then-existing stockholders pursuant to a rights offering. At our annual meeting of stockholders held on August 9, 2012, our stockholders approved a proposal which authorizes us to sell shares of our common stock at a price below our then current NAV per share, subject to certain limitations, including that the cumulative number of shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale, provided that our Board of Directors makes certain determinations prior to any such sale. This proposal is in effect for one year from the date of stockholder approval and enables us to complete this offering.

In light of increased investing opportunities that we see in our target markets, as demonstrated by our nine originated investments totaling $167.2 million since October 2010, we are cautiously optimistic about the long-term prospects for the U.S. economy and will continue our strategy of making conservative investments in businesses that we believe will weather the current economic conditions and that are likely to produce attractive long-term returns for our stockholders. Despite the liquidity that we were able to generate with the A. Stucki, Chase and Cavert transactions, the increased commitment on our Credit Facility and our recent public offering of our Term Preferred Stock, a significant amount of this liquidity has been used in our origination activity. Future investment activity is dependent on our access to capital.

Investment Highlights

During the three months ended June 30, 2012, we disbursed $9.5 million in new debt and equity investments and extended $3.3 million of investments to existing portfolio companies through revolver draws or additions to term notes. From our initial public offering in June 2005 through June 30, 2012, we have made 172 investments in 95 companies for a total of approximately $729.2 million, before giving effect to principal repayments on investments and divestitures.

Investment Activity

During the three months ended June 30, 2012, the following significant transaction occurred:

n In May 2012, we invested $9.5 million in a new Affiliate investment, Packerland, through a combination of debt and equity. Packerland, headquartered in Luxemburg, Wisconsin, is a processor of raw fluid whey, specializing in the production of protein supplements for dairy and beef cattle.

Refer to Note 13, Subsequent Events, in our *Condensed Consolidated Financial Statements* included elsewhere in this prospectus supplement for investment activity occurring subsequent to June 30, 2012.

Recent Developments

Short-Term Loans

For each quarter end since June 30, 2009, which we refer to as the measurement dates, we satisfied the 50% threshold to maintain our status as a RIC, in part, through the purchase of short-term qualified securities, which were funded primarily through a short-term loan agreement. Subsequent to each of the measurement dates, the short-term qualified securities matured, and we repaid the short-term loan, at which time we again fell below the 50% threshold.

Therefore, similar to previous quarter ends, to maintain our status as a RIC, we purchased $85.0 million of short-term United States Treasury Bills, or T-Bills, through Jefferies & Company, Inc., or Jefferies, on June 28, 2012. As these T-Bills have a maturity of less than three months, we consider them to be cash equivalents and include them in cash and cash equivalents on our accompanying *Condensed Consolidated Statement of Assets and Liabilities* as of June 30, 2012. The T-Bills were purchased on margin using $9.0 million in cash and the proceeds from a $76.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 0.67%. On July 5, 2012, when the T-Bills matured, we repaid the $76.0 million loan from Jefferies, and on July 6, 2012, we received the $9.0 million margin payment sent to Jefferies to complete the transaction.

Similarly, on September 25, 2012, we purchased $80.0 million of T-Bills through Jefferies. The T-Bills were purchased on margin using $8.5 million in cash and the proceeds from a $71.5 million short-term loan from Jefferies. The T-Bills mature on October 4, 2012.

Modification of Investment Objectives and Strategies

On September 21, 2012 our Board of Directors approved revised investment objectives and strategies, which will be effective on or about January 1, 2013, see Prospectus Supplement Summary Recent Developments.

Exemptive Order

In an order dated July 26, 2012, the SEC granted us the relief sought in the exemptive application we had previously filed with the SEC. The order expands our ability to co-invest with certain affiliates by permitting us, under certain circumstances, to co-invest with Gladstone Capital Corporation and any future business development company or closed-end management investment company that is advised by our investment adviser, Gladstone Management Corporation, which we refer to as our Adviser (or sub-advised by our Adviser if it controls the fund), or any combination of the foregoing.

Our Adviser and Administrator

Investment Advisory and Management Agreement

Under the investment advisory and management agreement with our Adviser, which we refer to as the Advisory Agreement, we pay our Adviser an annual base management fee of 2% of our average gross assets, which is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the two most recently completed quarters and appropriately adjusted for any share issuances or repurchases during the current quarter.

We also pay our Adviser a two-part incentive fee under the Advisory Agreement. The first part of the incentive fee is an income-based incentive fee which rewards our Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets, or the hurdle rate. The second part of the incentive fee is a capital gains-based incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to our Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. The Adviser has not earned the capital gains-based portion of the incentive fee since our inception.

S-25

We pay our direct expenses, including, but not limited to, directors fees, legal and accounting fees, stockholder-related expenses and directors and officers insurance under the Advisory Agreement.

Since April 2008, our Board of Directors has accepted from our Adviser unconditional and irrevocable voluntary waivers on a quarterly basis to reduce the annual 2.0% base management fee on senior syndicated loans to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations. In addition to the base management and incentive fees under the Advisory Agreement, 50% of certain fees and 100% of others received by the Adviser from our portfolio companies are credited against the investment advisory fee paid to the Adviser.

The Adviser also services our loan portfolio pursuant to a loan servicing agreement with Gladstone Business Investment, LLC, or Business Investment, in return for a 2.0% annual fee, based on the monthly aggregate outstanding loan balance of the loans pledged under our Credit Facility.

On July 10, 2012, our Board of Directors approved the renewal of the Advisory Agreement with our Adviser through August 31, 2013.

Administration Agreement

We have entered into an administration agreement with our Administrator Gladstone Administration, LLC, which we refer to as the Administration Agreement, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs. Our allocable portion of expenses is generally derived by multiplying our Administrator s total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies managed by the Adviser under similar agreements. On July 10, 2012, our Board of Directors approved the renewal of this Administration Agreement with our Administrator through August 31, 2013.

Table of Contents

RESULTS OF OPERATIONS

Comparison of the three months ended June 30, 2012 to the three months ended June 30, 2011

	FOR THE THREE MONTHS ENDED JUNE 30,			
	2012	**2011**	**$ CHANGE**	**% CHANGE**
INVESTMENT INCOME				
Interest income	**$ 5,511**	$ 4,411	$ 1,100	24.9%
Other income	**394**	851	(457)	(53.7)
Total investment income	**5,905**	5,262	643	12.2
EXPENSES				
Base management fee	**1,191**	1,008	183	18.2
Incentive fee		19	(19)	(100.0)
Administration fee	**183**	151	32	21.2
Interest and dividend expense	**805**	132	673	509.8
Amortization of deferred financing costs	**200**	108	92	85.2
Other	**472**	559	(87)	(15.6)
Expenses before credits from Adviser	**2,851**	1,977	874	44.2
Credits to fees	**(184)**	(215)	31	(14.4)
Total expenses net of credits to fees	**2,667**	1,762	905	51.4
NET INVESTMENT INCOME	**3,238**	3,500	(262)	(7.5)
REALIZED AND UNREALIZED (LOSS) GAIN:				
Net realized (loss) gain on investments	**(46)**	5,739	(5,785)	NM
Net realized loss on other	**(41)**	(39)	(2)	5.1
Net unrealized depreciation of investments	**(5,717)**	(5,052)	(665)	13.2
Net unrealized (depreciation) appreciation of other	**(451)**	39	(490)	NM
Net realized and unrealized (loss) gain on investments and other	**(6,255)**	687	(6,942)	NM
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ (3,017)**	$ 4,187	$ (7,204)	NM
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE BASIC AND DILUTED	**$ (0.13)**	$ 0.19	$ (0.32)	NM

NM = Not Meaningful

Investment Income

Total investment income increased by 12.2% for the three months ended June 30, 2012, as compared to the prior year period. This increase was primarily due to an overall increase in interest income for the three months ended June 30, 2012, as a result of an increase in the size of our loan portfolio and holding higher-yielding debt investments during the quarter, partially offset by a decrease in other income, which primarily resulted from dividend income received in connection with Cavert s recapitalization in April 2011.

Interest income from our investments in debt securities increased 24.9% for the three months ended June 30, 2012, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended June 30, 2012, was approximately $177.1 million, compared to approximately $147.3 million for the prior year period. This increase was primarily due to our origination of investments in SOG Specialty K&T, LLC, or SOG, SBS, Industries, LLC, or SBS, Channel Technologies Group, LLC, or Channel Technologies and Packerland, partially offset by the payoff of our debt investments in Survey Sampling, LLC, or Survey Sampling,

Table of Contents

Quench Holdings Corp., or Quench, and American Greetings Corporation, or AMG, and the restructuring of Country Club Enterprises, LLC, or CCE. At June 30, 2012, loans to two portfolio companies, ASH Holdings Corp., or ASH and CCE, were on non-accrual, with an aggregate weighted average principal balance of $16.9 million during the three months ended June 30, 2012. At June 30, 2011, loans to one portfolio company, ASH, were on non-accrual, with a weighted average principal balance of $9.8 million during the three months ended June 30, 2011. CCE was placed on non-accrual during the three months ended September 30, 2011.

The weighted average yield on our interest-bearing investments for the three months ended June 30, 2012, excluding cash and cash equivalents and receipts recorded as other income, was 12.5%, compared to 12.0% 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. The increase in the weighted average yield for the three months ended June 30, 2012, is a result of the exits of lower interest-bearing debt investments, such as Survey Sampling, Quench and AMG, which had an aggregate, weighted-average interest rate of 9.7% at the time of their respective exits, and the addition of higher-yielding debt investments in SOG, SBS, Channel Technologies and Packerland, which had an aggregate, weighted average interest rate of 13.2% as of June 30, 2012.

The following table lists the investment income for our five largest portfolio company investments at fair value during the respective periods:

	AS OF JUNE 30, 2012		THREE MONTHS ENDED JUNE 30, 2012	
COMPANY	FAIR VALUE	% OF PORTFOLIO	INVESTMENT INCOME	% OF TOTAL INVESTMENT INCOME
SOG Specialty Knives and Tools, LLC	$ 30,554	13.3%	$ 662	11.2%
Acme Cryogenics, Inc.	27,381	11.9	422	7.1
Venyu Solutions, Inc.	21,952	9.5	624	10.6
Mitchell Rubber Products, Inc.	19,746	8.6	446	7.6
Channel Technologies Group, LLC	18,556	8.1	472	8.0
Subtotal five largest investments	**118,189**	**51.4**	**2,626**	**44.5**
Other portfolio companies	111,581	48.6	3,279	55.5
Total investment portfolio	**$ 229,770**	**100.0%**	**$ 5,905**	**100.0%**

	AS OF JUNE 30, 2011		THREE MONTHS ENDED JUNE 30, 2011	
COMPANY	FAIR VALUE	% OF PORTFOLIO	INVESTMENT INCOME	% OF TOTAL INVESTMENT INCOME
Venyu Solutions, Inc.	$ 25,321	15.3%	$ 624	11.8%
Acme Cryogenics, Inc.	22,519	13.6	430	8.2
Mitchell Rubber Products, Inc. (A)	16,327	9.9	411	7.8

Cavert II Holding Corp.	15,000	9.1	1,076	20.4
Noble Logistics, Inc.	14,165	8.6	382	7.3
Subtotal five largest investments	**93,332**	**56.5**	**2,923**	**55.5**
Other portfolio companies	71,963	43.5	2,339	44.5
Total investment portfolio	**$ 165,295**	**100.0%**	**$ 5,262**	**100.0%**

[A] New investment during the applicable period.

Other income decreased 53.7% from the prior year period, primarily due to $0.7 million of cash dividends received on preferred shares of Cavert in connection with its recapitalization in April 2011. During the three months ended June 30, 2012, other income primarily consisted of $0.4 million of success fee income resulting from prepayments received from Mathey Investments, Inc., or Mathey.

Expenses

Total expenses, excluding any voluntary and irrevocable credits to the base management and incentive fees, increased for the three months ended June 30, 2012, by 44.2%, as compared to the prior year period. The increase was primarily due to an increase in dividend expense on our Term Preferred Stock, on which we made our first distribution in March 2012, and an increase in our base management fee during the three months ended June 30, 2012.

The base management fee increased for the three months ended June 30, 2012, as compared to the prior year period, which is reflective of the increased size of our loan portfolio over the respective periods. The decrease in the credit against the base management fee we received from our Adviser was a result of additional fees earned by our Adviser during the prior year period, related to the closing of our investments in Mitchell Rubber Products, Inc., or Mitchell, partially offset by fees earned by our Adviser in the three months ended June 30, 2012, related to the closing of our investments in Packerland. No incentive fee was earned by the Adviser during the three months ended June 30, 2012, because net investment income for the quarter was below the hurdle rate. The incentive fee earned during the prior year period was primarily due to other income recorded in connection with the Cavert recapitalization. The base management and incentive fees are computed quarterly, as described under Investment Advisory and Management Agreement in Note 4 to our accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	THREE MONTHS ENDED JUNE 30,	
	2012	**2011**
Average total assets subject to base management fee [(A)]	**$ 238,200**	$ 201,600
Multiplied by prorated annual base management fee of 2%	**0.5%**	0.5%
Base management fee [(B)]	**1,191**	1,008
Reduction for loan servicing fees	**(868)**	(677)
Adjusted base management fee	**323**	331
Credits for fees received by Adviser from the portfolio companies [(B)]	**(184)**	(215)
Net base management fee	**$ 139**	$ 116
Incentive fee [(B)]	**$**	$ 19

[(A)] Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

[(B)] Reflected as a line item on our accompanying *Condensed Consolidated Statement of Operations*.

Interest and dividend expense increased 509.8% for the three months ended June 30, 2012, as compared to the prior year period**,** primarily due to $0.7 million of dividends we paid on our Term Preferred Stock during the three months ended June 30, 2012. We classify these dividends as dividend expense on our *Condensed Consolidated Statements of Operations*. There were no preferred stock dividends paid in the prior year period. During the three months ended June 30, 2011, there were no borrowings outstanding and, accordingly, we paid a 1.0% commitment fee per annum, as compared to the 0.50% commitment fee per annum we paid during the three months ended June 30, 2012. The average balance outstanding on our Credit Facility during the three months ended June 30, 2012, was $0.8 million, as compared to zero borrowings throughout the prior year period. The effective interest rate charged on our borrowings for the three months ended June 30, 2012, excluding the impact of deferred financing fees, was 41.9%, which was inflated upward due to an ongoing unused commitment fee being allocated against minimal borrowings outstanding on our Credit Facility during the period. The effective interest rate on our borrowings for the three months ended

June 30, 2011, was not meaningful, as we had no borrowings outstanding under the Credit Facility during the period.

Amortization of deferred financing costs increased $0.1 million, or 85.2%, during the three months ended June 30, 2012, as compared to the prior year period, primarily due to the Term Preferred Stock offering costs being deferred

Table of Contents

and amortized, resulting in $0.1 million in amortization expense during the three months ended June 30, 2012. No such amortization expense was recorded in the prior year period, as the Term Preferred Stock offering was not completed until March 2012.

Realized and Unrealized Gain (Loss) on Investments

Realized (Loss) Gain

During the three months ended June 30, 2012, we recorded a realized loss of $46 relating to post-closing adjustments on previous investment exits. During the three months ended June 30, 2011, we received full repayment of our syndicated loan to Fifth Third Processing Solutions, LLC, and recapitalized our investment in Cavert, receiving $9.0 million in aggregate proceeds and realizing a gain of $5.5 million. We also received a $0.2 million post-closing adjustment related to the A. Stucki exit in June 2010, which we realized as a gain during the three months ended June 30, 2011.

Unrealized Depreciation

During the three months ended June 30, 2012, we recorded net unrealized depreciation on investments in the aggregate amount of $5.7 million.

The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended June 30, 2012, were as follows:

		THREE MONTHS ENDED JUNE 30, 2012			
PORTFOLIO COMPANY	**INVESTMENT CLASSIFICATION**	**REALIZED GAIN (LOSS)**	**UNREALIZED APPRECIATION (DEPRECIATION)**	**REVERSAL OF UNREALIZED (APPRECIATION) DEPRECIATION**	**NET GAIN (LOSS)**
Country Club Enterprises, LLC	Control	$	$ 4,634	$	$ 4,634
Mitchell Rubber Products, Inc.	Control		1,255		1,255
Precision Southeast, Inc.	Control		1,091		1,091
Mathey Investments, Inc.	Control		1,047		1,047
SBS, Industries, LLC	Control		798		798
Quench Holdings Corp.	Affiliate		546		546
SOG Specialty K&T, LLC	Control		458		458
B-Dry, LLC	Non-Control/Non-Affiliate		(359)		(359)
ASH Holdings Corp.	Control		(375)		(375)
Channel Technologies Group, LLC	Affiliate		(437)		(437)
Acme Cryogenics, Inc.	Control		(920)		(920)
Galaxy Tool Holding Corp.	Control		(1,166)		(1,166)
Venyu Solutions, Inc.	Control		(1,378)		(1,378)
Tread Corp.	Control		(3,089)		(3,089)
Danco Acquisition Corp.	Affiliate		(3,542)		(3,542)
Noble Logistics, Inc.	Affiliate		(4,301)		(4,301)
Other, net (<$250 Net)	Various	(46)	21		(25)
Total		$ (46)	$ (5,717)	$	$ (5,763)

The primary changes in our net unrealized depreciation for the three months ended June 30, 2012, were notable depreciation of our debt investments in Danco Acquisition Corp., and in our equity investments in Noble Logistics, Inc., or Noble, Tread Corp., or Tread, Venyu Solutions, Inc., and Galaxy Tool Holding Corp., primarily due to decreased portfolio company performance and, to a lesser extent, a decrease in certain comparable multiples used to estimate the fair value of our investments. This depreciation was partially offset by appreciation in CCE, Mitchell, Precision Southeast, Inc. and Mathey, primarily due to increased portfolio company performance.

Table of Contents

During the three months ended June 30, 2011, we had net unrealized depreciation of investments in the aggregate amount of $5.1 million, which included the reversal of $6.1 million in unrealized appreciation, primarily related to the Cavert recapitalization. Excluding reversals, we had $1.1 million in net unrealized appreciation for the three months ended June 30, 2011. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended June 30, 2011, were as follows:

		THREE MONTHS ENDED JUNE 30, 2011			
PORTFOLIO COMPANY	**INVESTMENT CLASSIFICATION**	**REALIZED GAIN (LOSS)**	**UNREALIZED APPRECIATION (DEPRECIATION)**	**REVERSAL OF UNREALIZED (APPRECIATION) DEPRECIATION**	**NET GAIN (LOSS)**
Acme Cryogenics, Inc.	Control	$	$ 3,028	$	$ 3,028
Tread Corp.	Control		1,665		1,665
Noble Logistics, Inc.	Affiliate		1,189	95	1,284
Survey Sampling, LLC	Non-Control/Non-Affiliate		807		807
Venyu Solutions, Inc.	Control		309		309
Precision Southeast, Inc.	Control		(352)		(352)
ASH Holdings Corp.	Control		(375)		(375)
Cavert II Holding Corp.	Affiliate	5,508	76	(6,194)	(610)
Country Club Enterprises, LLC	Control		(5,160)		(5,160)
Other, net (<$250 Net)	Various	231	(126)	(14)	91
Total		**$ 5,739**	**$ 1,061**	**$ (6,113)**	**$ 687**

The primary changes in our net unrealized depreciation for the three months ended June 30, 2011 were the reversal of previously-recorded unrealized appreciation on the Cavert recapitalization and the unrealized depreciation recorded on the debt of CCE, which experienced a significant markdown, primarily due to decreased performance. Appreciation was recorded in our equity holdings of Acme Cryogenics, Inc., or Acme, Tread and Noble as a result of their improved performance, and appreciation was also recorded in our syndicated loan to Survey Sampling as a result of the fact that the loan was repaid at par after the end of the quarter. Excluding the impact of Cavert, CCE and Survey Sampling, the net unrealized appreciation recognized on our portfolio investments was primarily due to an increase in certain comparable multiples, partially offset by decreases in the performance of some of our portfolio companies used to estimate the fair value of our investments.

Over our entire investment portfolio, we recorded, in the aggregate, approximately $2.4 million and $3.3 million of net unrealized depreciation on our debt positions and equity holdings, respectively, for the three months ended June 30, 2012. At June 30, 2012, the fair value of our investment portfolio was less than our cost basis by approximately $46.4 million, as compared to $40.7 million at March 31, 2012. We believe that our aggregate investment portfolio was valued at a depreciated value due to the general instability of the loan markets and lingering effects of the recent recession on the performance of certain of our portfolio companies. Our entire portfolio was fair valued at 83.2% of cost as of June 30, 2012. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution.

Realized and Unrealized Gain and Loss on Other

Realized Loss on Interest Rate Caps

For the three months ended June 30, 2012 and 2011, we recorded net realized losses of $41 and 39, respectively, due to the expiration of one of our interest rate cap agreements in each period.

Unrealized Appreciation on Interest Rate Caps

For the three months ended June 30, 2012 and 2011, we recorded $41 and $39, respectively, of unrealized appreciation due to the reversal of previously-recorded unrealized depreciation on an interest rate cap upon its expiration and the resulting realized loss.

Table of Contents

Net Unrealized Depreciation on Borrowings

Net unrealized depreciation on borrowings is the net change in the fair value of our Credit Facility during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. The net unrealized depreciation on our Credit Facility for the three months ended June 30, 2012, was $0.5 million. There was no unrealized appreciation or depreciation during the prior year period, as there were no borrowings outstanding over the period. Our Credit Facility was fair valued at $31.5 million and zero as of June 30, 2012 and March 31, 2012, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities for the three months ended June 30, 2012, was approximately $5.7 million, as compared to $8.7 million during the three months ended June 30, 2011. This decrease in cash used in operating activities from the prior year period was primarily due to a $9.7 million decrease in investment disbursements, partially offset by a $8.1 million decrease in investment proceeds received, compared to the prior year period. Our cash flows from operations generally come from cash collections of interest and dividend income from our portfolio companies, as well as cash proceeds received through repayments of loan investments and sales of equity investments. These cash collections are primarily used to pay distributions to our stockholders, interest payments on our Credit Facility, dividend payments on our Term Preferred Stock, management fees to our Adviser, and other entity-level expenses.

At June 30, 2012, we had equity investments in or loans to 18 private companies with an aggregate cost basis of approximately $276.2 million. At June 30, 2011, we had investments in equity of, loans to or syndicated participations in 17 private companies with an aggregate cost basis of approximately $214.3 million. The following table summarizes our total portfolio investment activity during the three months ended June 30, 2012 and 2011:

	THREE MONTHS ENDED JUNE 30,	
	2012	**2011**
Beginning investment portfolio, at fair value	**$ 225,652**	$ 153,285
New investments	**9,500**	16,378
Disbursements to existing portfolio companies	**3,265**	6,075
Scheduled principal repayments	**(100)**	(370)
Unscheduled principal repayments	**(2,805)**	(2,697)
Proceeds from sales	**46**	(8,069)
Net realized (loss) gain	**(46)**	5,739
Net unrealized (depreciation) appreciation	**(5,717)**	1,061
Reversal of net unrealized appreciation		(6,113)
Other cash activity, net	**(25)**	
Other non-cash activity, net		6
Ending investment portfolio, at fair value	$ 229,770	$ 165,295

Table of Contents

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at June 30, 2012:

		AMOUNT
For the remaining nine months ending March 31:	2013	$ 39,363
For the fiscal year ending March 31:	2014	27,568
	2015	32,887
	2016	26,775
	2017	64,935
	Thereafter	7,000
	Total contractual repayments	**$ 198,528**
	Investments in equity securities	77,959
	Adjustments to cost basis on debt securities	(257)
	Total cost basis of investments held at June 30, 2012:	**$ 276,230**

Financing Activities

Net cash provided by financing activities for the three months ended June 30, 2012, was approximately $27.6 million and consisted primarily of borrowings under our Credit Facility of $31.0 million, partially offset by $3.3 million in distributions to common stockholders. Net cash used in financing activities for the three months ended June 30, 2011, was approximately $3.1 million and consisted primarily of distributions to common stockholders.

Distributions

To qualify as a RIC and thus avoid corporate level tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. In accordance with these requirements, we declared and paid monthly cash distributions of $0.050 per common share for each of the three months from April 2012 to June 2012. In July 2012, our Board of Directors declared a monthly distribution of $0.05 per common share for each of July, August and September 2012. We declared these distributions based on our estimates of net taxable income for the fiscal year.

For the fiscal year ended March 31, 2012, which includes the three months ended June 30, 2011, our distributions to common stockholders totaled approximately $13.6 million. Distributions to common stockholders declared for the fiscal year ended March 31, 2012, were comprised 100% from ordinary income and none from a return of capital. At year-end, we elected to treat $0.7 million of the first distribution paid after year-end as having been paid in the prior year, in accordance with Section 855(a) of the Code. The characterization of the common distributions declared and paid for the fiscal year ending March 31, 2013 will be determined at year end and cannot be determined at this time. Additionally, the covenants in our Credit Facility restrict the amount of distributions that we can pay out to be no greater than our net investment income.

We also declared and paid monthly cash distributions of $0.12369792 per share of Term Preferred Stock for a prorated portion of March and $0.1484375 per share of Term Preferred Stock for each of the three months from April 2012 through June 2012. In July 2012, our Board of Directors also declared a monthly distribution of $0.1484375 per preferred share for each of July, August and September 2012. In accordance with accounting principles generally accepted in the U.S., or GAAP, we treat these monthly distributions as an operating expense. For tax purposes, these preferred distributions are deemed to be paid entirely out of ordinary income to preferred stockholders.

Equity

Registration Statement

We have filed a registration statement on Form N-2 (File No. 333-181879) with the SEC. The registration statement, of which this prospectus supplement is a part, permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of such securities.

Common Stock

When our common stock is trading below NAV per share, as it has consistently since September 30, 2008, the 1940 Act places regulatory constraints on our ability to obtain additional capital by issuing common stock. Generally, the 1940 Act provides that we may not issue and sell our common stock at a price below our NAV per common share, other than to our then existing common stockholders pursuant to a rights offering, without first obtaining approval from our stockholders and our independent directors. On October 1, 2012, our common stock closed trading at $7.80, representing a 14% discount to our NAV as of June 30, 2012 of $9.10 per share. At our annual meeting of stockholders held on August 9, 2012, our stockholders approved a proposal that authorizes us to sell shares of our common stock at a price below our then current NAV per common share for a period of one year from the date of such approval, provided that our Board of Directors makes certain determinations prior to any such sale. Despite such stockholder approval, we have never issued common stock below NAV per common share until this offering and we have not issued any common stock since May 2008.

Term Preferred Stock

Pursuant to our prior registration statement on Form N-2 (Registration No. 333-160720), in March 2012, we completed an offering of 1.6 million shares of our Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $40.0 million, and net proceeds, after deducting underwriting discounts and offering expenses borne by us were approximately $38.0 million, a portion of which was used to repay borrowings under our Credit Facility. We incurred $2.0 million in total offering costs related to the offering, which have been recorded as an asset in accordance with GAAP and are being amortized over the redemption period ending February 28, 2017.

Our Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly (which equates to approximately $2.9 million per year). We are required to redeem all of the outstanding shares of our Term Preferred Stock on February 28, 2017, for cash at a redemption price equal to $25.00 per share plus an amount equal to accumulated but unpaid dividends, if any, to the date of redemption. Our Term Preferred Stock has a preference over our common stock with respect to dividends, whereby no distributions are payable on our common stock unless the stated dividends, including any accrued and unpaid dividends, on our Term Preferred Stock have been paid in full. In addition, there are three other potential redemption triggers: 1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of the outstanding Term Preferred Stock; 2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of the outstanding shares of our Term Preferred Stock or otherwise cure the ratio redemption trigger and 3) at our sole option, at any time on or after February 28, 2016, we may redeem some or all of the shares of our Term Preferred Stock.

The Term Preferred Stock has been recorded as a liability in accordance with GAAP and, as such, affects our asset coverage, exposing us to additional leverage risks. In addition, our Term Preferred Stock is not convertible into our common stock or any other security.

Revolving Credit Facility

On October 26, 2011, through our wholly-owned subsidiary, Business Investment, we entered into a fourth amended and restated credit agreement increasing the commitment amount on our Credit Facility from $50.0 million to $60.0 million. Our Credit Facility was arranged by BB&T and Keybank as joint lead arrangers and committed lenders with BB&T also serving as administrative agent. This replaced the prior revolving line of credit entered into by us, BB&T and Keybank on April 14, 2009, which provided a $50.0 million revolving line of credit and the renewal of such revolving line of credit through a third amended and restated credit agreement on April 13, 2010. The third amended and restated credit agreement provided for a $50.0 million, two-year revolving line of credit, with advances under the line of credit generally bearing interest at the 30-day LIBOR (subject to a minimum rate of 2.0%), plus

4.5% per annum, with a commitment fee of 0.50% per annum on undrawn amounts when advances outstanding were above 50.0% of the commitment and 1.0% on undrawn amounts if the advances outstanding were below 50.0% of the commitment.

Subject to certain terms and conditions, our Credit Facility may be expanded to a total of $175 million through the addition of other committed lenders to the facility. Our Credit Facility matures on October 25, 2014, or the Maturity Date, and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before October 25, 2015 (one year after the Maturity Date). Advances under the Credit Facility will generally bear interest at 30-day LIBOR plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. There are two one-year extension options, to be agreed upon by all parties, which may be exercised, subject to compliance with the covenants set forth in the credit agreement, on or before October 26, 2012 and October 26, 2013, as applicable. We incurred fees of $0.7 million in connection with this amendment. As of June 30, 2012, we had $31.0 million in borrowings outstanding with approximately $28.3 million of availability under our Credit Facility.

Our Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies without lenders consent. Our Credit Facility also limits payments as distributions to the aggregate net investment income for each of the twelve-month periods ending March 31, 2012, 2013, 2014 and 2015. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward availability credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage, a minimum net worth and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our Term Preferred Stock) of $155.0 million plus 50% of all equity and subordinated debt raised after October 26, 2011, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of June 30, 2012, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $240.9 million, an asset coverage of 230% and an active status as a BDC and RIC. Our Credit Facility requires a minimum of 12 obligors in the borrowing base, and as of June 30, 2012, Business Investment had 15 obligors. As of June 30, 2012, we were in compliance with all of the Credit Facility covenants.

In December 2011, we entered into a forward interest rate cap agreement, effective May 2012 and expiring in October 2013, for a notional amount of $50.0 million that effectively limits the interest rate on a portion of the borrowings under the line of credit pursuant to the terms of our Credit Facility. We incurred a premium fee of $29 in conjunction with this agreement.

The administrative agent also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account, with The Bank of New York Mellon Trust Company, N.A. as custodian. BB&T is also the trustee of the account and generally remits the collected funds to us once a month.

The Adviser services the loans pledged under our Credit Facility. As a condition to this servicing arrangement, we executed a performance guaranty whereby the Adviser guaranteed it would comply with all of its obligations under our Credit Facility. As of July 27, 2012, we were in compliance with the covenants under the performance guaranty.

Short-Term Loan

Similar to previous quarter ends, to maintain our status as a RIC, we purchased $85.0 million of short-term T-Bills through Jefferies on June 28, 2012. As these T-Bills have a maturity of less than three months, we consider them to be cash equivalents and include them in Cash and cash equivalents on our accompanying *Condensed Consolidated Statement of Assets and Liabilities* as of June 30, 2012. The T-Bills were purchased on margin using $9.0 million in cash and the proceeds from a $76.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 0.67%. On July 5, 2012, when the T-Bills matured, we repaid the $76.0 million loan from Jefferies, and on July 6, 2012, we received back the $9.0 million margin payment sent to Jefferies to complete the transaction.

Table of Contents

Contractual Obligations and Off-Balance Sheet Arrangements

We have lines of credit and capital commitments with certain of our portfolio companies that have not been fully drawn. Since these commitments have expiration dates and we expect many will never be fully drawn, the total commitment amounts do not necessarily represent future cash requirements.

In addition to the lines of credit to our portfolio companies, we have also extended certain guarantees on behalf of some our portfolio companies, whereby we have guaranteed an aggregate of $4.4 million of obligations of ASH and CCE. As of June 30, 2012, we have not been required to make any payments on any of the guarantees and we consider the credit risks to be remote.

We estimate the fair value of our unused line of credit commitments, uncalled capital commitments, and guarantees as of June 30, 2012 to be minimal; and therefore, they are not recorded on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*.

The following table shows our contractual obligations as of June 30, 2012, at cost:

CONTRACTUAL OBLIGATIONS [(A)]	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	MORE THAN 5 YEARS
Credit Facility	$ 31,000	$	$ 31,000	$	$
Term Preferred Stock	40,000			40,000	
Interest and dividend payments on obligations [(B)]	16,547	4,251	7,546	4,750	
Total	$ 87,547	$ 4,251	$ 38,546	$ 44,750	$

(A) Excludes our unused line of credit commitments and guarantees to our portfolio companies in the aggregate amount of $5.3 million.
(B) Includes interest payments due on our Credit Facility and dividend obligations on the Term Preferred Stock. Dividend payments on the Term Preferred Stock assume quarterly declarations and monthly distributions through the date of mandatory redemption.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, including disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates. We have identified our investment valuation process as our most critical accounting policy.

Investment Valuation

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

General Valuation Policy: We value our investments in accordance with the requirements of the 1940 Act. As discussed more fully below, we value securities for which market quotations are readily available and reliable at their market value. We value all other securities and assets at fair value, as determined in good faith by our Board of Directors. Such determination of fair values may involve subjective judgments and estimates.

The Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

- *Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Table of Contents

- *Level 2* inputs to the valuation methodology include quoted prices for similar assets and liabilities in active or inactive markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

- *Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the asset or liability and can include our own assumptions based upon the best available information.

As of June 30, 2012 and March 31, 2012, all of our investments were valued using Level 3 inputs. See Note 3 *Investments* in our accompanying notes to our *Condensed Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding fair value measurements and our application of ASC 820.

We use generally accepted valuation techniques to value our portfolio unless we have specific information about the value of an investment to determine otherwise. From time to time we may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently but provide a third-party valuation opinion that may differ in results, techniques and scope used to value our investments. When these specific, third-party appraisals are obtained, we would use estimates of value provided by such appraisals and our own assumptions, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date, to value our investments.

In determining the value of our investments, our Adviser has established an investment valuation policy, which we refer to as the Policy. The Policy has been approved by our Board of Directors, and each quarter, our Board of Directors reviews whether our Adviser has applied the Policy consistently and votes whether or not to accept the recommended valuation of our investment portfolio.

The Policy, which is summarized below, applies to the following categories of securities:

- Publicly-traded securities;

- Securities for which a limited market exists; and

- Securities for which no market exists.

Valuation Methods:

Publicly-traded securities: We determine the value of publicly-traded securities based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own restricted securities that are not freely tradable but for which a public market otherwise exists, we will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature. As of June 30, 2012 and March 31, 2012, we did not have any investments in publicly-traded securities.

Securities for which a limited market exists: We value securities that are not traded on an established, secondary securities market but for which a limited market for the security exists, such as certain participations in, or assignments of, syndicated loans, at the quoted bid price, which are non-binding. In valuing these assets, we assess trading activity in the asset class and evaluate variances in prices and other market insights to determine if any available quoted prices are reliable. In general, if we conclude that quotes based on active markets or trading activity may be relied upon, firm bid-ask price ranges are requested; however, if firm bid-ask prices are unavailable, we base the value of the security upon the indicative bid price, or IBP, offered by the respective, originating syndication agent s trading desk or secondary desk on or near the valuation date. To the extent that we use the IBP as a basis for valuing the security, our Adviser may take further steps to consider additional information to validate that price in accordance with the Policy, including, but not limited to, reviewing a range of indicative bids to the extent the Adviser has ready access to such qualified information.

In the event these limited markets become illiquid to a degree that market prices are no longer readily available, we will value our syndicated loans using alternative methods, such as estimated net present values of the future cash flows, or discounted cash flows, or DCF. The use of a DCF methodology follows that prescribed by ASC 820, which

provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant, observable inputs, such as quotes in active markets, are not available. When relevant, observable market data does not exist, an alternative outlined in ASC 820 is the valuation of investments based on DCF. For the purposes of using DCF to provide fair value estimates, we consider multiple inputs, such as a risk-adjusted discount rate that incorporates adjustments that market participants would make, both for nonperformance and liquidity risks. As such, we develop a modified discount rate approach that incorporates risk premiums, including, among other things, increased probability of default, higher loss given default and increased liquidity risk. The DCF valuations applied to the syndicated loans provide an estimate of what we believe a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. We will apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity. At June 30, 2012 and March 31, 2012, we had no syndicated investments.

Securities for which no market exists: The valuation methodology for securities for which no market exists falls into four categories: (A) portfolio investments comprised solely of debt securities; (B) portfolio investments in controlled companies comprised of a bundle of securities, which can include debt and equity securities; (C) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities; and (D) portfolio investments comprised of non-publically traded non-control equity securities of other funds.

(A) Portfolio investments comprised solely of debt securities: Debt securities that are not publicly-traded on an established securities market or for which a limited market does not exist, or Non-Public Debt Securities, and that are issued by portfolio companies in which we have no equity or equity-like securities are fair valued in accordance with the terms of the Policy, which utilize opinions of value submitted to us by Standard & Poor s Securities Evaluations, Inc., or SPSE. We may also submit PIK interest to SPSE for its evaluation when it is determined that PIK interest is likely to be received.

In the case of Non-Public Debt Securities, we have engaged SPSE to submit opinions of value for our debt securities that are issued by portfolio companies in which we own no equity or equity-like securities. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation and may decline to make requested evaluations for any reason, at its sole discretion. Quarterly, we collect data with respect to the investments (which includes portfolio company financial and operational performance and the information described below under Credit Information, the risk ratings of the loans, described below under Loan Grading and Risk Rating and the factors described hereunder). This portfolio company data is forwarded to SPSE for review and analysis. SPSE makes its independent assessment of the data that we have assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

SPSE provides evaluated price opinions which are reflective of what SPSE believes the bid side of the market would be for each loan after careful review and analysis of descriptive, market and credit information. Each price reflects SPSE s best judgment based upon careful examination of a variety of market factors. Because of fluctuation in the market and in other factors beyond its control, SPSE cannot guarantee these evaluations. The evaluations reflect the market prices, or estimates thereof, on the date specified. The prices are based on comparable market prices for similar securities. Market information has been obtained from reputable secondary market sources. Although these sources are considered reliable, SPSE cannot guarantee their accuracy.

SPSE opinions of the value of our debt securities that are issued by portfolio companies in which we do not own equity or equity-like securities are submitted to our Board of Directors along with our Adviser s supplemental assessment and recommendation regarding valuation of each of these investments. Our Adviser generally accepts the opinion of value given by SPSE; however, in certain limited circumstances, such as when our Adviser may learn new information regarding an investment between the time of submission to SPSE and the date of our Board of Directors assessment, our Adviser s conclusions as to value may differ from the opinion of value delivered by SPSE. Our Board of Directors then reviews whether our Adviser has followed its established procedures for determinations of fair value, and votes to accept or reject the recommended valuation of our investment portfolio. Our Adviser and our management recommended, and our Board of Directors voted to accept, the opinions of value delivered by SPSE on the loans in our portfolio as denoted on the Schedule of Investments included in our accompanying *Condensed Consolidated Financial Statements*.

Table of Contents

Because there is a delay between when we close an investment and when the investment can be evaluated by SPSE, new loans are not valued immediately by SPSE; rather, management makes its own determination about the value of these investments in accordance with our valuation policy using the methods described herein.

(B) Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The fair value of these investments is determined based on the total enterprise value, or TEV, of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for our Non-Public Debt Securities and equity or equity-like securities (e.g., preferred equity, common equity or other equity-like securities) that are purchased together as part of a package where we have control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale of the portfolio company. We manage our risk related to these investments at the aggregated issuer level and generally exit the debt and equity securities together. Applying the liquidity waterfall approach to all of the investments of an issuer, we first calculate the TEV of the issuer by incorporating some or all of the following factors:

- the issuer s ability to make payments;
- the earnings of the issuer;
- recent sales to third parties of similar securities;
- the comparison to publicly-traded securities; and
- DCF or other pertinent factors.

In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once we have estimated the TEV of the issuer, we will subtract the value of all the debt securities of the issuer, which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of TEV over the total debt outstanding for the issuer. Once the values for all outstanding senior securities, which include all the debt securities, have been subtracted from the TEV of the issuer, the remaining amount, if any, is used to determine the value of the issuer s equity or equity-like securities. If, in the Adviser s judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, the Adviser may recommend that we use a valuation by SPSE, or, if that is unavailable, a DCF valuation technique.

(C) Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities: We value Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical, secondary market as our principal market. In accordance with ASC 820 (as amended by the FASB s Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards,), we have defined our unit of account at the investment level (either debt or equity), and thus determine our fair value of these non-control investments assuming the sale of an individual security using the standalone premise of value. As such, we estimate the fair value of the debt component using estimates of value provided by SPSE and our own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, we estimate the fair value of the equity based on factors such as the overall value of the issuer, the relative fair value of other units of account including debt, or other relative value approaches. Consideration also is given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, we may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in the absence of other observable market data, our own assumptions.

(D) Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds: To the extent applicable, we generally value any uninvested capital of the non-control fund at par value and value any invested capital at the value provided by the non-control fund. At June 30, 2012 and March 31, 2012, we had no non-control equity securities of other funds.

Table of Contents

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly and materially from the values that would have been obtained had a ready market for the securities existed. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that we might reasonably expect to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

Valuation Considerations: From time to time, depending on certain circumstances, the Adviser may use the following valuation considerations, including, but not limited to:

- the nature and realizable value of the collateral;
- the portfolio company s earnings and cash flows and its ability to make payments on its obligations;
- the markets in which the portfolio company does business;
- the comparison to publicly-traded companies; and
- DCF and other relevant factors.

Because such valuations, particularly valuations of private securities and private companies, are not susceptible to precise determination, may fluctuate over short periods of time, and may be based on estimates, our determinations of fair value may differ from the values that might have actually resulted had a readily available market for these securities been available.

Credit Information: Our Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance. We and our Adviser generally participate in the periodic board meetings of our portfolio companies in which we hold Control and Affiliate investments and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, our Adviser calculates and evaluates the credit statistics.

Loan Grading and Risk Rating: As part of our valuation procedures above, we risk rate all of our investments in debt securities. For syndicated loans that have been rated by a Nationally Recognized Statistical Rating Organization, or NRSRO, we use the NRSRO s risk rating for such security. For all other debt securities, we use a proprietary risk rating system. Our risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. This system is used to estimate the probability of default on debt securities and the probability of loss if there is a default. These types of systems are referred to as risk rating systems and are used by banks and rating agencies. The risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

Table of Contents

For the debt securities for which we do not use a third-party NRSRO risk rating, we seek to have our risk rating system mirror the risk rating systems of major risk rating organizations, such as those provided by an NRSRO. While we seek to mirror the NRSRO systems, we cannot provide any assurance that our risk rating system will provide the same risk rating as an NRSRO for these securities. The following chart is an estimate of the relationship of our risk rating system to the designations used by two NRSROs as they risk rate debt securities of major companies. Because our system rates debt securities of companies that are unrated by any NRSRO, there can be no assurance that the correlation to the NRSRO set out below is accurate. We believe our risk rating would be higher than a typical NRSRO risk rating because the risk rating of the typical NRSRO is designed for larger businesses. However, our risk rating has been designed to risk rate the securities of smaller businesses that are not rated by a typical NRSRO. Therefore, when we use our risk rating on larger business securities, the risk rating is higher than a typical NRSRO rating. The primary difference between our risk rating and the rating of a typical NRSRO is that our risk rating uses more quantitative determinants and includes qualitative determinants that we believe are not used in the NRSRO rating. It is our understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on an NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, our scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB or Baa2 from an NRSRO, however, no assurance can be given that a >10 on our scale is equal to a BBB or Baa2 on an NRSRO scale.

COMPANY S SYSTEM	FIRST NRSRO	SECOND NRSRO	GLADSTONE INVESTMENT S DESCRIPTION[(a)]
>10	Baa2	BBB	Probability of Default (PD) during the next 10 years is 4% and the Expected Loss upon Default (EL) is 1% or less
10	Baa3	BBB-	PD is 5% and the EL is 1% to 2%
9	Ba1	BB+	PD is 10% and the EL is 2% to 3%
8	Ba2	BB	PD is 16% and the EL is 3% to 4%
7	Ba3	BB-	PD is 17.8% and the EL is 4% to 5%
6	B1	B+	PD is 22% and the EL is 5% to 6.5%
5	B2	B	PD is 25% and the EL is 6.5% to 8%
4	B3	B-	PD is 27% and the EL is 8% to 10%
3	Caa1	CCC+	PD is 30% and the EL is 10% to 13.3%
2	Caa2	CCC	PD is 35% and the EL is 13.3% to 16.7%
1	Caa3	CC	PD is 65% and the EL is 16.7% to 20%
0	N/A	D	PD is 85% or there is a payment default and the EL is greater than 20%

(a) The default rates set forth are for a 10-year term debt security. If a debt security is less than 10 years, then the probability of default is adjusted to a lower percentage for the shorter period, which may move the security higher on our risk rating scale.

The above scale gives an indication of the probability of default and the magnitude of the loss if there is a default. Generally, our policy is to stop accruing interest on an investment if we determine that interest is no longer collectable. As of both June 30, 2012 and March 31, 2012, two control investments, ASH and CCE, were on non-accrual with an aggregate fair value of $4.0 million and $0, respectively. Additionally, we do not risk rate our equity securities.

The following table lists the risk ratings for all proprietary loans in our portfolio as of June 30, 2012 and March 31, 2012, representing approximately 100.0% of the principal balance of all loans in our portfolio at the end of each period:

RATING	AS OF JUNE 30, 2012	AS OF MARCH 31, 2012
Highest	**7.9**	7.9
Average	**4.9**	5.0
Weighted Average	**5.0**	5.3
Lowest	**2.1**	2.4

As of June 30, 2012 and March 31, 2012, we did not have any non-proprietary loans in our investment portfolio.

Table of Contents

Tax Status

Federal Income Taxes

We intend to continue to qualify for treatment as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. For more information regarding the requirements we must meet as a RIC, see Business Environment. Under the annual distribution requirements, we are required to distribute to stockholders at least 90% of our investment company taxable income, as defined by the Code. Our practice has been to pay out as distributions up to 100% of that amount.

In an effort to limit certain excise taxes imposed on RICs, we generally distribute during each calendar year, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. However, we did incur an excise tax of $30 and $24 for the calendar years ended December 31, 2011 and 2010, respectively. Under the RIC Modernization Act, we are permitted to carry forward capital losses incurred in taxable years beginning after March 31, 2011, for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than only being considered short-term as permitted under previous regulation.

Revenue Recognition

Interest Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs, the accretion of discounts and the amortization of amendment fees, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past-due principal and interest are paid, and, in management s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectible. At June 30, 2012, loans to two portfolio companies, ASH and CCE, were on non-accrual. These non-accrual loans had an aggregate cost value of $16.8 million, or 8.5% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $4.0 million, or 2.3% of the fair value of all debt investments in our portfolio. At March 31, 2012, ASH and CCE were on non-accrual with an aggregate debt cost basis of $16.4 million, or 8.6% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $0.

We did not hold any loans in our portfolio that contained a PIK provision at June 30, 2012; however, during the three months ended June 30, 2011, we recorded PIK income of $6. PIK income, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be included in our calculation of distributable income for purposes of complying with our distribution requirements, even though we have not yet collected the cash. The sole loan with a PIK provision was paid off, at par, during the quarter ended September 30, 2011.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company and are recorded in other income in our accompanying *Condensed Consolidated Statements of Operations*. We recorded $0.4 million and $0.1 million of success fees during the three months ended June 30, 2012 and 2011, respectively, representing prepayments received from Mathey.

We accrue dividend income on preferred equity securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash, and it is recorded in Other income in our accompanying *Condensed Consolidated Statements of Operations*. We did not record any dividend income during the three months ended June 30, 2012; however, during the three months ended June 30, 2011, we recorded and collected $0.7 million of cash dividends on accrued preferred shares in connection with the recapitalization of Cavert.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The prices of securities held by us may decline in response to certain events, including those directly involving the companies whose securities are owned by us; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and interest rate fluctuations.

The primary risk we believe we are exposed to is interest rate risk. Because we borrow money to make investments, our net investment is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We use a combination of debt and equity capital to finance our investing activities. We may use interest rate risk management techniques to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. We have analyzed the potential impact of changes in interest rates on interest income net of interest expense.

While we expect that ultimately approximately 20% of the loans in our portfolio will be made at fixed rates, with approximately 80% made at variable rates or variables rates with a floor mechanism, all of our variable-rate loans have rates associated with either the current LIBOR or Prime Rate. At June 30, 2012, our portfolio consisted of the following breakdown based on total principal balance of all outstanding debt investments:

76.5%	Variable rates with a floor
23.5	Fixed rates
100.0%	**Total**

There have been no material changes in the quantitative and qualitative market risk disclosures for the three months ended June 30, 2012, from that disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012, as filed with the SEC on May 21, 2012.

UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement dated October 2, 2012, between us and Jefferies & Company, Inc., as representative of the several underwriters, we have agreed to sell to the underwriters and the underwriters have severally agreed to purchase from us, the number of shares of common stock indicated in the table below:

Underwriters	Number of Shares
Jefferies & Company, Inc.	2,440,000
Janney Montgomery Scott LLC	600,000
J.J.B. Hilliard, W.L. Lyons, LLC	320,000
Ladenburg Thalmann & Co. Inc.	320,000
Wunderlich Securities, Inc.	320,000
Total	4,000,000

Jefferies & Company, Inc. is acting as sole book-running manager of this offering and as representative of the underwriters named above.

The underwriting agreement provides that the obligations of the several underwriters are subject to certain conditions precedent such as the receipt by the underwriters of officers certificates and legal opinions and approval of certain legal matters by their counsel. The underwriting agreement provides that the underwriters will purchase all of the shares of common stock if any of them are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or, under certain circumstances, the underwriting agreement may be terminated. We have agreed to indemnify the underwriters and certain of their controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares of common stock subject to their acceptance of the shares of common stock from us and subject to prior sale. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. In addition, the underwriters have advised us that they do not intend to confirm sales to any account over which they exercise discretionary authority.

Commission and Expenses

The underwriters have advised us that they propose to offer the shares of common stock to the public at the initial public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of $0.225 per share of common stock. After the offering, the initial public offering price and concession may be reduced by the representatives. No such reduction will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement. The following table shows the public offering price, the underwriting discounts and commissions that we are to pay the underwriters and the proceeds, before expenses, to us in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares of common stock.

	PER SHARE		TOTAL	
	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES
Public offering price	$ 7.500	$ 7.500	$ 30,000,000	$ 34,500,000
Underwriting discounts and commissions paid by us	$ 0.375	$ 0.375	$ 1,500,000	$ 1,725,000
Proceeds to us, before expenses	$ 7.125	$ 7.125	$ 28,500,000	$ 32,775,000

We estimate that expenses payable by us in connection with this offering, other than underwriting discounts and commissions referred to above, will be approximately $235,000.

Listing

The common stock is traded on the NASDAQ under the symbol GAIN.

Option to Purchase Additional Shares

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an aggregate of 600,000 additional shares of common stock at the public offering price set forth on the cover page of this prospectus supplement, less underwriting discounts and commissions. If the underwriters exercise this option, each underwriter will be obligated, subject to specified conditions, to purchase a number of additional shares of common stock proportionate to that underwriter s initial purchase commitment as indicated in the table above. This option may be exercised only if the underwriters sell more shares of common stock than the total number set forth in the table above.

No Sales of Similar Securities

We and our executive officers and directors have agreed that, for a period of 90 days after the date of this prospectus supplement and subject to certain exceptions, we will not, directly or indirectly, without the prior written consent of Jefferies & Company, Inc., (i) sell, offer to sell, contract to sell or lend any common stock or Related Securities (as defined below); (ii) effect any short sale, or establish or increase any put equivalent position (as defined in Rule 16a-1(h) under the Exchange Act) or liquidate or decrease any call equivalent position (as defined in Rule 16a-1(b) under the Exchange Act) of any common stock or Related Securities; (iii) pledge, hypothecate or grant any security interest in any common stock or Related Securities; (iv) in any other way transfer or dispose of any common stock or Related Securities; (v) enter into any swap, hedge or similar arrangement or agreement that transfers, in whole or in part, the economic risk of ownership of any common stock or Related Securities, regardless of whether any such transaction is to be settled in securities, in cash or otherwise; (vi) announce the offering of any common stock or Related Securities; (vii) file any registration statement under the Securities Act in respect of any common stock or Related Securities (other than as contemplated by the underwriting agreement with respect to the common stock); or (viii) publicly announce the intention to do any of the foregoing. For purposes of the foregoing, Related Securities shall mean any options or warrants or other rights to acquire common stock or any securities exchangeable or exercisable for or convertible into common stock, or to acquire other securities or rights ultimately exchangeable or exercisable for, or convertible into, common stock.

This restriction terminates after the close of trading of our common stock on and including the 90 days after the date of this prospectus supplement. However, subject to certain exceptions, in the event that either:

- during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs, or

- prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period,

then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the issuance of an earnings release or the occurrence of the material news or event, as applicable, unless Jefferies & Company, Inc. waives, in writing, such an extension.

Jefferies & Company, Inc. may, in its sole discretion and at any time or from time to time before the termination of the 90-day period, without public notice, release all or any portion of the securities subject to lock-up agreements.

Stabilization

The underwriters have advised us that, pursuant to Regulation M under the Exchange Act as amended, certain persons participating in the offering may engage in transactions, including over-allotment, stabilizing bids, syndicate covering transactions or the imposition of penalty bids, which may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Establishing short sales positions may involve either covered short sales or naked short sales.

Covered short sales are sales made in an amount not greater than the underwriters option to purchase additional shares of our common stock in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares of our common stock or purchasing shares of our common stock in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares.

Naked short sales are sales in excess of the option to purchase additional shares of our common stock. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common stock in the open market after pricing that could adversely affect investors who purchase in this offering.

A stabilizing bid is a bid for the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A syndicate covering transaction is the bid for or the purchase of shares of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. Similar to other purchase transactions, the underwriters purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. A penalty bid is an arrangement permitting the underwriters to reclaim the selling concession otherwise accruing to a syndicate member in connection with the offering if the common stock originally sold by such syndicate member are purchased in a syndicate covering transaction and therefore have not been effectively placed by such syndicate member. Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. The underwriters are not obligated to engage in these activities and, if commenced, any of the activities may be discontinued at any time.

None of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the shares of our common stock. The underwriters are not obligated to engage in these activities and, if commenced, any of the activities may be discontinued at any time.

The underwriters may also engage in passive market making transactions in our common stock on the NASDAQ in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker s bid, that bid must then be lowered when specified purchase limits are exceeded.

Electronic Distribution

A prospectus supplement in electronic format may be made available by e-mail or on the web sites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares of common stock for sale to online brokerage account holders. Any such allocation for

online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus supplement in electronic format, the information on the underwriters web sites and any information contained in any other web site maintained by any of the underwriters is not part of this prospectus supplement, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

Affiliations and Conflicts of Interest

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the account of their customers, and such investment and securities activities may involve our securities and/or instruments. The underwriters and certain of their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Table of Contents

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND PAYING AGENT

The custodian of our assets is The Bank of New York Mellon Corp. The custodian s address is: 500 Ross Street, Suite 935, Pittsburgh, PA 15262. Our assets are held under bank custodianship in compliance with the 1940 Act. Securities held through our wholly owned subsidiary, Gladstone Business Investment, LLC, or Business Investment, are held under a custodian agreement with The Bank of New York Mellon Corp., which acts as collateral custodian pursuant to the Credit Facility with Branch Banking and Trust Company and certain other parties. The address of the collateral custodian is 500 Ross Street, Suite 935, Pittsburgh, PA 15262. Computershare acts as our transfer and dividend paying agent and registrar. The principal business address of Computershare is 480 Washington Boulevard, Jersey City, New Jersey 07310, telephone number 1-877-296-3711. Computershare also maintains an internet website at www.computershare.com.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act and are required to file reports, proxy statements and other information with the SEC. These documents may be inspected and copied for a fee at the SEC s public reference room, 100 F Street, N.E., Washington, D.C. 20549.

This prospectus supplement and the accompanying prospectus do not contain all of the information in our registration statement, including amendments, exhibits and schedules. Statements in this prospectus supplement and in the accompanying prospectus about the contents of any contract or other document are not necessarily complete and, in each instance, reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

Additional information about the Company and the Preferred Stock may be found in our registration statement on Form N-2 (including the related amendments, exhibits and schedules) filed with the SEC. The SEC maintains a web site (http://www.sec.gov) that contains our registration statement, other documents incorporated by reference in the registration statement and other information that we have filed electronically with the SEC, including proxy statements and reports filed under the Exchange Act.

LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Cooley LLP, Reston, Virginia. Certain legal matters will be passed upon for the underwriters by Jones Day.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statements of Assets and Liabilities as of June 30, 2012 (unaudited) and March 31, 2012	S-F-2
Condensed Consolidated Statements of Operations for the three months ended June 30, 2012 and 2011 (unaudited)	S-F-3
Condensed Consolidated Statements of Changes in Net Assets for the three months ended June 30, 2012 and 2011 (unaudited)	S-F-4
Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2012 and 2011 (unaudited)	S-F-5
Condensed Consolidated Schedules of Investments as of June 30, 2012 (unaudited) and March 31, 2012	S-F-6
Notes to Condensed Consolidated Financial Statements	S-F-14

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	JUNE 30, 2012	MARCH 31, 2012
ASSETS		
Investments at fair value		
Control investments (Cost of **$187,278** and $186,743, respectively)	**$ 160,434**	$ 157,544
Affiliate investments (Cost of **$79,342** and $70,015, respectively)	**60,445**	58,831
Non-Control/Non-Affiliate investments (Cost of **$9,610** and $9,637, respectively)	**8,891**	9,277
Total investments at fair value (Cost of **$276,230** and $266,395, respectively)	**229,770**	225,652
Cash and cash equivalents	**113,431**	91,546
Restricted cash	**1,312**	1,928
Interest receivable	**981**	1,250
Due from custodian	**1,563**	1,527
Deferred financing costs	**2,592**	2,792
Other assets	**708**	602
TOTAL ASSETS	**$ 350,357**	$ 325,297
LIABILITIES		
Borrowings at fair value:		
Short-term loan (Cost of **$76,010** and $76,005, respectively)	**$ 76,010**	$ 76,005
Line of credit (Cost of **$31,000** and $0, respectively)	**31,492**	
Total borrowings (Cost of **$107,010** and $76,005, respectively)	**107,502**	76,005
Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **1,610,000** shares authorized, **1,600,000** shares issued and outstanding at June 30 and March 31, 2012	**40,000**	40,000
Accounts payable and accrued expenses	**628**	506
Fees due to Adviser [(A)]	**353**	496
Fee due to Administrator [(A)]	**183**	218
Other liabilities	**804**	856
TOTAL LIABILITIES	**149,470**	118,081
Commitments and contingencies [(B)]		
NET ASSETS	**$ 200,887**	$ 207,216
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value per share, 100,000,000 shares authorized, 22,080,133 shares issued and outstanding at June 30 and March 31, 2012, respectively	**$ 22**	$ 22
Capital in excess of par value	**257,131**	257,131

Cumulative net unrealized depreciation of investments	**(46,460)**	(40,743)
Cumulative net unrealized depreciation of other	**(519)**	(68)
Net investment income in excess of distributions	**321**	321
Accumulated net realized loss	**(9,608)**	(9,447)
TOTAL NET ASSETS	**$ 200,887**	$ 207,216
NET ASSET VALUE PER SHARE AT END OF PERIOD	**$ 9.10**	$ 9.38

(A) Refer to Note 4 *Related Party Transactions* for additional information.

(B) Refer to Note 11 *Commitments and Contingencies* for additional information.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 2012	2011
INVESTMENT INCOME		
Interest income:		
Control investments	**$ 3,430**	$ 2,634
Affiliate investments	**1,771**	1,368
Non-Control/Non-Affiliate investments	**308**	405
Cash and cash equivalents	**2**	4
Total interest income	**5,511**	4,411
Other income:		
Control investments	**394**	835
Non-Control/Non-Affiliate investments		16
Total other income	**394**	851
Total investment income	**5,905**	5,262
EXPENSES		
Base management fee [(A)]	**1,191**	1,008
Incentive fee [(A)]		19
Administration fee [(A)]	**183**	151
Interest expense on borrowings	**92**	132
Dividends on mandatorily redeemable preferred stock	**713**	
Amortization of deferred financing costs	**200**	108
Professional fees	**194**	209
Other general and administrative expenses	**278**	350
Expenses before credits from Adviser	**2,851**	1,977
Credits to fees [(A)]	**(184)**	(215)
Total expenses net of credits to fees	**2,667**	1,762
NET INVESTMENT INCOME	**$ 3,238**	$ 3,500
REALIZED AND UNREALIZED (LOSS) GAIN		
Net realized (loss) gain:		
Control investments	**(46)**	5,734
Non-Control/Non-Affiliate investments		5

Other		**(41)**		(39)
Total net realized (loss) gain		**(87)**		5,700
Net unrealized appreciation (depreciation):				
Control investments		**2,354**		(7,951)
Affiliate investments		**(7,712)**		2,079
Non-Control/Non-Affiliate investments		**(359)**		820
Other		**(451)**		39
Total net unrealized depreciation		**(6,168)**		(5,013)
Net realized and unrealized (loss) gain		**(6,255)**		687
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**(3,017)**	$	4,187
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:				
Basic and Diluted	**$**	**(0.13)**	$	0.19
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic and diluted		**22,080,133**		22,080,133

(A) Refer to Note 4 *Related Party Transactions* for additional information.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2012	**2011**
Operations:		
Net investment income	**$ 3,238**	$ 3,500
Net realized (loss) gain on investments	**(46)**	5,739
Net realized loss on other	**(41)**	(39)
Net unrealized depreciation of investments	**(5,717)**	(5,052)
Net unrealized (depreciation) appreciation of other	**(451)**	39
Net (decrease) increase in net assets from operations	**(3,017)**	4,187
Distributions to common stockholders:	**(3,312)**	(2,981)
Total (decrease) increase in net assets	**(6,329)**	1,206
Net assets at beginning of period	**207,216**	198,829
Net assets at end of period	**$ 200,887**	$ 200,035

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets resulting from operations	**$ (3,017)**	$ 4,187
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	**(12,765)**	(22,459)
Principal repayments of investments	**2,930**	3,067
(Disbursements) proceeds from the sale of investments	**(46)**	8,069
Net realized loss (gain) on investments	**46**	(5,739)
Net realized loss on other	**41**	39
Net unrealized depreciation of investments	**5,717**	5,052
Net unrealized depreciation (appreciation) of other	**451**	(39)
Amortization of deferred financing costs	**200**	108
Decrease in restricted cash	**616**	69
Decrease (increase) in interest receivable	**269**	(45)
Increase in due from custodian	**(36)**	(767)
Increase in other assets	**(106)**	(25)
Increase in accounts payable and accrued expenses	**229**	183
Decrease in fees due to Adviser [(A)]	**(143)**	(191)
Decrease in administration fee payable to Administrator [(A)]	**(35)**	(20)
Decrease in other liabilities	**(52)**	(155)
Net cash used in operating activities	**(5,701)**	(8,666)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	**76,010**	40,000
Repayments on short-term loans	**(76,005)**	(40,000)
Proceeds from Credit Facility	**31,000**	
Deferred financing costs	**(107)**	(75)
Distributions paid to common stockholders	**(3,312)**	(2,981)
Net cash provided by (used in) financing activities	**27,586**	(3,056)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**21,885**	(11,722)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**91,546**	80,580
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 113,431**	$ 68,858

[A] Refer to Note 4 *Related Party Transactions* for additional information.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY [(A)]	INDUSTRY	INVESTMENT [(B)]	PRINCIPAL	COST	FAIR VALUE
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2015)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares) [(C) (F)]		6,984	11,235
		Common Stock (418,072 shares) [(C) (F)]		1,045	1,257
		Common Stock Warrants (452,683 shares) [(C) (F)]		25	389
				22,554	27,381
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, $170 available			
		(3.0%, Due 3/2013) [(G)]	6,830	6,773	
		Senior Subordinated Term Debt (2.0%, Due 3/2013) [(G)]	6,250	6,050	
		Preferred Stock (4,644 shares) [(C) (F)]		2,500	
		Common Stock (1 share) [(C) (F)]			
		Common Stock Warrants (73,599 shares) [(C) (F)]		4	
		Guarantee ($500)			
				15,327	
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (14.0%, Due 11/2014) [(G)]	4,000	4,000	4,000
		Preferred Stock (7,304,792 shares) [(C) (F)]		7,725	634
		Guarantee ($2,000)			
		Guarantee ($1,934)			
				11,725	4,634
Galaxy Tool Holding Corp.	Manufacturing aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)	3,220	3,220	3,220
		Preferred Stock (4,111,907 shares) [(C) (F)]		19,658	328
		Common Stock (48,093 shares) [(C) (F)]		48	
				22,926	3,548
Mathey Investments, Inc.	Manufacturing pipe-cutting and pipe-fitting equipment	Senior Term Debt (10.0%, Due 3/2013)	2,375	2,375	2,375
		Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
		Senior Term Debt (2.5%, Due 3/2014) [(E)]	3,500	3,500	3,500
		Common Stock (29,102 shares) [(C) (F)]		777	5,210
				10,379	14,812

Mitchell Rubber Products, Inc.	Manufacturing rubber compounds	Subordinated Term Debt (13.0%, Due 10/2016) (D)	13,560	13,560	13,424
		Preferred Stock (27,900 shares) (C) (F)		2,790	2,999
		Common Stock (27,900 shares) (C) (F)		28	3,323
				16,378	19,746

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY [(A)]	INDUSTRY	INVESTMENT [(B)]	PRINCIPAL	COST	FAIR VALUE
Precision Southeast, Inc.	Manufacturing injection molding and plastics	Revolving Credit Facility, $251 available (7.5%, Due 9/2012)	749	749	749
		Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares) [(C) (F)]		1,909	2,145
		Common Stock (90,909 shares) [(C) (F)]		91	580
				10,524	11,249
SBS, Industries, LLC	Manufacturing specialty fasteners and threaded screw products	Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355
		Preferred Stock (19,935 shares) [(C) (F)]		1,994	2,127
		Common Stock (221,500 shares) [(C) (F)]		221	4,321
				13,570	17,803
SOG Specialty K&T, LLC	Manufacturing specialty knives and tools	Senior Term Debt (13.3%, Due 8/2016)	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 8/2016)	12,199	12,199	12,199
		Preferred Stock (9,749 shares) [(C) (F)]		9,749	12,155
				28,148	30,554
Tread Corp.	Manufacturing storage and transport equipment	Senior Subordinated Term Debt (12.5%, Due 5/2013)	7,750	7,750	6,847
		Senior Subordinated Term Debt (12.5%, Due 7/2012)	2,160	2,160	1,908
		Preferred Stock (832,765 shares) [(C) (F)]		833	
		Common Stock (129,067 shares) [(C) (F)]		1	
		Common Stock Warrants (1,247,727 shares) [(C) (F)]		3	
				10,747	8,755
Venyu Solutions, Inc.	Service online servicing suite	Senior Subordinated Term Debt (11.3%, Due 10/2015)	7,000	7,000	7,000
		Senior Subordinated Term Debt (14.0%, Due 10/2015)	12,000	12,000	12,000
		Preferred Stock (5,400 shares) [(C) (F)]		6,000	2,952
				25,000	21,952
Total Control Investments (represents 69.8% of total investments at fair value)				**$ 187,278**	**$ 160,434**
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp.	Manufacturing bailing wire	Senior Term Debt (10.0%, Due 4/2016) [(D) (E) (I)]	$ 500	$ 500	$ 500
		Senior Subordinated Term Debt (11.8%, Due 4/2016) [(D)]	5,700	5,700	5,764
		Subordinated Term Debt (13.0%, Due 4/2016) [(D)]	4,671	4,671	4,735
		Preferred Stock (18,446 shares) [(C) (F)]		1,844	2,647

	12,715	13,646

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY [(A)]	INDUSTRY	INVESTMENT [(B)]	PRINCIPAL	COST	FAIR VALUE
Channel Technologies Group, LLC	Manufacturing acoustic products	Revolving Credit Facility, $400 available (7.0%, Due 12/2012) [(D)]	850	850	839
		Senior Term Debt (8.3%, Due 12/2014) [(D)]	5,853	5,853	5,780
		Senior Term Debt (12.3%, Due 12/2016) [(D)]	10,750	10,750	10,616
		Preferred Stock (1,599 shares) [(C) (F)]		1,599	1,321
		Common Stock (1,598,616 shares) [(C) (F)]			
				19,052	18,556
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, $0 available (10.0%, Due 10/2012) [(D)]	2,250	2,250	1,125
		Senior Term Debt (10.0%, Due 10/2012) [(D)]	2,575	2,575	1,287
		Senior Term Debt (12.5%, Due 4/2013) [(D) (E)]	8,891	8,891	4,446
		Preferred Stock (25 shares) [(C) (F)]		2,500	
		Common Stock Warrants (420 shares) [(C) (F)]		3	
				16,219	6,858
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Revolving Credit Facility, $0 available (10.5%, Due 1/2013) [(D)]	500	500	290
		Senior Term Debt (11.0%, Due 1/2013) [(D)]	7,227	7,227	4,192
		Senior Term Debt (10.5%, Due 1/2013) [(D)]	3,650	3,650	2,117
		Senior Term Debt (10.5%, Due 1/2013) [(D) (E)]	3,650	3,650	2,117
		Preferred Stock (1,075,000 shares) [(C) (F)]		1,750	
		Common Stock (1,682,444 shares) [(C) (F)]		1,682	
				18,459	8,716
Packerland Whey Products, Inc.	Manufacturing protein supplements	Subordinated Term Debt (13.8%, Due 6/2018) [(H)]	7,000	7,000	7,000
		Preferred Stock (248 shares) [(C) (F) (H)]		2,479	2,479
		Common Stock (247 shares) [(C) (F) (H)]		21	21
				9,500	9,500
Quench Holdings Corp.	Service sales, installation and service of water coolers	Preferred Stock (388 shares) [(C) (F)]		2,950	3,169
		Common Stock (35,242 shares) [(C) (F)]		447	
				3,397	3,169
Total Affiliate Investments (represents 26.3% of total investments at fair value)				**$ 79,342**	**$ 60,445**

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY [(A)]	INDUSTRY	INVESTMENT [(B)]	PRINCIPAL	COST	FAIR VALUE
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
B-Dry, LLC	Service basement waterproofer	Senior Term Debt (13.0%, Due 5/2014) [(D)]	$ 6,460	$ 6,460	$ 6,169
		Senior Term Debt (13.0%, Due 5/2014) [(D)]	2,850	2,850	2,722
		Common Stock Warrants (55 shares) [(C)] [(F)]		300	
				9,610	8,891
Total Non-Control/Non-Affiliate Investments (represents 3.9% of total investments at fair value)				**$ 9,610**	**$ 8,891**
TOTAL INVESTMENTS				**$ 276,230**	**$ 229,770**

[(A)] Certain of the securities listed above are issued by affiliate(s) of the indicated portfolio company.

[(B)] Percentages represent the weighted average interest rates in effect at June 30, 2012, and due date represents the contractual maturity date.

[(C)] Security is non-income producing.

[(D)] Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at June 30, 2012.

[(E)] Last Out Tranche (LOT) of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the other senior debt and before the senior subordinated debt.

[(F)] Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares or aggregates all warrants to purchase shares of such class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.

[(G)] Debt security is on non-accrual status.

[(H)] New proprietary portfolio investment valued at cost, as it was determined that the price paid during the three months ended June 30, 2012, best represents fair value as of June 30, 2012.

[(I)] Security was paid off, at par, subsequent to June 30, 2012, and was valued based on the payoff.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

S-F-9

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

MARCH 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY (A)	INDUSTRY	INVESTMENT (B)	PRINCIPAL	COST	FAIR VALUE
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2015)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares) (C) (F)		6,984	10,994
		Common Stock (418,072 shares) (C) (F)		1,045	2,132
		Common Stock Warrants (452,683 shares) (C) (F)		25	675
				22,554	28,301
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, $570 available (3.0%, Due 3/2013) (G)	6,430	6,388	
		Senior Subordinated Term Debt (2.0%, Due 3/2013) (G)	6,250	6,060	
		Preferred Stock (4,644 shares) (C) (F)		2,500	
		Common Stock (1 share) (C) (F)			
		Common Stock Warrants (73,599 shares) (C) (F)		4	
		Guarantee ($750)			
				14,952	
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (14.0%, Due 11/2014) (G)	4,000	4,000	
		Preferred Stock (7,304,792 shares) (C) (F)		7,725	
		Guarantee ($2,000)			
		Guarantee ($1,998)			
				11,725	
Galaxy Tool Holding Corp.	Manufacturing aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)	5,220	5,220	5,220
		Preferred Stock (4,111,907 shares) (C) (F)		19,658	1,493
		Common Stock (48,093 shares) (C) (F)		48	
				24,926	6,713
Mathey Investments, Inc.	Manufacturing pipe-cutting and pipe-fitting equipment	Senior Term Debt (10.0%, Due 3/2013)	2,375	2,375	2,375
		Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
		Senior Term Debt (2.5%, Due 3/2014) (E)	3,500	3,500	3,500
		Common Stock (29,102 shares) (C) (F)		777	4,164

				10,379	13,766
Mitchell Rubber Products, Inc.	Manufacturing rubber compounds	Subordinated Term Debt (13.0%, Due 10/2016) (D)	13,560	13,560	13,679
		Preferred Stock (27,900 shares) (C) (F)		2,790	2,954
		Common Stock (27,900 shares) (C) (F)		28	1,858
				16,378	18,491

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

MARCH 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY [A]	INDUSTRY	INVESTMENT [B]	PRINCIPAL	COST	FAIR VALUE
Precision Southeast, Inc.	Manufacturing injection molding and plastics	Revolving Credit Facility, $251 available (7.5%, Due 9/2012)	749	749	749
		Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares) [C] [F]		1,909	1,634
		Common Stock (90,909 shares) [C] [F]		91	
				10,524	10,158
SBS, Industries, LLC	Manufacturing specialty fasteners and threaded screw products	Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355
		Preferred Stock (19,935 shares) [C] [F]		1,994	2,087
		Common Stock (221,500 shares) [C] [F]		221	3,563
				13,570	17,005
SOG Specialty K&T, LLC and tools	Manufacturing specialty knives	Senior Term Debt (13.3%, Due 8/2016)	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 8/2016)	12,199	12,199	12,199
		Preferred Stock (9,749 shares) [C] [F]		9,749	11,697
				28,148	30,096
Tread Corp.	Manufacturing storage and transport equipment	Senior Subordinated Term Debt (12.5%, Due 5/2013)	7,750	7,750	7,750
		Preferred Stock (832,765 shares) [C] [F]		833	1,080
		Common Stock (129,067 shares) [C] [F]		1	96
		Common Stock Warrants (1,247,727 shares) [C] [F]		3	758
				8,587	9,684
Venyu Solutions, Inc.	Service online servicing suite	Senior Subordinated Term Debt (11.3%, Due 10/2015)	7,000	7,000	7,000
		Senior Subordinated Term Debt (14.0%, Due 10/2015)	12,000	12,000	12,000
		Preferred Stock (5,400 shares) [C] [F]		6,000	4,330
				25,000	23,330
Total Control Investments (represents 69.8% of total investments at fair value)				**$ 186,743**	**$ 157,544**

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

MARCH 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY (A)	INDUSTRY	INVESTMENT (B)	PRINCIPAL	COST	FAIR VALUE
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp.	Manufacturing bailing wire	Senior Term Debt (10.0%, Due 4/2016) (D) (E)	$ 1,050	$ 1,050	$ 1,067
		Senior Subordinated Term Debt (11.8%, Due 4/2016) (D)	5,700	5,700	5,771
		Subordinated Term Debt (13.0%, Due 4/2016) (D)	4,671	4,671	4,741
		Preferred Stock (18,446 shares) (C) (F)		1,844	2,596
				13,265	14,175
Channel Technologies Group, LLC	Manufacturing acoustic products	Revolving Credit Facility, $400 available (7.0%, Due 12/2012) (D)	850	850	843
		Senior Term Debt (8.3%, Due 12/2014) (D)	5,926	5,926	5,875
		Senior Term Debt (12.3%, Due 12/2016) (D)	10,750	10,750	10,642
		Preferred Stock (1,599 shares) (C) (F)		1,599	1,631
		Common Stock (1,598,616 shares) (C) (F)			75
				19,125	19,066
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, $450 available (10.0%, Due 10/2012) (D)	1,800	1,800	1,350
		Senior Term Debt (10.0%, Due 10/2012) (D)	2,575	2,575	1,931
		Senior Term Debt (12.5%, Due 4/2013) (D) (E)	8,891	8,891	6,669
		Preferred Stock (25 shares) (C) (F)		2,500	
		Common Stock Warrants (420 shares) (C) (F)		3	
				15,769	9,950
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Revolving Credit Facility, $0 available (10.5%, Due 1/2013) (D)	500	500	315
		Senior Term Debt (11.0%, Due 1/2013) (D)	7,227	7,227	4,553
		Senior Term Debt (10.5%, Due 1/2013) (D)	3,650	3,650	2,300
		Senior Term Debt (10.5%, Due 1/2013) (D) (E)	3,650	3,650	2,299
		Preferred Stock (1,075,000 shares) (C) (F)		1,750	3,550
		Common Stock (1,682,444 shares) (C) (F)		1,682	

			18,459	13,017
Quench Holdings Corp.	Service sales, installation and service of water coolers	Preferred Stock (388 shares) (C) (F)	2,950	2,623
		Common Stock (35,242 shares) (C) (F)	447	
			3,397	2,623
Total Affiliate Investments (represents 26.1% of total investments at fair value)			**$ 70,015**	**$ 58,831**

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

MARCH 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

COMPANY [(A)]	INDUSTRY	INVESTMENT [(B)]	PRINCIPAL	COST	FAIR VALUE
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
B-Dry, LLC	Service basement waterproofer	Senior Term Debt (12.3%, Due 5/2014) [(D)]	6,477	6,477	6,356
		Senior Term Debt (12.3%, Due 5/2014) [(D)]	2,860	2,860	2,806
		Common Stock Warrants (55 shares) [(C) (F)]		300	115
				9,637	9,277
Total Non-Control/Non-Affiliate Investments (represents 4.1% of total investments at fair value)				**$ 9,637**	**$ 9,277**
TOTAL INVESTMENTS				**$ 266,395**	**$ 225,652**

[(A)] Certain of the securities listed above are issued by affiliate(s) of the indicated portfolio company.
[(B)] Percentages represent the weighted average interest rates in effect at March 31, 2012, and due date represents the contractual maturity date.
[(C)] Security is non-income producing.
[(D)] Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at March 31, 2012.
[(E)] LOT of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the other senior debt and before the senior subordinated debt.
[(F)] Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares or aggregates all warrants to purchase shares of such class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.
[(G)] Debt security is on non-accrual status.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Table of Contents

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA AND AS OTHERWISE INDICATED)

NOTE 1. ORGANIZATION

Gladstone Investment Corporation (Gladstone Investment) was incorporated under the General Corporation Law of the State of Delaware on February 18, 2005 and completed an initial public offering on June 22, 2005. The terms we, our and us all refer to Gladstone Investment and its consolidated subsidiaries. We are a closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, we have elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States (U.S.). These investments primarily come in the form of subordinated loans, mezzanine debt, preferred stock, common stock and warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. We also invest in senior secured loans and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments.

Gladstone Business Investment, LLC (Business Investment), a wholly-owned subsidiary of ours, was established on August 11, 2006 for the sole purpose of owning our portfolio of investments in connection with our line of credit. The financial statements of Business Investment are consolidated with those of Gladstone Investment.

We are externally managed by Gladstone Management Corporation (the Adviser), an affiliate of ours.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933, as amended (the Securities Act). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. The accompanying condensed consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X under the Securities Act, and the authoritative accounting guidance provided by the AICPA Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three months ended June 30, 2012, are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended March 31, 2012, as filed with the Securities and Exchange Commission (the SEC) on May 21, 2012.

Our fiscal year-end *Condensed Consolidated Statement of Assets and Liabilities* was derived from audited financial statements, but does not include all disclosures required by GAAP.

Reclassifications

Certain amounts in the prior period s financial statements have been reclassified to conform to the presentation for the three month period ended June 30, 2012, with no effect to net (decrease) increase in net assets resulting from operations.

Investment Valuation Policy

We carry our investments at fair value to the extent that market quotations are readily available and reliable and otherwise at fair value as determined in good faith by our board of directors (the Board of Directors). In determining the fair value of our investments, our Adviser has established an investment valuation policy (the Policy). The Policy has been approved by our Board of Directors, and each quarter, our Board of Directors reviews whether our Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of our investment portfolio. Such determination of fair values may involve subjective judgments and estimates.

We use generally accepted valuation techniques to value our portfolio unless we have specific information about the value of an investment to determine otherwise. From time to time, we may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently but provide a third-party valuation opinion that may differ in results, techniques and scope used to value our investments. When we obtain these specific, third-party appraisals, we use estimates of value provided by such appraisals and our own assumptions, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date, to value our investments.

The Policy, summarized below, applies to publicly-traded securities, securities for which a limited market exists and securities for which no market exists.

Publicly-traded securities: We determine the value of publicly-traded securities based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own restricted securities that are not freely tradable, but for which a public market otherwise exists, we will use the market value of that security, adjusted for any decrease in value resulting from the restrictive feature. At June 30 and March 31, 2012, we did not have any investments in publicly-traded securities.

Securities for which a limited market exists: We value securities that are not traded on an established secondary securities market but for which a limited market for the security exists, such as certain participations in, or assignments of, syndicated loans, at the quoted bid price, which are non-binding. In valuing these assets, we assess trading activity in the asset class and evaluate variances in prices and other market insights to determine if any available quoted prices are reliable. In general, if we conclude that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if firm bid prices are unavailable, we base the value of the security upon the price in the range of the indicative bid price (IBP) offered by the respective originating syndication agent s trading desk, or secondary desk, on or near the valuation date. To the extent that we use the IBP as a basis for valuing the security, the Adviser may take further steps to consider additional information to validate that price in accordance with the Policy, including, but not limited to, reviewing a range of indicative bids to the extent the Adviser has ready access to such qualified information.

In the event these limited markets become illiquid to a degree that market prices are no longer readily available, we will value our syndicated loans using alternative methods, such as estimated net present values of the future cash flows, or discounted cash flows (DCF). The use of a DCF methodology follows that prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant, observable inputs, such as quotes in active markets, are not available. When relevant, observable market data does not exist, an alternative outlined in ASC 820 is the valuation of investments based on DCF. For the purposes of using DCF to provide fair value estimates, we consider multiple inputs, such as a risk-adjusted discount rate that incorporates adjustments that market participants would make, both for nonperformance and liquidity risks. As such, we develop a modified discount rate approach that incorporates risk premiums including, among other things, increased probability of default, higher loss given default and increased liquidity risk. The DCF valuations applied to the syndicated loans provide an estimate of what we believe a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. We apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity. At June 30 and March 31, 2012, we had no syndicated investments.

Table of Contents

Securities for which no market exists: The valuation methodology for securities for which no market exists falls into four categories: (A) portfolio investments comprised solely of debt securities; (B) portfolio investments in controlled companies comprised of a bundle of securities, which can include debt and equity securities; (C) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities; and (D) portfolio investments comprised of non-publicly traded non-control equity securities of other funds.

(A) Portfolio investments comprised solely of debt securities: Debt securities that are not publicly traded on an established securities market, or for which a market does not exist (Non-Public Debt Securities), and that are issued by portfolio companies in which we have no equity or equity-like securities, are fair valued utilizing opinions of value submitted to us by Standard & Poor s Securities Evaluations, Inc. (SPSE). We may also submit paid-in-kind (PIK) interest to SPSE for its evaluation when it is determined that PIK interest is likely to be received.

(B) Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The fair value of these investments is determined based on the total enterprise value (TEV) of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for our Non-Public Debt Securities and equity or equity-like securities (e.g., preferred equity, common equity or other equity-like securities) that are purchased together as part of a package where we have control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale of the portfolio company. We manage our risk related to these investments at the aggregated issuer level and generally exit the debt and equity securities together. Applying the liquidity waterfall approach to all of the investments of an issuer, we first calculate the TEV of the issuer by incorporating some or all of the following factors:

- the issuer s ability to make payments;
- the earnings of the issuer;
- recent sales to third parties of similar securities;
- the comparison to publicly-traded securities; and
- DCF or other pertinent factors.

In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once we have estimated the TEV of the issuer, we will subtract the value of all the debt securities of the issuer, which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of TEV over the total debt outstanding for the issuer. Once the values for all outstanding senior securities, which include all the debt securities, have been subtracted from the TEV of the issuer, the remaining amount, if any, is used to determine the value of the issuer s equity or equity-like securities. If, in the Adviser s judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, the Adviser may recommend that we use a valuation by SPSE, or, if that is unavailable, a DCF valuation technique.

(C) Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities: We value Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical, secondary market as our principal market. In accordance with ASC 820 (as amended by the FASB s Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS), (ASU 2011-04)), we have defined our unit of account at the investment level (either debt or equity) and as such determine our fair value of these non-control investments assuming the sale of an individual security using the

standalone premise of value. As such, we estimate the fair value of the debt component using estimates of value provided by SPSE and our own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, we estimate the fair value of the equity based on factors such as the overall value of the issuer, the relative fair value of other units of account, including debt, or other relative value approaches.

Table of Contents

Consideration is also given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, we may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in the absence of other observable market data, our own assumptions.

(D) Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds: We generally value any uninvested capital of the non-control fund at par value and value any invested capital at the value provided by the non-control fund. At June 30 and March 31, 2012, we had no non-control equity securities of other funds.

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly and materially from the values that would have been obtained had a ready market for the securities existed. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that we might reasonably expect to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

Refer to Note 3 *Investments* for additional information regarding fair value measurements and our application of ASC 820.

Interest Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs, the accretion of discounts and the amortization of amendment fees, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past-due principal and interest are paid, and, in management s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectible. At June 30, 2012, loans to two portfolio companies, ASH Holdings Corp. (ASH) and Country Club Enterprises, LLC (CCE), were on non-accrual. These non-accrual loans had an aggregate cost value of $16.8 million, or 8.5% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $4.0 million, or 2.3% of the fair value of all debt investments in our portfolio. At March 31, 2012, ASH and CCE were on non-accrual with an aggregate debt cost basis of $16.4 million, or 8.6% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $0.

We did not hold any loans in our portfolio that contained a PIK provision at June 30, 2012; however, during the three months ended June 30, 2011, we recorded PIK income of $6. PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be included in our calculation of distributable income for purposes of complying with our distribution requirements, even though we have not yet collected the cash. The sole loan with a PIK provision was paid off, at par, during the quarter ended September 30, 2011.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company and are recorded in other income in our accompanying *Condensed consolidated Statements of Operations*. We recorded $0.4 million and $0.1 million of success fees during the three months ended June 30, 2012 and 2011, respectively, representing prepayments received from Mathey Investments, Inc. (Mathey).

We accrue dividend income on preferred equity securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash, and it is recorded in Other income in our accompanying *Condensed consolidated Statements of Operations*. We did not record any dividend income during the three months ended June 30, 2012; however, during the three months ended June 30, 2011, we recorded and collected $0.7 million of cash dividends on accrued preferred shares in connection with the recapitalization of Cavert II Holding Corp. (Cavert).

Table of Contents

NOTE 3. INVESTMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

- *Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

- *Level 2* inputs to the valuation methodology include quoted prices for similar assets and liabilities in active or inactive markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

- *Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the asset or liability and can include our own assumptions based upon the best available information.

We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the three months ended June 30, 2012 and 2011, there were no transfers in or out of Level 1, 2 and 3.

Table of Contents

The following table presents the financial assets carried at fair value as of June 30 and March 31, 2012, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type for each of the three applicable levels of hierarchy established by ASC 820 that we used to value our financial assets:

	AS OF JUNE 30, 2012			AS OF MARCH 31, 2012		
	LEVEL 1	LEVEL 3	TOTAL RECURRING FAIR VALUE MEASUREMENT REPORTED IN *CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES*	LEVEL 1	LEVEL 3	TOTAL RECURRING FAIR VALUE MEASUREMENT REPORTED IN *CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES*
Control Investments						
Senior term debt	$	$ 47,881	$ 47,881	$	$ 47,880	$ 47,880
Senior subordinated term debt		62,899	62,899		60,149	60,149
Preferred equity		34,575	34,575		36,269	36,269
Common equity/equivalents		15,079	15,079		13,246	13,246
Total Control investments		**160,434**	**160,434**		**157,544**	**157,544**
Affiliate Investments						
Senior term debt		33,309	33,309		37,844	37,844
Senior subordinated term debt		17,499	17,499		10,512	10,512
Preferred equity		9,617	9,617		10,400	10,400
Common equity/equivalents		20	20		75	75
Total Affiliate investments		**60,445**	**60,445**		**58,831**	**58,831**
Non-Control/Non-Affiliate Investments						
Senior term debt		8,891	8,891		9,162	9,162
Common equity/equivalents					115	115
Total Non-Control/Non-Affiliate Investments		**8,891**	**8,891**		**9,277**	**9,277**
Total Investments at fair value	**$**	**$ 229,770**	**$ 229,770**	**$**	**$ 225,652**	**$ 225,652**
Cash Equivalents	85,000		85,000	85,000		85,000
Total Investments and Cash Equivalents	**$ 85,000**	**$ 229,770**	**$ 314,770**	**$ 85,000**	**$ 225,652**	**$ 310,652**

Table of Contents

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy, we may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

	FAIR VALUE AS OF JUNE 30, 2012	VALUATION TECHNIQUES/ METHODOLOGIES	UNOBSERVABLE INPUT	RANGE		WEIGHTED AVERAGE
Portfolio investments in controlled companies comprised of a bundle of investments	**$ 140,688**	TEV	EBITDA multiples [B] EBITDA [B]	5.2x ($496)	8.5x $6,957	6.6x $3,525
Portfolio investments in non-controlled companies comprised of a bundle of investments	**85,913**	TEV	EBITDA multiples [B] EBITDA [B]	4.4x ($150)	9.1x $6,693	6.6x $3,572
		SPSE [A]	EBITDA [B] Risk Ratings [C]	($150) 2.1	$6,693 5.7	$3,380 4.7
Other investments	**3,169**					
Total Fair Value for Level 3 Investments	**$ 229,770**					

[A] SPSE makes an independent assessment of the data we submit to them (which includes the financial and operational performance, as well as our internally assessed risk ratings of the portfolio companies see footnote (C) below) and its own independent data to form an opinion as to what they consider to be the market values for our securities. With regard to its work, SPSE has stated that the data submitted to us is regarded as proprietary in nature.

[B] Earnings before interest expense, taxes, depreciation and amortization (EBITDA) is an unobservable input which is generally based on the most recently available trailing twelve month financial statements submitted to us from the portfolio companies. EBITDA multiples, generally indexed in accordance with our valuation policy, represent our estimation of where market participants might price these investments. For our bundled debt and equity investments, the EBITDA and EBITDA multiples impact the TEV fair value determination and the value of the issuer s debt, equity, or equity-like securities are valued in accordance with our liquidity waterfall approach.

[C] As part of our valuation procedures, we risk rate all of our investments in debt securities. We use a proprietary risk rating system for all our proprietary debt securities. Our risk rating system uses a scale of 0 to 10, with 10 representing the lowest probability of default. The risk rating system covers both qualitative and quantitative aspects of the portfolio company business and the securities we hold.

Significant unobservable inputs generally included in our internally-assessed TEV models used to value our proprietary debt and equity investments are the portfolio company s EBITDA and EBITDA multiples. Holding all other factors constant, increases (decreases) in the EBITDA and/or the EBITDA multiples inputs would result in a higher (lower) fair value measurement. Per our valuation policy, we generally use an indexed EBITDA multiple. EBITDA and EBITDA multiple inputs do not have to directionally correlate since EBITDA is a company performance metric and EBITDA multiples can be influenced by market, industry, size and other factors.

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide the changes in fair value, broken out by security type, during the three months ended June 30, 2012 and 2011 for all investments for which we determine fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (that is, components that are actively quoted and can be validated to external sources). In these

Table of Contents

cases, we categorize all of the inputs as the lowest level input within the hierarchy. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Period Ended June 30, 2012:

	SENIOR TERM DEBT	SENIOR SUBORDINATED TERM DEBT	PREFERRED EQUITY	COMMON EQUITY/ EQUIVALENTS	TOTAL
Three months ended June 30, 2012:					
Fair value as of March 31, 2012	$ 94,886	$ 70,661	$ 46,669	$ 13,436	$ 225,652
Total (losses) gains:					
Net realized losses [A] [D]				(46)	(46)
Net unrealized (depreciation) appreciation [B]	(4,990)	2,587	(4,956)	1,642	(5,717)
New investments, repayments and settlements [C]:					
Issuances / Originations	950	9,315	2,479	21	12,765
Settlements / Repayments	(765)	(2,165)			(2,930)
Sales [D]				46	46
Fair value as of June 30, 2012	**$ 90,081**	**$ 80,398**	**$ 44,192**	**$ 15,099**	**$ 229,770**

Period Ended June 30, 2011:

	SENIOR TERM DEBT	SENIOR SUBORDINATED TERM DEBT	PREFERRED EQUITY	COMMON EQUITY/ EQUIVALENTS	TOTAL
Three months ended June 30, 2011:					
Fair value as of March 31, 2011	$ 58,627	$ 62,806	$ 25,398	$ 6,454	$ 153,285
Total gains (losses):					
Net realized gains [A] [D]		5		5,734	5,739
Net unrealized appreciation (depreciation) [B]	1,357	(5,655)	4,832	527	1,061
Reversal of previously-recorded depreciation (appreciation) upon realization [B]	95	(14)	(686)	(5,508)	(6,113)
New investments, repayments and settlements [C]:					
Issuances / Originations	6	19,635	2,790	28	22,459
Settlements / Repayments	(2,153)	(915)		1	(3,067)

Sales [(D)]			(2,266)	(5,803)	(8,069)
Fair value as of June 30, 2011	**$ 57,932**	**$ 75,862**	**$ 30,068**	**$ 1,433**	**$ 165,295**

a) Included in Net realized (loss) gain on our accompanying *Condensed Consolidated Statements of Operations* for the three months ended June 30, 2012 and 2011.

b) Included in Net unrealized appreciation (depreciation) on our accompanying *Condensed Consolidated Statements of Operations* for the three months ended June 30, 2012 and 2011.

Table of Contents

c) Includes increases in the cost basis of investments resulting from new portfolio investments, the amortization of discounts, PIK and other non-cash disbursements to portfolio companies; as well as decreases in the cost basis of investments resulting from principal repayments or sales, the amortization of premiums and acquisition costs, and other cost-basis adjustments.

d) Included in Net realized gains (losses) and Sales are post-closing adjustments recorded in the current period related to exits from prior periods.

Investment Activity

During the three months ended June 30, 2012, the following significant transaction occurred:

- In May 2012, we invested $9.5 million in a new Affiliate investment, Packerland Whey Products, Inc. (Packerland), through a combination of debt and equity. Packerland, headquartered in Luxemburg, Wisconsin, is a processor of raw fluid whey, specializing in the production of protein supplements for dairy and beef cattle.

Refer to Note 13, *Subsequent Events*, for investment activity occurring subsequent to June 30, 2012.

Investment Concentrations

As of June 30, 2012, we had investments in 18 portfolio companies located in a total of 13 states in 13 different industries with an aggregate fair value of $229.8 million, of which SOG Specialty K&T, LLC (SOG), Acme Cryogenics, Inc. (Acme), and Venyu Solutions, Inc. (Venyu), collectively, comprised approximately $79.9 million, or 34.8%, of our total investment portfolio, at fair value. The following table outlines our investments by security type at June 30 and March 31, 2012:

	JUNE 30, 2012				MARCH 31, 2012			
	COST		FAIR VALUE		COST		FAIR VALUE	
Senior term debt	**$ 110,661**	**40.1%**	**$ 90,081**	**39.2%**	$ 110,475	41.5%	$ 94,886	42.0%
Senior subordinated term debt	**87,610**	**31.7**	**80,398**	**35.0**	80,461	30.2	70,661	31.3
Preferred equity	**73,264**	**26.5**	**44,192**	**19.2**	71,084	26.6	46,669	20.7
Common equity/equivalents	**4,695**	**1.7**	**15,099**	**6.6**	4,375	1.7	13,436	6.0
Total investments	**$ 276,230**	**100.0%**	**$ 229,770**	**100.0%**	$ 266,395	100.0%	$ 225,652	100.0%

Investments at fair value consisted of the following industry classifications at June 30 and March 31, 2012:

	JUNE 30, 2012		MARCH 31, 2012	
	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
Chemicals, Plastics, and Rubber	**$ 47,127**	**20.5%**	$ 46,793	20.7%

Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	**32,615**	**14.2**	30,770	13.6
Leisure, Amusement, Motion Pictures, Entertainment	**30,554**	**13.3**	30,096	13.3
Diversified/Conglomerate Manufacturing	**25,414**	**11.1**	29,017	12.9
Containers, Packaging, and Glass	**24,895**	**10.8**	24,332	10.8
Electronics	**21,952**	**9.6**	23,330	10.3
Beverage, Food and Tobacco	**9,500**	**4.1**		
Buildings and Real Estate	**8,891**	**3.9**	9,277	4.1
Oil and Gas	**8,755**	**3.8**	9,684	4.3
Cargo Transport	**8,716**	**3.8**	13,017	5.8
Automobile	**4,634**	**2.0**		
Aerospace and Defense	**3,548**	**1.5**	6,713	3.0
Home and Office Furnishings, Housewares, and Durable Consumer Products	**3,169**	**1.4**	2,623	1.2
Total Investments	$ 229,770	100.0%	$ 225,652	100.0%

S-F-22

Table of Contents

The investments, at fair value, were included in the following geographic regions of the U.S. as of June 30, 2012 and March 31, 2012:

	JUNE 30, 2012		MARCH 31, 2012	
	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
South	**$ 105,823**	**46.0%**	$ 128,902	57.1%
West	**75,715**	**33.0**	59,112	26.2
Northeast	**35,184**	**15.3**	30,924	13.7
Midwest	**13,048**	**5.7**	6,714	3.0
Total Investments	**$ 229,770**	**100.0%**	$ 225,652	100.0%

The geographic region indicates the location of the headquarters for our portfolio companies. A portfolio company may have additional business locations in other geographic regions.

Investment Principal Repayments

The following table summarizes the contractual principal repayments and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at June 30, 2012:

		AMOUNT
For the remaining nine months ending March 31:	2013	$ 39,363
For the fiscal year ending March 31:	2014	27,568
	2015	32,887
	2016	26,775
	2017	64,935
	Thereafter	7,000
	Total contractual repayments	**$ 198,528**
	Investments in equity securities	77,959
	Adjustments to cost basis on debt securities	(257)
	Total cost basis of investments held at June 30, 2012:	**$ 276,230**

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of June 30 and March 31, 2012, we had gross receivables from portfolio companies of $0.4 million and $0.3 million, respectively. The allowance for uncollectible receivables was $0 at both June 30 and March 31, 2012.

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

We have entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement), which is controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee. On July 10, 2012, the Board of Directors approved the renewal of the Advisory Agreement through August 31, 2013.

Table of Contents

The following table summarizes the management fees, incentive fees and associated credits reflected in our accompanying *Condensed consolidated Statements of Operations*:

	THREE MONTHS ENDED JUNE 30,	
	2012	**2011**
Average total assets subject to base management fee	**$ 238,200**	$ 201,600
Multiplied by prorated annual base management fee of 2%	**0.5%**	0.5%
Base management fee [(A)]	**1,191**	1,008
Reduction for loan servicing fees	**(868)**	(677)
Adjusted base management fee	**323**	331
Credits for fees received by Adviser from the portfolio companies [(A)]	**(184)**	(215)
Net base management fee	**$ 139**	$ 116
Incentive fee [(A)]	**$**	$ 19

[(A)] Reflected as a line item on our accompanying *Condensed Consolidated Statement of Operations*.

Base Management Fee

The base management fee is payable quarterly and assessed at an annual rate of 2.0%, computed on the basis of the value of our average total assets at the end of the two most recently-completed quarters. Average total assets is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods. In addition, the following three items are adjustments to the base management fee calculation:

- *Loan Servicing Fees*

The Adviser also services the loans held by Business Investment, in return for which it receives a 2.0% annual fee based on the monthly aggregate outstanding balance of loans pledged under our line of credit. Since we own these loans, all loan servicing fees paid to the Adviser are treated as reductions directly against the 2.0% base management fee under the Advisory Agreement.

- *Senior Syndicated Loan Fee Waiver*

Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations, for the three months ended June 30, 2012 and 2011, to the extent applicable.

- *Portfolio Company Fees*

Under the Advisory Agreement, the Adviser has also provided, and continues to provide, managerial assistance and other services to our portfolio companies and may receive fees for services other than managerial assistance. 50% of certain of these fees and 100% of other fees are credited against the base management fee that we would otherwise be required to pay to the Adviser.

Incentive Fee

The incentive fee consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate). We will pay the Adviser an income-based incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);

- 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and

- 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. Aggregate unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through June 30, 2012, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded since our inception through June 30, 2012.

As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Although neither we nor our Adviser receive fees in connection with managerial assistance, the Adviser provides other services to our portfolio companies and receives fees for these other services.

Administration Agreement

We have entered into an administration agreement (the Administration Agreement) with Gladstone Administration, LLC (the Administrator), an affiliate of the Adviser, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs. Our allocable portion of administrative expenses is generally derived by multiplying the Administrator s total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies managed by the Adviser under similar agreements. On July 10, 2012, our Board of Directors approved the renewal of the Administration Agreement through August 31, 2013.

Related Party Fees Due

Amounts due to related parties on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* were as follows:

	AS OF JUNE 30, 2012	AS OF MARCH 31, 2012
Base management fee due to Adviser	**$ 123**	$ 295
Loan servicing fee due to Adviser	**196**	218
Incentive fee credit from Adviser		(54)
Other	**34**	37
Total fees due to Adviser	**$ 353**	$ 496
Fee due to Administrator	**$ 183**	$ 218
Total related party fees due	**$ 536**	$ 714

NOTE 5. BORROWINGS

Line of Credit

On April 14, 2009, through our wholly-owned subsidiary, Business Investment, we entered into a second amended and restated credit agreement providing for a $50.0 million revolving line of credit (the Credit Facility) arranged by Branch Banking and Trust Company (BB&T) as administrative agent. Key Equipment Finance Inc. also joined the Credit Facility as a committed lender.

On April 13, 2010, we entered into a third amended and restated credit agreement which extended the maturity date of the Credit Facility to April 13, 2012. Advances under the Credit Facility generally bear interest at the 30-day London Interbank Offered Rate (LIBOR) (subject to a minimum rate of 2.0%), plus 4.5% per annum, with a commitment fee of 0.50% per annum on undrawn amounts when advances outstanding are above 50.0% of the commitment and 1.0% on undrawn amounts if the advances outstanding are below 50.0% of the commitment.

On October 26, 2011, we entered into a fourth amended and restated credit agreement to increase the commitment amount under the Credit Facility to $60.0 million, reduce the interest rate and extend the maturity date. Subject to certain terms and conditions, the Credit Facility may be expanded up to a total of $175.0 million through the addition of other committed lenders to the facility. The Credit Facility matures on October 25, 2014 (the Maturity Date), and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before October 25, 2015 (one year after the Maturity Date). Advances under the Credit Facility will generally bear interest at 30-day LIBOR, plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. There are two one-year extension options, to be agreed upon by all parties, which may be exercised, subject to compliance with the covenants set forth in the credit agreement, on or before October 26, 2012 and October 26, 2013, as applicable.

The following tables summarize noteworthy information related to our Credit Facility:

	AS OF JUNE 30, 2012	AS OF MARCH 31, 2012
Commitment amount	**$ 60,000**	$ 60,000
Borrowings outstanding at cost	**31,000**	
Availability	**28,349**	58,399

	FOR THE THREE MONTHS ENDED JUNE 30, 2012	2011
Weighted average borrowings outstanding	**$ 791**	$
Effective interest rate [A]	**41.9 %** [B]	NM [C]
Commitment (unused) fees incurred	**$ 75**	$ 126

(A) Excludes the impact of deferred financing fees.
(B) Due to limited borrowings outstanding, the commitment (unused) fees significantly increase the effective interest rate. The stated interest rate on advances will generally bear interest at 30-day LIBOR plus 3.75% per annum.
(C) NM = Not Meaningful

Interest is payable monthly during the term of the Credit Facility. Available borrowings are subject to various constraints imposed under the Credit Facility, based on the aggregate loan balance pledged by Business Investment, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required.

The administrative agent also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with The Bank of New York Mellon Trust Company, N.A as custodian. BB&T is the trustee of the account and remits the collected funds to us once a month.

The Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to our credit and collection policies without the lenders consent. The Credit Facility also limits payments on distributions to the aggregate net investment income for each of the twelve-month periods ending March 31, 2012, 2013, 2014 and 2015. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward availability credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, average life and lien property. The Credit Facility further requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage, a minimum net worth and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in the Credit Facility to include our Term Preferred Stock) of $155.0 million plus 50% of all equity and subordinated debt raised after October 26, 2011, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of June 30, 2012, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $240.9 million, an asset coverage of 230% and an active status as a BDC and RIC. Our Credit Facility requires a minimum of 12 obligors in the borrowing base, and as of June 30, 2012, Business Investment had 15 obligors. As of June 30, 2012, we were in compliance with all of the Credit Facility covenants.

Short-Term Loan

Similar to previous quarter ends, to maintain our status as a RIC, we purchased $85.0 million of short-term U.S. Treasury Bills (T-Bills) through Jefferies & Company, Inc. (Jefferies) on June 28, 2012. As these T-Bills have a maturity of less than three months, we consider them to be cash equivalents and include them in Cash and cash equivalents on our accompanying *Condensed Consolidated Statement of Assets and Liabilities* as of June 30, 2012. The T-Bills were purchased on margin using $9.0 million in cash and the proceeds from a $76.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 0.67%. On July 5, 2012, when the T-Bills matured, we repaid the $76.0 million loan from Jefferies, and on July 6, 2012, we received back the $9.0 million margin payment sent to Jefferies to complete the transaction.

Fair Value

We elected to apply ASC 825, Financial Instruments, specifically for our Credit Facility and short-term loan, which was consistent with the application of ASC 820 to our investments. Generally, we estimate the fair value of our Credit Facility using estimates of value provided by an independent third party and our own assumptions in the absence of observable market data, including estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. Additionally, due to the eight-day duration of the short-term loan, cost was deemed to approximate fair value. At each of June 30 and March 31, 2012, all of our borrowings were valued using Level 3 inputs. The following tables present the short-term loan and Credit Facility carried at fair value as of June 30 and March 31, 2012, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward of the changes in fair value during the three months ended June 30, 2012 and 2011:

	LEVEL 3 BORROWINGS TOTAL RECURRING FAIR VALUE MEASUREMENT REPORTED IN *CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES*	
	JUNE 30, 2012	**MARCH 31, 2012**
Short-Term Loan	**$ 76,010**	$ 76,005
Credit Facility	**31,492**	
Total	**$ 107,502**	$ 76,005

	SHORT-TERM LOAN	**CREDIT FACILITY**	**TOTAL FAIR VALUE REPORTED IN *CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES***
Three months ended June 30, 2012:			
Fair value at March 31, 2012	**$ 76,005**	**$**	**$ 76,005**
Borrowings	**76,010**	**31,000**	**107,010**
Repayments	**(76,005)**		**(76,005)**
Net unrealized appreciation [(A)]		**492**	**492**
Fair value at June 30, 2012	**$ 76,010**	**$ 31,492**	**$ 107,502**
Three months ended June 30, 2011:			
Fair value at March 31, 2011	$ 40,000	$	$ 40,000
Borrowings	40,000		40,000
Repayments	(40,000)		(40,000)

Fair value at June 30, 2011	**$**	**40,000**	$		**$**	**40,000**

(A) Included in net unrealized (depreciation) appreciation on our accompanying *Condensed Consolidated Statement of Operations* for the three months ended June 30, 2012.

The fair value of the collateral under our Credit Facility was approximately $221.6 million and $228.3 million at June 30 and March 31, 2012, respectively. The fair value of the collateral under the short-term loan was approximately $85.0 million as of both June 30 and March 31, 2012.

NOTE 6. INTEREST RATE CAP AGREEMENTS

We have entered into multiple interest rate cap agreements with BB&T that effectively limit the interest rate on a portion of the borrowings under the line of credit pursuant to the terms of our Credit Facility. The agreements provide that the interest rate on a portion of our borrowings is capped at a certain interest rate when 30-day LIBOR is in excess of that certain interest rate. The fair value of the interest rate cap agreements is recorded in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We record changes in the fair value of the interest rate cap agreements quarterly based on the current market valuations at quarter end as net

Table of Contents

unrealized appreciation (depreciation) of other on our accompanying *Condensed Consolidated Statements of Operations*. Generally, we will estimate the fair value of our interest rate caps using estimates of value provided by the counterparty and our own assumptions in the absence of observable market data, including estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. At both June 30 and March 31, 2012, our interest rate cap agreements were valued using Level 3 inputs. The following table summarizes the key terms of each interest rate cap agreement:

					AS OF JUNE 30, 2012		AS OF MARCH 31, 2012	
INTEREST RATE CAP [(A)]	NOTIONAL AMOUNT	LIBOR CAP	EFFECTIVE DATE	MATURITY DATE	COST	FAIR VALUE	COST	FAIR VALUE
April 2010	$ 45,000	6.0%	May 2011	May 2012	$ [(B)]	$	$ 41	$
December 2011	50,000	6.0	May 2012	October 2013	29	2	29	2

(A) Indicates date we entered into the interest rate cap agreement with BB&T.

(B) In May 2012, upon expiration of the April 2010 cap, we recognized a realized loss of $41.

The use of a cap agreement involves risks that are different from those associated with ordinary portfolio securities transactions. Cap agreements may be considered to be illiquid. Although we will not enter into any such agreements unless we believe that the other party to the transaction is creditworthy, we do bear the risk of loss of the amount expected to be received under such agreements in the event of default or bankruptcy of the agreement counterparty.

NOTE 7. MANDATORILY REDEEMABLE PREFERRED STOCK

On March 6, 2012, we completed a public offering of 1,400,000 shares of 7.125% Series A Cumulative Term Preferred Stock (our Term Preferred Stock) at a public offering price of $25.00 per share. Gross proceeds totaled $35.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $33.2 million, a portion of which was used to repay borrowings under our Credit Facility, with the remaining proceeds being held to make additional investments and for general corporate purposes. In connection with the offering, the underwriters exercised their option to purchase an additional 200,000 shares of our Term Preferred Stock to cover over-allotments, which resulted in gross proceeds of $5.0 million and net proceeds, after deducting underwriting discounts, of $4.8 million. These proceeds are also being held to make additional investments and for general corporate purposes. We incurred $2.0 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our *Condensed Consolidated Statements of Assets and Liabilities* and will be amortized over the redemption period ending February 28, 2017.

The shares have a redemption date of February 28, 2017, and are traded under the ticker symbol GAINP on The NASDAQ Global Select Market. The Term Preferred Stock is not convertible into our Common Stock or any other security. The Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly (which equates to approximately $2.9 million per year). We are required to redeem all of the outstanding Term Preferred Stock on February 28, 2017, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, there are three other potential redemption triggers: 1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of the outstanding Term Preferred Stock, 2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of the outstanding Term Preferred Stock or otherwise cure the ratio redemption trigger and 3) at our sole option, at any time on or after February 28, 2016, we may redeem some or all of the Term Preferred Stock.

S-F-29

Table of Contents

Our Board of Directors declared the following monthly distribution to preferred stockholders for the three months ended June 30, 2012:

FISCAL YEAR	TIME PERIOD	DECLARATION DATE	RECORD DATE	PAYMENT DATE	DISTRIBUTION PER TERM PREFERRED SHARE
2013	April 1 30	April 11, 2012	April 20, 2012	April 30, 2012	**$ 0.1484375**
	May 1 31	April 11, 2012	May 18, 2012	May 31, 2012	**0.1484375**
	June 1 30	April 11, 2012	June 20, 2012	June 29, 2012	**0.1484375**
				Three months ended June 30, 2012:	**$ 0.4453125**

In accordance with ASC 480, Distinguishing Liabilities from Equity, mandatorily redeemable financial instruments should be classified as liabilities on the balance sheet and, therefore, the related dividend payments are treated as dividend expense on our *Condensed Consolidated Statements of Operations* at the ex-dividend date.

Aggregate Term Preferred Stock distributions declared and paid for the three months ended June 30, 2012 and 2011 were approximately $0.7 million and $0, respectively. The tax character of distributions paid by us to preferred stockholders is from ordinary income.

NOTE 8. COMMON STOCK

We filed a registration statement on Form N-2 (File No. 333-181879) with the SEC on June 4, 2012, and subsequently filed a Pre-effective Amendment No. 1 to the registration statement on July 17, 2012 and which the SEC declared effective on July 26, 2012. The registration statement will permit us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of Common Stock, preferred stock, subscription rights, debt securities and warrants to purchase Common Stock, including through a combined offering of such securities.

NOTE 9. NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE

The following table sets forth the computation of basic and diluted net (decrease) increase in net assets resulting from operations per weighted average common share for the three months ended June 30, 2012 and 2011:

	THREE MONTHS ENDED JUNE 30,	
	2012	**2011**
Numerator for basic and diluted net (decrease) increase in net assets resulting from operations per common share	**$ (3,017)**	$ 4,187
Denominator for basic and diluted weighted average common shares	**22,080,133**	22,080,133

Basic and diluted net (decrease) increase in net assets resulting from operations per weighted average common share	**$**	**(0.13)**	$	0.19

NOTE 10. DISTRIBUTIONS TO COMMON STOCKHOLDERS

We are required to pay out as distributions 90% of our ordinary income and short-term capital gains for each taxable year in order to maintain our status as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. It is our policy to pay out as a distribution up to 100% of those amounts. The amount to be paid out as a distribution is determined by our Board of Directors each quarter and is based on our estimated taxable income by management. Based on that estimate, three monthly distributions are declared each quarter.

Table of Contents

Our Board of Directors declared the following monthly distributions to common stockholders for the three months ended June 30, 2012 and 2011:

FISCAL YEAR	DECLARATION DATE	RECORD DATE	PAYMENT DATE	DISTRIBUTION PER COMMON SHARE	
2013	April 11, 2012	April 20, 2012	April 30, 2012	**$**	**0.050**
	April 11, 2012	May 18, 2012	May 31, 2012		**0.050**
	April 11, 2012	June 20, 2012	June 29, 2012		**0.050**
			Three months ended June 30, 2012:	**$**	**0.150**
2012	April 12, 2011	April 22, 2011	April 29, 2011	$	0.045
	April 12, 2011	May 20, 2011	May 31, 2011		0.045
	April 12, 2011	June 20, 2011	June 30, 2011		0.045
			Three months ended June 30, 2011:	**$**	**0.135**

Aggregate common distributions declared quarterly and paid for the three months ended June 30, 2012 and 2011 were approximately $3.3 million and $3.0 million, respectively, which were declared based on estimates of net investment income for the respective fiscal years. For the fiscal year ended March 31, 2012, taxable income available for common distributions exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $0.7 million of the first common distribution paid in fiscal year 2013 as having been paid in the prior year.

NOTE 11. COMMITMENTS AND CONTINGENCIES

At June 30, 2012, we have lines of credit commitments to certain of our portfolio companies that have not been fully drawn. Since these lines of credit have expiration dates and we expect many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent future cash requirements.

In addition to the lines of credit to certain portfolio companies, we have also extended certain guarantees on behalf of some of our portfolio companies. As of June 30, 2012, we have not been required to make any payments on the guarantees discussed below, and we consider the credit risk to be remote and the fair values of the guarantees to be minimal.

- In October 2008, we executed a guarantee of a vehicle finance facility agreement (the Finance Facility) between Ford Motor Credit Company (Ford) and ASH. The Finance Facility provides ASH with a line of credit of up to $0.5 million for component Ford parts used by ASH to build truck bodies under a separate contract. Ford retains title and ownership of the parts. The guarantee of the Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of us as guarantor.

- In February 2010, we executed a guarantee of a wholesale financing facility agreement (the Floor Plan Facility) between Agricredit Acceptance, LLC (Agricredit) and CCE. The Floor Plan Facility provides CCE with financing of up to $2.0 million to bridge the time and cash flow gap between the order and delivery of golf carts to customers. The guarantee was renewed in February 2011 and again

in February 2012 and expires in February 2013, unless it is renewed again by us, CCE and Agricredit. In connection with this guarantee and its subsequent renewals, we recorded aggregate premiums of $0.2 million from CCE.

- In April 2010, we executed a guarantee of vendor recourse for up to $2.0 million in individual customer transactions (the Recourse Facility) between Wells Fargo Financial Leasing, Inc. and CCE. The Recourse Facility provides CCE with the ability to provide vendor recourse up to a limit of $2.0 million on transactions with long-time customers who lack the financial history to qualify for third-party financing. The terms to maturity of these individual transactions range from October 2014 to October 2016. In connection with this guarantee, we received aggregate premiums of $0.1 million from CCE.

We estimated the fair value of such unused commitments and guarantees as of June 30 and March 31, 2012 to be minimal; and therefore, they are not recorded on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. The following table summarizes the dollar balance of unused line of credit commitments and guarantees as of June 30 and March 31, 2012:

	AS OF JUNE 30, 2012	AS OF MARCH 31, 2012
Unused line of credit commitments	**$ 821**	$ 1,671
Guarantees	**4,434**	4,748
Total	**$ 5,255**	$ 6,419

Escrow Holdbacks

From time to time, we will enter into arrangements as it relates to exits of certain investments whereby specific amounts of the proceeds are held in escrow in order to be used to satisfy potential obligations as stipulated in the sales agreements. We record escrow amounts in restricted cash on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We establish a contingent liability against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liability amounted recorded against the escrow amounts was $0.6 million as of both June 30 and March 31, 2012, and is included in other liabilities on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*.

NOTE 12. FINANCIAL HIGHLIGHTS

	THREE MONTHS ENDED JUNE 30, 2012	2011
Per Common Share Data		
Net asset value at beginning of period (A)	**$ 9.38**	$ 9.00
Net investment income (B)	**0.15**	0.16
Realized gain on sale of investments and other (B)		0.26
Net unrealized depreciation of investments and other (B)	**(0.28)**	(0.23)
Total from investment operations (B)	**(0.13)**	0.19
Cash distributions from net investment income (B) (C)	**(0.15)**	(0.13)
Net asset value at end of period (A)	**$ 9.10**	$ 9.06
Per share market value at beginning of period	**$ 7.57**	$ 7.79
Per share market value at end of period	**7.39**	7.14

Total return [D]	**(0.38)%**	(6.67)%
Shares outstanding at end of period	**22,080,133**	22,080,133
Statement of Assets and Liabilities Data:		
Net assets at end of period	**$ 200,887**	$ 200,035
Average net assets [E]	**204,858**	198,324
Senior Securities Data [F]:		
Total borrowings, at cost	**$ 107,010**	$
Mandatorily redeemable preferred stock	**40,000**	40,000
Asset coverage ratio [G]	**230%**	537%
Average coverage per unit [H]	**$ 2,300**	$ 5,371
Ratios/Supplemental Data:		
Ratio of expenses to average net assets [I] [J]	**5.57%**	3.99%
Ratio of net expenses to average net assets [I] [K]	**5.21%**	3.55%
Ratio of net investment income to average net assets [I]	**6.32%**	7.06%

Table of Contents

(A) Based on actual shares outstanding at the end of the corresponding period.
(B) Based on weighted average per basic share data.
(C) Distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.
(D) Total return equals the change in the market value of our Common Stock from the beginning of the period, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 10 *Distributions to Common Stockholders*.
(E) Calculated using the average balance of net assets at the end of each month of the reporting period.
(F) The 1940 Act currently permits us to issue senior securities representing indebtedness and senior securities that are stock, to which we refer to as senior securities.
(G) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock. Our mandatorily redeemable preferred stock is a senior security that is stock.
(H) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.
(I) Amounts are annualized.
(J) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.
(K) Ratio of net expenses to average net assets is computed using total expenses net of credits to the management fee.

NOTE 13. SUBSEQUENT EVENTS

Portfolio Activity

Subsequent to June 30, 2012, the following transaction occurred:

- In July 2012, we invested $22.5 million in a new Control investment, Ginsey Holdings, Inc. (Ginsey), through a combination of debt and equity. Ginsey, headquartered in Bellmawr, New Jersey, designs and markets a broad line of branded juvenile and adult bath products.

Short-Term Loan

On June 28, 2012, we purchased $85.0 million of T-Bills through Jefferies. The T-Bills were purchased on margin using $9.0 million in cash and the proceeds from a $76.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 0.67%. On July 5, 2012, when the T-Bills matured, we repaid the $76.0 million loan from Jefferies, and on July 6, 2012, we received the $9.0 million margin payment sent to Jefferies to complete the transaction.

Registration Statement

We filed a registration statement on Form N-2 (File No. 333-181879) with the SEC on June 4, 2012, and subsequently filed a Pre-effective Amendment No. 1 to the registration statement on July 17, 2012 and which the SEC declared effective on July 26, 2012. The registration statement will permit us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of Common Stock, preferred stock, subscription rights, debt securities and warrants to purchase Common Stock, including through a combined offering of such securities.

Distributions

On July 10, 2012, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER COMMON SHARE	DISTRIBUTION PER TERM PREFERRED SHARE
July 20, 2012	July 31, 2012	$ 0.05	$ 0.1484375

August 22, 2012	August 31, 2012		**0.05**		**0.1484375**
September 19, 2012	September 28, 2012		**0.05**		**0.1484375**
	Total for the Quarter:	**$**	**0.15**	**$**	**0.4453125**

The July and August distributions have been paid.

Table of Contents

Co-Investment Order

In an order dated July 26, 2012, the SEC granted us the relief sought in the exemptive application we had previously filed with the SEC that expands our ability to co-invest with certain affiliates by permitting us, under certain circumstances, to co-invest with Gladstone Capital Corporation and any future business development company or closed-end management investment company that is advised by our Adviser (or sub-advised by our Adviser if it controls the fund) or any combination of the foregoing.

Table of Contents

PROSPECTUS

$300,000,000

COMMON STOCK

PREFERRED STOCK

SUBSCRIPTION RIGHTS

WARRANTS

DEBT SECURITIES

We may offer, from time to time, up to $300,000,000 aggregate initial offering price of our common stock, $0.001 par value per share, preferred stock, $0.001 par value per share, subscription rights, warrants representing rights to purchase shares of our common stock, or debt securities, or a combined offering of these securities, which we refer to in this prospectus collectively as our Securities, in one or more offerings. The Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. In the case of our common stock and warrants or rights to acquire such common stock hereunder, the offering price per share of our common stock by us, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the holders of the majority of our outstanding stock, or (iii) under such other circumstances as the U.S. Securities and Exchange Commission (SEC) may permit. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market (NASDAQ) under the symbol GAIN. As of July 16, 2012, the last reported sales price of our common stock was $7.67. Our 7.125% Series A Cumulative Term Preferred Stock is traded on NASDAQ under the symbol GAINP. As of July 16, 2012, the last reported sales price of our 7.125% Series A Cumulative Term Preferred Stock was $25.40.

This prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference. Additional information about us, including our annual, quarterly and current reports, has been filed with the Securities and Exchange Commission. This information is available free of charge on our corporate website located at *http://www.gladstoneinvestment.com*. See Additional Information. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

An investment in our Securities involves certain risks, including, among other things, risks relating to investments in securities of small, private and developing businesses. We describe some of these risks in the section entitled Risk Factors , which begins on page 9. Common shares of closed-end investment companies

frequently trade at a discount to their net asset value per share and this may increase the risk of loss of purchasers of our Securities. You should carefully consider these risks together with all of the other information contained in this prospectus and any prospectus supplement before making a decision to purchase our Securities.

The Securities being offered have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

July 26, 2012

Table of Contents

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Additional Information	8
Risk Factors	9
Special Note Regarding Forward-Looking Statements	29
Use of Proceeds	29
Price Range of Common Stock and Distributions	29
Common Share Price Data	31
Ratios of Earnings to Fixed Charges	31
Consolidated Selected Financial and Other Data	32
Management s Discussion and Analysis of Financial Condition and Results of Operations	34
Sales of Common Stock Below Net Asset Value	67
Senior Securities	73
Business	74
Portfolio Companies	87
Management	95
Control Persons and Principal Stockholders	109
Dividend Reinvestment Plan	111
Material U.S. Federal Income Tax Considerations	112
Regulation as a Business Development Company	