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As filed with the Securities and Exchange Commission on June 7, 2013

1933 Act File No. 333-181879

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form N-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
☐ **PRE-EFFECTIVE AMENDMENT NO.**
☒ **POST-EFFECTIVE AMENDMENT NO. 2**

GLADSTONE INVESTMENT CORPORATION
(Exact name of registrant as specified in charter)

1521 Westbranch Drive, Suite 200
McLean, VA 22102
(Address of principal executive offices)

Registrant's telephone number, including area code: (703) 287-5800

David Gladstone
Chairman and Chief Executive Officer
Gladstone Investment Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
(Name and address of agent for service)

COPIES TO:

Helen W. Brown
Bass, Berry & Sims PLC
100 Peabody Place, Suite 900
Memphis, TN 38103
Tel: (901) 543-5918
Fax: 888-789-4123

Approximate date of proposed public offering: From time to time after the effective date of this registration statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. ☒

It is proposed that this filing will become effective (check appropriate box)

☒ when declared effective pursuant to section 8(c).

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 7, 2013

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.

We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company under the Investment Company Act of 1940, as amended. For federal income tax purposes, we have elected to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended. Our investment objectives are to: (1) 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; and (2) 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.

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 June 5, 2013, the last reported sales price of our common stock was $7.32 and the net asset value per share of our common stock on March 31, 2013 (the last date prior to the date of this prospectus on which we determined our net asset value per share) was $9.10. Our 7.125% Series A Cumulative Term Preferred Stock is traded on NASDAQ under the symbol "GAINP." As of June 5, 2013, the last reported sales price of our 7.125% Series A Cumulative Term Preferred Stock was $26.21.

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 SEC. This information is available free of charge by calling us collect at (703) 287-5893 or on our corporate website located at *http://www.gladstoneinvestment.com*. See "Additional Information." Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus. The Securities and Exchange Commission also maintains a website at *www.sec.gov* that contains such 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.

, 2013

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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 or any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained in this prospectus or the accompanying prospectus supplement as if we had authorized it. This prospectus and any prospectus supplement 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 and any prospectus supplement 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.

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time, up to $300,000,000 of our Securities on terms to be determined at the time of the offering. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. To the extent required by law, we will amend or supplement the information contained in this prospectus and any accompanying prospectus supplement to reflect any material changes to such information subsequent to the date of the prospectus and any accompanying prospectus supplement and prior to the completion of any offering pursuant to the prospectus and any accompanying prospectus supplement. Please carefully read this prospectus and any accompanying prospectus supplement together with the additional information described under "Available Information" and "Risk Factors" before you make an investment decision.

PROSPECTUS SUMMARY

The following summary highlights some of the information in this prospectus. It is not complete and may not contain all the information that you may want to consider. You should read the entire prospectus and any prospectus supplement carefully, including the section entitled "Risk Factors." Except where the context suggests otherwise, the terms "we," "us," "our," the "Company" and "Gladstone Investment" refer to Gladstone Investment Corporation; "Adviser" refers to Gladstone Management Corporation; "Administrator" refers to Gladstone Administration, LLC; "Gladstone Commercial" refers to Gladstone Commercial Corporation; "Gladstone Capital" refers to Gladstone Capital Corporation; "Gladstone Land" refers to Gladstone Land Corporation; "Gladstone Securities" refers to Gladstone Securities, LLC; and "Gladstone Companies" refers to our Adviser and its affiliated companies.

GLADSTONE INVESTMENT CORPORATION

General

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. On June 22, 2005, we completed an initial public offering and commenced operations. We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company ("BDC"), under the Investment Company Act of 1940, as amended, which we refer to as the 1940 Act. For federal income tax purposes, we have elected to be treated as a regulated investment company ("RIC"), under Subchapter M of the Internal Revenue Code of 1986, as amended, which we refer to as the Code.

Investment Objectives and Strategy

Our board of directors (the "Board of Directors") approved limited revisions to our investment objectives and strategies, effective on January 1, 2013, which are described below. All of our current portfolio investments fit within the scope of our revised investment objectives and strategies and no changes were required for our portfolio as a result of this revision.

Our investment objectives are to: (1) 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; and (2) 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. To achieve our objectives, our investment strategy is 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. We expect that our investment mix over time will consist of approximately 80% in debt securities and 20% in equity securities. However, as of March 31, 2013, our investment mix was approximately 73% in debt securities and 27% in equity securities, at cost.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the London Interbank Offered Rate ("LIBOR")) and, to a lesser extent, at fixed rates. We 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 of 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" ("PIK").

Typically, our equity investments consist of common stock, preferred stock, limited liability company interests, or warrants or options to purchase the foregoing. Often, these equity investments occur in connection with our original investment, buyouts and recapitalizations of a business, or refinancing existing debt.

Since our initial public offering in 2005, we have invested in over 98 different companies, while making over 95 consecutive monthly distributions to common stockholders.

We expect that our target portfolio over time will primarily include the following four categories of investments in private companies in the United States ("U.S."):

- *Senior Debt Securities:* We 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, though we have none in our investment portfolio at this time.
- *Senior Subordinated Debt Securities:* We 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, such as success fees, in connection with these senior subordinated debt securities.
- *Junior Subordinated Debt Securities:* We 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.
- *Equity Securities:* We seek to invest a portion of our assets in equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are generally 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.

Additionally, pursuant to the 1940 Act, we must maintain at least 70% of our total assets in qualifying assets, which generally include each of the investment types listed above. Therefore, the 1940 Act permits us to invest up to 30% of our assets in other non-qualifying assets. See "*—Regulation as a Business Development Company — Qualifying Assets*" for a discussion of the types of qualifying assets in which we are permitted to invest pursuant to Section 55(a) of the 1940 Act.

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated 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, as compared to investment-grade debt instruments. In addition, many of our debt securities we hold typically do not amortize prior to maturity.

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. One of our Adviser's 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. Excluding our chief financial officer and treasurer and our president, all of our executive officers serve as either directors or executive officers of Gladstone Land, a publicly traded real estate company.

Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to certain of our affiliates, including, but not limited to, Gladstone Commercial; Gladstone Capital; Gladstone Partners Fund, L.P. ("Gladstone Partners"), a private partnership fund formed primarily to co-invest with us and Gladstone Capital; Gladstone Land and Gladstone Lending Corporation ("Gladstone Lending"), a private corporation that was formed primarily to invest in first and second lien term loans 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 since our inception ("Advisory Agreement"). 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., and our Adviser also has offices in several other states.

THE OFFERING

We may offer, from time to time, up to $300,000,000 of our Securities, on terms to be determined at the time of the offering. Our Securities may be offered at prices and on terms to be disclosed in one or more prospectus supplements. In the case of our common stock and warrants or rights to acquire such common stock hereunder in any offering, the offering price per share, exclusive of any distribution commission or discount, will not be less than the net asset value ("NAV") 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 majority of our common stockholders, or (iii) under such other circumstances as the Securities and Exchange Commission (the "SEC") may permit. If we were to sell shares of our common stock below our then current NAV per share, as we did in October 2012, such sales would result in an immediate dilution to the NAV per share. Such a share issuance would also cause a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our Securities by us, the purchase price, and any 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 our Securities.

Set forth below is additional information regarding the offering of our Securities:

Common Stock Trading Symbol (NASDAQ)	GAIN
7.125% Series A Cumulative Term Preferred Stock Trading Symbol (NASDAQ)	GAINP
Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our Securities first to pay down existing short-term debt, then to make investments in buyouts and recapitalizations of small and mid-sized companies in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. See "Use of Proceeds."
Dividends and Distributions	We have paid monthly distributions to the holders of our common stock since 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." 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 qualify 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."

Trading at a Discount	Common shares of closed-end investment companies frequently trade at a discount to their NAV. The possibility that our shares may trade at such discount to our NAV 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, although during the past three years, our common stock has consistently traded, and at times significantly, below NAV.
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."
Dividend Reinvestment Plan	We have a dividend reinvestment plan for our common stockholders. This is an "opt in" dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Stockholders who do not so elect will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan."
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."
Risks of Losing Tax Status and External Financing Constraints	For each quarter end since June 30, 2009, we satisfied the 50% threshold of the asset diversification test applicable to RICs under the Code to maintain RIC status, in part, through the purchase of short-term qualified securities, which have been funded primarily through short-term loan agreements. 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. To the extent that we fail to satisfy the 50% threshold at each of the measurement dates, we may become subject to corporate-level taxation. See *"Risk Factors—Risks Related to Our Regulation and Structure—We currently do not meet the 50% threshold of the asset diversification test applicable to RICs under the Code. If we make any additional investment in the future, including advances under outstanding lines of credit to our portfolio companies, and remain below this threshold as of June 30, 2013, or any subsequent quarter end, we would lose our RIC status unless we are able to cure such failure within 30 days of the quarter end."* and *"Risk Factors—Risks Related to Our External Financing—In addition to regulatory limitations on our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate our repayment obligations under the facility, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions."*

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 contains a reference to fees or expenses paid by "us" or "Gladstone Investment," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Investment. The following percentages were calculated based on actual expenses incurred in the quarter ended March 31, 2013, and average net assets for the quarter ended March 31, 2013.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)(1)	— %
Offering expenses (as a percentage of offering price)(1)	— %
Dividend reinvestment plan expenses(2)	None
Total stockholder transaction expenses(1)	— %
Annual expenses (as a percentage of net assets attributable to common stock):	
Management fees(3)	2.28
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(4)	0.62
Interest payments on borrowed funds(5)	0.32
Dividend expense on mandatorily redeemable preferred stock (6)	1.38
Other expenses(7)	1.19
Total annual expenses(7)	5.8%

(1) The amounts set forth in the table above do not reflect the impact of any sales load or other offering expenses borne by Gladstone Investment and its stockholders. The prospectus supplement relating to an offering of securities pursuant to this prospectus will disclose the estimated offering price and the estimated offering expenses and total stockholder transaction expenses borne by Gladstone Investment and its stockholders as a percentage of the offering price. In the event that securities to which this prospectus relates are sold to or through underwriters, the prospectus supplement will also disclose the applicable sales load.

(2) 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" for information on the dividend reinvestment plan.

(3) Our annual base management fee is 2% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Investment, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. For the quarter ended March 31, 2013, our Adviser voluntarily agreed to waive the annual base management fee of 2% to 0.5% for those senior syndicated loans that we purchase using borrowings from our credit facility. However, because we held no senior syndicated loans purchased using borrowings under our credit facility during the quarter ended March 31, 2013, the waiver did not impact our expenses for that period, as reflected in the table above. Also, under the advisory agreement, our Adviser has 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 others are credited against the base management fee that we would otherwise be required to pay to our Adviser. For the quarter ended March 31, 2013, $0.1 million of these fees were credited against the base management fee. See "Management—Certain Transactions—Investment Advisory and Management Agreement" and footnote 4 below.

(4) 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% 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 3 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. For the quarter ended March 31, 2013, our Board of Directors accepted an unconditional and irrevocable waiver from the Adviser to reduce the income based incentive fee to the extent net investment income did not 100% cover distributions to common stockholders for the quarter. As a result, the incentive fee payable for the quarter ended March 31, 2013 was $1.5 million.

Examples of how the incentive fee would be calculated are as follows:

- 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%.
- 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%
- 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%
- 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.”

(5) Includes deferred financing costs. On October 5, 2012, we entered into an amendment to our revolving line of credit, under which our borrowing capacity is $60 million (“Credit Facility”), to extend the maturity date one year. We have drawn down on our Credit Facility and we expect to borrow additional funds in the future up to the amount such 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 throughout the quarter, based on the interest rate of 1-month LIBOR plus an additional fee related to borrowings of 3.75%, for an aggregate rate of 4.01% under the renewed terms of our Credit Facility, interest payments and amortization of deferred financing costs on borrowed funds would have been 1.19% of our average net assets for the quarter ended March 31, 2013. Subsequent to the quarter ended March 31, 2013, on April 30, 2013, we entered into a fifth amended and restated credit agreement to, in part, increase the commitment amount to $70 million and further extend the maturity of our Credit Facility approximately 6 months to April 30, 2016.

(6) In March 2012, we completed a public offering of 7.125% Series A Cumulative Term Preferred Stock, par value $0.001 per share, or the Term Preferred Stock, at a public offering price of $25.00 per share. In the offering, we issued 1.6 million shares of Term Preferred Stock. Dividend expense assumes the Term Preferred Stock was outstanding over the entire period. Also included in this line item is the amortization of the offering costs related to our term preferred stock offering. In addition, See “Description of Our Securities—Series A Cumulative Term Preferred Stock” for additional information.

(7) Includes our overhead expenses, including payments under 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.”

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 Securities. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above. The amounts set forth below do not reflect the impact of any sales load or offering expenses to be borne by Gladstone Investment and its stockholders. In the prospectus supplement relating to an offering of securities pursuant to this prospectus, the examples below will be restated to reflect the impact of the estimated offering expenses borne by Gladstone Investment and its stockholders and, in the event that securities to which this prospectus relates are sold to or through underwriters, the impact of the applicable sales load. 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)	$ 61	$ 181	$ 298	$ 580
assuming a 5% annual return consisting entirely of capital gains(2)(3)	$ 70	$ 207	$ 337	$ 642

(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 investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of 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” 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.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form N-2 under the Securities Act of 1933, as amended, which we refer to as the Securities Act, with respect to the Securities offered by this prospectus. This prospectus, which is a part of the registration statement, does not contain all of the information set forth in the registration statement or exhibits and schedules thereto. For further information with respect to our business and our Securities, reference is made to the registration statement, including the amendments, exhibits and schedules thereto.

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Such reports, proxy statements and other information, as well as the registration statement and the amendments, exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained 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 web site is *http://www.sec.gov*. Copies of such material may also be obtained from the Public Reference

Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on NASDAQ and our corporate website is located at *http://www.gladstoneinvestment.com*. The information contained on, or accessible through, our website is not a part of this 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 registered include annual financial information that has been examined and reported on, with an opinion expressed, by our independent registered public accounting firm. See “Experts.”

RISK FACTORS

You should carefully consider the risks described below and all other information provided in this prospectus (or any prospectus supplement) before making a decision to purchase our Securities. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our Securities could decline, and you may lose all or part of your investment.

Risks Related to the Economy

The uncertainty surrounding the strength of the U.S. economic recovery and the capital markets volatility in general increases the possibility of adverse effects on our financial position and results of operations. Continued economic adversity could impair our portfolio companies' financial positions and operating results, affect the industries in which we invest, and reduce our volume of new investment activity, thereby harming our operating results. Continued adversity in the capital markets could impact our ability to raise capital and reduce our volume of new investments.

The U.S. is continuing to recover from the recession that largely began in late 2007. While economic conditions generally appear to be improving, we remain cautious about a long-term economic recovery. The recession in general, and the disruptions in the capital markets in particular, have impacted our liquidity options and increased our cost of debt and equity capital. As a result, we do not know if adverse conditions will again intensify, and we are unable to gauge the full extent to which the disruptions will continue to affect us. The longer these uncertain conditions persist, the greater the probability that these factors could continue to increase our costs of, and significantly limit our access to, debt and equity capital and, thus, have an adverse effect on our operations and financial results. Many of our portfolio companies and the companies we may invest in prospectively are also susceptible to these unstable economic conditions, which may affect the ability of one or more of our portfolio companies to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering. These unstable economic conditions could also disproportionately impact some of the industries in which we invest, causing us to be more vulnerable to losses in our portfolio, which could cause the number of non-performing assets to increase and the fair value of our portfolio to decrease. The unstable economic conditions may also decrease the value of collateral securing some of our loans as well as the value of our equity investments, which would decrease our ability to borrow under our Credit Facility or raise equity capital, thereby further reducing our ability to make new investments.

The unstable economic conditions have affected the availability of credit generally. Our current credit facility limits our distributions to stockholders and, as a result, we decreased our monthly cash distribution rate by 50%, starting in April 2009, in an effort to more closely align our distributions to our net investment income, though we subsequently increased our distributions by 25% during the 2012 fiscal year and maintained that level of distributions through the 2013 fiscal year. We do not know when market conditions will stabilize, if adverse conditions will intensify or the full extent to which the disruptions will continue to affect us. Also, it is possible that persistent instability of the financial markets could have other unforeseen material effects on our business.

The downgrade of the United States credit rating and the ongoing economic crisis in Europe could negatively impact our liquidity, financial condition and earnings.

Recent U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from "AAA" to "AA+" in August 2011. The impact of this or any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. These fairly recent developments, and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

We may experience fluctuations in our quarterly and annual results based on the impact of inflation in the United States.

The majority of our portfolio companies are in industries that are directly impacted by inflation, such as consumer goods and services and manufacturing. Our portfolio companies may not be able to pass on to customers increases in their costs of operations, which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies' operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future unrealized losses and therefore reduce our net assets resulting from operations.

Risks Related to Our External Management

We are dependent upon our key management personnel and the key management personnel of the Adviser, particularly David Gladstone, Terry Lee Brubaker and David Dullum, and on the continued operations of the Adviser, for our future success.

We have no employees. Our chief executive officer, president, chief operating officer, chief financial officer and treasurer, and the employees of the Adviser, do not spend all of their time managing our activities and our investment portfolio. We are particularly dependent upon David Gladstone, Terry Lee Brubaker and David Dullum in this regard. Our executive officers and the employees of the Adviser allocate some, and in some cases a material portion, of their time to businesses and activities that are not related to our business. We have no separate facilities and are completely reliant on the Adviser, which has significant discretion as to the implementation and execution of our business strategies and risk management practices. We are subject to the risk of discontinuation of the Adviser's operations or termination of the Advisory Agreement and the risk that, upon such event, no suitable replacement will be found. We believe that our success depends to a significant extent upon the Adviser and that discontinuation of its operations could have a material adverse effect on our ability to achieve our investment objectives.

The Adviser can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

The Adviser has the right to resign under the Advisory Agreement at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If the Adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition, results of operations and cash flows.

Our incentive fee may induce the Adviser to make certain investments, including speculative investments.

The management compensation structure that has been implemented under the Advisory Agreement may cause the Adviser to invest in high-risk investments or take other risks. In addition to its management fee, the Adviser is entitled under the Advisory Agreement to receive incentive compensation based in part upon our achievement of specified levels of income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead the Adviser to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining sufficient liquidity, or management of credit risk or market risk, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

We may be obligated to pay the Adviser incentive compensation even if we incur a loss.

The Advisory Agreement entitles the Adviser to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. When calculating our incentive compensation, our pre-incentive fee net investment income excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter. For additional information on incentive compensation under the Advisory Agreement with the Adviser, see "*Business — Ongoing Management of Investments and Portfolio Company Relationships — Investment Advisory and Management Agreement*."

We may be required to pay the Adviser incentive compensation on income accrued, but not yet received in cash.

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as debt instruments with PIK interest. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser.

The Adviser's failure to identify and invest in securities that meet our investment criteria or perform its responsibilities under the Advisory Agreement may adversely affect our ability for future growth.

Our ability to achieve our investment objectives will depend on our ability to grow, which in turn will depend on the Adviser's ability to identify and invest in securities that meet our investment criteria. Accomplishing this result on a cost-effective basis will be largely a function of the Adviser's structuring of the investment process, its ability to provide competent and efficient services to us, and our access to financing on acceptable terms. The senior management team of the Adviser has substantial responsibilities under the Advisory Agreement. In order to grow, the Adviser will need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition, and results of operations.

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

Our executive officers and directors, and the officers and directors of the 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 of the board and chief executive officer of the Adviser, Gladstone Investment, Gladstone Commercial and Gladstone Land. In addition, Mr. Brubaker, our vice chairman, chief operating officer, assistant secretary and a director, is the vice chairman, chief operating officer, assistant secretary and a director of the Adviser, Gladstone Capital, Gladstone Commercial and Gladstone Land. Mr. Dullum, our president and a director, is a director of Gladstone Capital and Gladstone Commercial. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the 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 the Adviser may face conflicts in the allocation of investment opportunities to other entities managed by the Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser. Our Board of Directors approved a revision of our investment objectives and strategies that became effective on January 1, 2013, which may enhance the potential for conflicts in the allocation of investment opportunities to us and other entities managed by the 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, the prior approval of our Board of Directors. As of March 31, 2013, 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 in August 2012, under certain circumstances, we may co-invest with Gladstone Capital and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund) or any combination of the foregoing subject to the conditions included therein.

Certain of our officers, who are also officers of the 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 the Adviser and will reimburse the 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 the 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 provide other services to such portfolio companies. Although, neither we nor the Adviser currently receives fees in connection with managerial assistance, the Adviser and Gladstone Securities have, at various times, provided other services to certain of our portfolio companies and received fees for these other services.

The Adviser is not obligated to provide a waiver of the base management fee, which could negatively impact our earnings and our ability to maintain our current level of distributions to our stockholders.

The Advisory Agreement provides for a base management fee based on our gross assets. Since our 2008 fiscal year, our Board of Directors has accepted on a quarterly basis voluntary, unconditional and irrevocable waivers 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 syndicated loan participations, and any waived fees may not be recouped by the Adviser in the future. However, the Adviser is not required to issue these or other waivers of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these fees will increase. If the Adviser does not issue these waivers in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

Our business model is dependent upon developing and sustaining strong referral relationships with investment bankers, business brokers and other intermediaries and any change in our referral relationships may impact our business plan.

We are dependent upon informal relationships with investment bankers, business brokers and traditional lending institutions to provide us with deal flow. If we fail to maintain our relationship with such funds or institutions, or if we fail to establish strong referral relationships with other funds, we will not be able to grow our portfolio of investments and fully execute our business plan.

Our base management fee may induce our Adviser to incur leverage.

The fact that our base management fee is payable based upon our gross assets, which would include any investments made with proceeds of borrowings, may encourage our Adviser to use leverage to make additional investments. Under certain circumstances, the use of increased leverage may increase the likelihood of default, which would disfavor holders of our securities. Given the subjective nature of the investment decisions made by our Adviser on our behalf, we will not be able to monitor this potential conflict of interest.

Risks Related to Our External Financing

In addition to regulatory limitations on our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate our repayment obligations under the facility, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

We will have a continuing need for capital to finance our investments. As of March 31, 2013, we had $31.0 million in borrowings outstanding under our fourth amended and restated credit agreement, which provided for maximum borrowings of $60.0 million. On April 30, 2013, we, through our wholly owned subsidiary Gladstone Business Investment, LLC ("Business Investment") entered into a fifth amended and restated credit agreement, which replaced the prior revolving line of credit, and increased the net commitment amount to $70.0 million and extended the maturity date approximately six months to April 30, 2016 (the "Credit Facility"). Our Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. 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. The facility also limits payments as distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2014, 2015, 2016 and 2017. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, average life and lien property. The Credit Facility also requires us to comply with other financial and operational covenants, which obligate us 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 of $170.0 million plus 50% of all equity and subordinated debt raised after April 30, 2013, (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 March 31, 2013, we were in compliance with the covenants under the fourth amended and restated credit agreement, and as of May 15, 2013, we were in compliance with the covenants under the Credit Facility; however, our continued compliance depends on many factors, some of which are beyond our control.

Given the continued uncertainty in the capital markets, the cumulative unrealized depreciation in our portfolio may increase in future periods and threaten our ability to comply with the minimum net worth covenant and other covenants under our Credit Facility. Because of changes in our asset portfolio, in part due to significant sales of Non-Control/Non-Affiliate investments during fiscal year 2010, there is a significant possibility that we may not meet the asset diversification threshold under the Code's rules applicable to a RIC at each of our future quarterly testing dates. In addition, our REIT status could be jeopardized if we make any new investments, including additional investments in our portfolio companies (such as advances under our outstanding lines of credit). For more information on our current RIC status, see "Material U.S. Federal Income Tax Considerations — RIC Status." Our failure to satisfy applicable loan covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

Any inability to renew, extend or replace our Credit Facility on terms favorable to us, or at all, could adversely impact our liquidity and ability to fund new investments or maintain distributions to our stockholders.

The maturity date of our Credit Facility is April 30, 2016 (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 April 30, 2017 (one year after the Maturity Date). Subject to certain terms and conditions, the Credit Facility may be expanded to a total of $200 million through the addition of other lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our Credit Facility. There can be no guarantee that we will be able to renew, extend or replace the Credit Facility upon its maturity in 2016 on terms that are favorable to us, if at all. Our ability to expand the Credit Facility, and to obtain replacement financing at the time of its maturity, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand the Credit Facility, or to renew, extend or refinance the Credit Facility at the time of its maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

If we are unable to secure replacement financing, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, and such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. In addition to selling assets, or as an alternative, we may issue equity in order to repay amounts outstanding under the Credit Facility. Based on the recent trading prices of our stock, such an equity offering may have a substantial dilutive impact on our existing stockholders' interest in our earnings, assets and voting interest in us. If we are able to renew, extend or refinance our Credit Facility prior to maturity, any renewal, extension or refinancing of the Credit Facility will potentially result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds to fund investments or maintain distributions to stockholders.

Our business plan is dependent upon external financing, which is constrained by the limitations of the 1940 Act.

Although we completed an offering of our Term Preferred Stock in March 2012 and a common offering in October 2012, there can be no assurance that we will be able to raise capital through issuing equity in the near future. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

- *Senior Securities.* We may issue debt securities, other evidences of indebtedness (including borrowings under our Credit Facility), senior securities representing indebtedness and senior securities that are stock up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue senior securities representing indebtedness and senior securities which are stock (such as our Term Preferred Stock), which we refer to collectively as Senior Securities, in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200% immediately after each issuance of such Senior Security. As a result of incurring indebtedness (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue Senior Securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our Senior Securities is not at least 200%. If the aggregate value of our assets declines, we might be unable to satisfy that 200% requirement. To satisfy the 200% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to stockholders. Furthermore, if we have to issue common stock at below net asset value ("NAV") per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that is stock.

- *Common and Convertible Preferred Stock.* Because we are constrained in our ability to issue debt or senior securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our existing common stockholder may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then current NAV per common share, as we did in October 2012, such sales would result in an immediate dilution to the NAV per common share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10% of our common stock at a 5% discount from NAV, a stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV. This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has for the last several years. As noted above, the 1940 Act prohibits the issuance of multiple classes of senior securities that are stock. As a result, we would be prohibited from issuing convertible preferred stock to the extent that such a security was deemed to be a separate class of stock from our outstanding Term Preferred Stock. However, pending legislation in the U.S House of Representatives, if passed, would modify this section of the 1940 Act and allow the issuance of multiple classes of senior securities that are stock, which may lessen our dependence on the issuance of common stock as a financing source.

We financed certain of our investments with borrowed money and capital from the issuance of Senior Securities, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns on our portfolio, net of expenses. The calculations in the table below are hypothetical, and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to common stockholder[1]	(15.15)%	(8.43)%	(1.70)%	5.03%	11.75%

(1) The hypothetical return to common stockholders is calculated by multiplying our total assets (excluding the assets acquired from the short-term loan that funded the purchase of the short-term qualified securities to satisfy the 50% threshold) as of March 31, 2013 by the assumed rates of return and subtracting all interest accrued on our debt for the year ended March 31, 2013, adjusted for the dividends on our Term Preferred Stock; and then dividing the resulting difference by our total assets attributable to common stock. Based on $314.8 million in total assets, $36.0 million in debt, $40.0 million in aggregate liquidation preference of Term Preferred Stock, and $233.9 million in net assets, each as of March 31, 2013.

Based on an aggregate outstanding indebtedness of $36.0 million at cost, excluding the short-term loan, as of March 31, 2013, the effective annual interest rate of 4.3% as of that date, and aggregate liquidation preference of our Term Preferred Stock of $40.0 million, our investment portfolio at fair value would have had to produce an annual return of at least 1.40% to cover annual interest payments on the outstanding debt and dividends on our Term Preferred Stock.

A change in interest rates may adversely affect our profitability and our hedging strategy may expose us to additional risks.

We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities. As a result, a portion of our income will depend upon the difference between the rate at which we borrow funds and the rate at which we loan these funds. Higher interest rates on our borrowings will decrease the overall return on our portfolio.

Ultimately, we expect approximately 80% of the loans in our portfolio to be at variable rates determined on the basis of a LIBOR rate and approximately 20% to be at fixed rates. As of March 31, 2013, based on the total principal balance of debt outstanding, our portfolio consisted of approximately 80.1% of loans at variable rates with floors and 19.9% at fixed rates.

We currently hold one interest rate cap agreement. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to an interest rate cap agreement is

linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement.

Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us and make the types of investments that we seek to make in small and mid-sized companies. We compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent that they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which would allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The competitive pressures we face could have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. We do not seek to compete based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms, and structure. However, if we match our competitors' pricing, terms, and structure, we may experience decreased net interest income and increased risk of credit loss.

Our investments in small and medium-sized portfolio companies are extremely risky and could cause you to lose all or a part of your investment.

Investments in small and medium-sized portfolio companies are subject to a number of significant risks including the following:

- *Small and medium-sized businesses are likely to have greater exposure to economic downturns than larger businesses.*Our portfolio companies may have fewer resources than larger businesses, and thus the recent recession, and any further economic downturns or recessions, are more likely to have a material adverse effect on them. If one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan or engage in a liquidity event, such as a sale, recapitalization or initial public offering would be diminished.
- *Small and medium-sized businesses may have limited financial resources and may not be able to repay the loans we make to them.*Our strategy includes providing financing to portfolio companies that typically do not have readily available access to financing. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower's ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. A deterioration in a borrower's financial condition and prospects usually will be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guarantees we may have obtained from the borrower's management. Although we will sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender's security interest.
- *Small and medium-sized businesses typically have narrower product lines and smaller market shares than large businesses.* Because our target portfolio companies are smaller businesses, they will tend to be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.
- *There is generally little or no publicly available information about these businesses.* Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, the Adviser and its employees, Gladstone Securities and consultants to perform due diligence investigations of these portfolio companies, their operations, and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations.
- *Small and medium-sized businesses generally have less predictable operating results.* We expect that our portfolio companies may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our portfolio companies may

not meet net income, cash flow and other coverage tests typically imposed by their senior lenders. A borrower's failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower's ability to repay our loan would be jeopardized.

- *Small and medium-sized businesses are more likely to be dependent on one or two persons.* Typically, the success of a small or medium-sized business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our borrower and, in turn, on us.
- *Small and medium-sized businesses may have limited operating histories.* While we intend to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Portfolio companies with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

Because the loans we make and equity securities we receive when we make loans are not publicly traded, there is uncertainty regarding the value of our privately held securities that could adversely affect our determination of our NAV.

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has established an investment valuation policy and consistently applied valuation procedures used to determine the fair value of these securities quarterly. These procedures for the determination of value of many of our debt securities rely on the opinions of value submitted to us by SPSE or the use of internally developed discounted cash flow ("DCF") methodologies or indicative bid prices ("IBP") offered by the respective originating syndication agent's trading desk, or secondary desk, specifically for our syndicated loans, or internal methodologies based on the total enterprise value ("TEV") of the issuer used for certain of our equity investments. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and SPSE may decline to make requested evaluations for any reason in its sole discretion. However, to date, SPSE has accepted each of our requests for evaluation.

Our use of these fair value methods is inherently subjective and is based on estimates and assumptions of each security. In the event that we are required to sell a security, we may ultimately sell for an amount materially less than the estimated fair value calculated by SPSE, or utilizing the TEV, IBP or the DCF methodology.

Our procedures also include provisions whereby the Adviser will establish the fair value of any equity securities we may hold where SPSE or third-party agent banks are unable to provide evaluations. The types of factors that may be considered in determining the fair value of our debt and equity securities include some or all of the following:

- the nature and realizable value of any 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
- discounted cash flow 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.

A portion of our assets are, and will continue to be, comprised of equity securities that are valued based on internal assessment using our own valuation methods approved by our Board of Directors, without the input of SPSE or any other third-party evaluator. We believe that our equity valuation methods reflect those regularly used as standards by other professionals in our industry who value equity securities. However, determination of fair value for securities that are not publicly traded, whether or not we use the recommendations of an independent third-party evaluator, necessarily involves the exercise of subjective judgment. Our NAV could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

The lack of liquidity of our privately held investments may adversely affect our business.

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly-traded securities. The illiquidity of our investments may make it

difficult for us to quickly obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important investment opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, the Adviser, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

Due to the uncertainty inherent in valuing these securities, our determinations of fair value may differ materially from the values that could be obtained if a ready market for these securities existed. Our NAV could be materially affected if our determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities.

Our financial results could be negatively affected if a significant portfolio investment fails to perform as expected.

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. Our five largest investments represented 50.2% of the fair value of our total portfolio as of March 31, 2013, compared to 52.9% as of March 31, 2012. Any disposition of a significant investment in one or more companies may negatively impact our net investment income and limit our ability to pay distributions.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.

We anticipate that some of our investments will continue to be either debt or minority equity investments in our portfolio companies. Therefore, we are and will remain subject to risk that a portfolio company may make business decisions with which we disagree, and the shareholders and management of such company may take risks or otherwise act in ways that do not serve our best interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings. In addition, we will generally not be in a position to control any portfolio company by investing in its debt securities.

We typically invest in transactions involving acquisitions, buyouts and recapitalizations of companies, which will subject us to the risks associated with change in control transactions.

Our strategy, in part, includes making debt and equity investments in companies in connection with acquisitions, buyouts and recapitalizations, which subjects us to the risks associated with change in control transactions. Change in control transactions often present a number of uncertainties. Companies undergoing change in control transactions often face challenges retaining key employees and maintaining relationships with customers and suppliers. While we hope to avoid many of these difficulties by participating in transactions where the management team is retained and by conducting thorough due diligence in advance of our decision to invest, if our portfolio companies experience one or more of these problems, we may not realize the value that we expect in connection with our investments, which would likely harm our operating results and financial condition.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We invest in debt securities issued by our portfolio companies. In some cases portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders thereof are entitled to receive payment of interest and principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company.

Prepayments of our investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. We will first use any proceeds from prepayments to repay any borrowings outstanding on our Credit Facility. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Higher taxation of our portfolio companies may impact our quarterly and annual operating results.

The recession's adverse effect on federal, state and municipality revenues may induce these government entities to raise various taxes to make up for lost revenues. Additional taxation may have an adverse affect on our portfolio companies' earnings and reduce their ability to repay our loans to them, thus affecting our quarterly and annual operating results.

Our portfolio is concentrated in a limited number of companies and industries, which subjects us to an increased risk of significant loss if any one of these companies does not repay us or if the industries experience downturns.

As of March 31, 2013, we had investments in 21 portfolio companies, of which there were three investments, Venyu, SOG and Acme that comprised approximately $101.1 million or 35.3% of our total investment portfolio, at fair value. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such loans or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25% of the value of our total assets. As of March 31, 2013, our largest industry concentration was in chemicals, plastics, and rubber representing 20.7% of our total investments, at fair value. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us.

Our investments are typically long term and will require several years to realize liquidation events.

Since we generally make five to seven year term loans and hold our loans and related warrants or other equity positions until the loans mature, you should not expect realization events, if any, to occur over the near term. In addition, we expect that any warrants or other equity positions that we receive when we make loans may require several years to appreciate in value and we cannot give any assurance that such appreciation will occur.

The disposition of our investments may result in contingent liabilities.

Currently, all of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the underlying portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though we have structured some of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investments and subordinate all, or a portion, of our claims to that of other creditors. Holders of debt instruments ranking senior to our investments typically would be entitled to receive payment in full before we receive any distributions. After repaying such senior creditors, such portfolio company may not have any remaining assets to use to repay its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or in instances in which we exercised control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance.

Portfolio company litigation could result in additional costs and the diversion of management time and resources.

In the course of providing significant managerial assistance to certain of our portfolio companies, our executive officers sometimes serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, such executive officers may be named as defendants in such litigation, which could result in additional costs and the diversion of management time and resources.

We may not realize gains from our equity investments and other yield enhancements.

When we make a subordinated loan, we may receive warrants to purchase stock issued by the borrower or other yield enhancements, such as success fees. Our goal is to ultimately dispose of these equity interests and realize gains upon our disposition of such interests. We expect that, over time, the gains we realize on these warrants and other yield enhancements will offset any losses we experience on loan defaults. However, any warrants we receive may not appreciate in value and, in fact, may decline in value and any other yield enhancements, such as success fees, may not be realized. Accordingly, we may not be able to realize gains from our equity interests or other yield enhancements and any gains we do recognize may not be sufficient to offset losses we experience on our loan portfolio.

During the fiscal year ended March 31, 2013, we recorded a realized gain of $0.8 million relating to post-closing adjustments on our previous investment exit of A. Strucki, and during the fiscal year ended March 31, 2012, we recapitalized our investment in Cavert II Holdings Corp ("Cavert"), receiving $8.5 million in proceeds and realizing a gain of $5.5 million. Additionally, during the fiscal year ended March 31, 2011, we achieved realized gains of $23.5 million in aggregate with the sale of A. Stucki Holding Corp. ("A. Stucki") in June 2010 and Chase II Holding Corp. ("Chase") in December 2010. These were the first management-supported buyout liquidity events since our inception in 2005. There can be no guarantees that such realized gains can be achieved in future periods and the impact of such sales on our results of operations for the fiscal years 2013, 2012 and 2011 should not be relied upon as being indicative of performance in future periods.

Any unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a BDC we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. We will record decreases in the market values or fair values of our investments as unrealized depreciation. Since our inception, we have, at times, incurred a cumulative net unrealized depreciation of our portfolio. Any unrealized depreciation in our investment portfolio could result in realized losses in the future and ultimately in reductions of our income available for distribution to stockholders in future periods.

Risks Related to Our Regulation and Structure

We currently do not meet the 50% threshold of the asset diversification test applicable to RICs under the Code. If we make any additional investment in the future, including advances under outstanding lines of credit to our portfolio companies, and remain below this threshold as of June 30, 2013, or any subsequent quarter end, we would lose our RIC status unless we are able to cure such failure within 30 days of the quarter end.

In order to maintain RIC status under the Code, in addition to other requirements, as of the close of each quarter of our taxable year, 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, the securities of other RICs and other securities to the extent such other securities of any one issuer do not represent more than 5% of our total assets or more than 10% of the voting securities of such issuer. As a result of changes in the makeup of our assets during 2009, we have not continuously exceeded the 50% threshold. As of March 31, 2013, as with each quarterly measurement since June 30, 2009, we satisfied the 50% threshold through the purchase of short-term qualified securities, which was funded primarily through a short-term loan agreement. Subsequent to the March 31 measurement date, the short-term qualified securities matured, and we repaid the short-term loan, at which time we again fell below the 50% threshold. Until the composition of our assets is continuously above the required 50% threshold, we will continue to seek to deploy similar purchases of qualified securities using short-term loans that would allow us to satisfy the asset diversification test, thereby allowing us to make new or additional investments. There can be no assurance, however, that we will be able to acquire short-term qualified securities in the future on reasonable terms, if at all. Failure to meet this threshold alone however, may not result in the loss of our RIC status. In circumstances where the failure to meet the 50% threshold as of a quarterly measurement date is the result of fluctuations in the value of assets, including in our case as a result of the sale of assets, we are still deemed under the rules to have satisfied the asset diversification test and, therefore, maintain our RIC status, as long as we have not made any new investments, including additional investments in our portfolio companies (such as advances under outstanding lines of credit), since the time that we fell below the 50% threshold. Thus, while we currently qualify as a RIC despite our current inability to continuously 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. Because, in most circumstances, we are contractually required to advance funds on outstanding lines of credit upon the request of our portfolio companies, we may have a limited ability to avoid adding to existing investments in a manner that would cause us to fail the asset diversification test as of future quarterly measurement dates.

If we were to make a new or additional investment before regaining continuous compliance with the 50% threshold, and we were not in compliance prior to the next quarterly measurement date following such investment, we would have thirty days to "cure" our failure to meet the 50% threshold at such quarterly measurement date to avoid our loss of RIC status. Potential cures for failure of the asset diversification test include raising additional equity or debt capital as we have done, or changing the composition of our assets, which could include full or partial divestitures of investments, such that we would once again meet or exceed the 50% threshold at such quarterly measurement date. Our ability to implement any of these cures would be subject to market conditions and a number of risks and uncertainties that would be, in part, beyond our control. Accordingly, we cannot guarantee you that we would be successful in curing any failure of the asset diversification test, which would subject us to corporate level tax. For additional information about the consequences of failing to satisfy the RIC qualification requirements, see "—We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification."

We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification.

To maintain our qualification as a RIC, we must meet income source, asset diversification and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90% of our ordinary income and the excess of our net short-term capital gains over our net long-term capital losses to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create "original issue discount," which we must recognize as ordinary income, increasing the amounts we are required to distribute to maintain RIC status. Because such warrants will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we will need to use cash from other sources to satisfy such distribution requirements. The asset diversification requirements must be met at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our shares. For additional information regarding asset coverage ratio and RIC requirements, see "Material U.S. Federal Income Tax Considerations—RIC Status."

From time to time, some of our debt investments may include success fees that would generate payments to us if the business is ultimately sold. Because the satisfaction of these success fees, and the ultimate payment of these fees, is uncertain, we do not recognize them as income until we have received payment. We sought and received approval for a change in accounting method from the IRS related to our tax treatment for success fees. As a result, we, in effect, will continue to account for the recognition of income from the success fees upon receipt, or when the amounts become fixed. Prior to January 1, 2011, we treated the success fee amounts as a capital gain for tax characterization purposes. However, beginning January 1, 2011, the success fee amounts are characterized as ordinary income for tax purposes. The approved change in accounting method does not require us to retroactively change the capital gains treatment of the success fees received prior to January 1, 2011. As a result, we are required to distribute such amounts to our stockholders in order to maintain RIC status for success fees we receive after January 1, 2011.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us or our portfolio companies to comply with these laws or regulations may adversely affect our business. For additional information regarding the regulations to which we are subject, see "Material U.S. Federal Income Tax Considerations—RIC Status" and "Regulation as a Business Development Company."

Provisions of the Delaware General Corporation Law and of our certificate of incorporation and bylaws could restrict a change in control and have an adverse impact on the price of our common stock.

We are subject to provisions of the Delaware General Corporation Law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for three years unless the holder's acquisition of our stock was either approved in advance by our Board of Directors or ratified by the Board of Directors and stockholders owning two-thirds of our outstanding stock not owned by the acquiring holder. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our Board of Directors, they would apply even if the offer may be considered beneficial by some stockholders.

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our certificate of incorporation classifying our Board of Directors in three classes serving staggered three-year terms, and provisions of our certificate of incorporation authorizing our Board of Directors to induce the issuance of additional shares of our stock. These provisions, as well as other provisions of our certificate of incorporation and bylaws, may delay, defer, or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Risks Related to an Investment in Our Common or Preferred Stock

We may experience fluctuations in our quarterly and annual operating results.

We may experience fluctuations in our quarterly and annual operating results due to a number of factors, including, among others, variations in our investment income, the interest rates payable on the debt securities we acquire, the default rates on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions, including the impacts of inflation. The majority of our portfolio companies are in industries that are directly impacted by inflation, such as manufacturing and consumer goods and services. Our portfolio companies may not be able to pass on to customers increases in their costs of production

which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies' operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future realized and unrealized losses and therefore reduce our net assets resulting from operations. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

There is a risk that you may not receive distributions or that distributions may not grow over time.

Our current intention is to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on a quarterly basis by paying monthly distributions. We expect to retain some or all net realized long-term capital gains by first offsetting them with realized capital losses, and, secondly, through a "deemed distribution" to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine in certain cases to distribute these gains to our common stockholders. In addition, our Credit Facility restricts the amount of distributions we are permitted to make. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions.

Distributions to our stockholders have included and may in the future include a return of capital.

Our Board of Directors declares monthly distributions based on estimates of taxable income for each fiscal year, which may differ, and in the past have differed, from actual results. Because our distributions are based on estimates of taxable income that may differ from actual results, future distributions payable to our stockholders may also include a return of capital. Moreover, to the extent that we distribute amounts that exceed our accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a stockholder's original investment in shares of our stock and should not be confused with a distribution from earnings and profits. Although return of capital distributions may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the sale of our shares by reducing the investor's tax basis for such shares. Such returns of capital reduce our asset base and also adversely impact our ability to raise debt capital as a result of the leverage restrictions under the 1940 Act, which could have a material adverse impact on our ability to make new investments.

The market price of our shares may fluctuate significantly.

The trading price of our common stock and our preferred stock may fluctuate substantially. The extreme volatility and disruption that have affected the capital and credit markets over the past few years, we have experienced greater than usual stock price volatility.

The market price and marketability of our shares may from time to time be significantly affected by numerous factors, including many over which we have no control and that may not be directly related to us. These factors include, but are not limited to, the following:

- general economic trends and other external factors;
- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of shares of RICs, BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs;
- loss of BDC status;
- loss of RIC status;
- changes in our earnings or variations in our operating results;
- changes in prevailing interest rates;
- changes in the value of our portfolio of investments;
- any shortfall in our revenue or net income or any increase in losses from levels expected by securities analysts;
- departure of key personnel;
- operating performance of companies comparable to us;
- short-selling pressure with respect to our shares or BDCs generally;
- the announcement of proposed, or completed, offerings of our securities, including a rights offering; and
- loss of a major funding source.

Fluctuations in the trading prices of our shares may adversely affect the liquidity of the trading market for our shares and, if we seek to raise capital through future equity financings, our ability to raise such equity capital.

The issuance of subscription rights to our existing stockholders may dilute the ownership and voting powers of existing stockholders in our common stock, dilute the NAV of their shares and have a material adverse effect on the trading price of our common stock.

In April 2008, we completed an offering of transferable rights to subscribe for additional shares of our common stock, or subscription rights. We raised equity in this manner primarily due to the capital raising constraints applicable to us under the 1940 Act when our common stock is trading below its NAV per share, as it was at the time of the rights offering. In the event that we again issue subscription rights to our existing stockholders, there is a significant possibility that the rights offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their subscription rights should expect that they will, upon completion of the rights offering, own a smaller proportional interest in the Company than would otherwise be the case if they fully exercised their subscription rights. In addition, because the subscription price of the rights offering is likely to be less than our most recently determined NAV per share, our common stockholders are likely to experience an immediate dilution of the per share NAV of their shares as a result of the offer. As a result of these factors, any future rights offerings of our common stock, or our announcement of our intention to conduct a rights offering, could have a material adverse impact on the trading price of our common stock.

Shares of closed-end investment companies frequently trade at a discount from NAV.

Shares of closed-end investment companies frequently trade at a discount from NAV. Since our inception, our common stock has at times traded above NAV, and at times traded below NAV. During the past year, our common stock has consistently, and at times significantly, traded below NAV. Subsequent to March 31, 2013, our common stock has traded at discounts of up to 29.6% of our NAV per share, which was $9.10 as of March 31, 2013. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our NAV. Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our common stockholders and our independent directors. Additionally, at times when our common stock is trading below its NAV per share, our dividend yield may exceed the weighted average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional shares in such circumstances. Thus, for as long as our common stock trades below NAV we will be subject to significant constraints on our ability to raise capital through the issuance of common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current NAV per share of our common stock.

At our most recent annual meeting, our stockholders approved a proposal designed to allow us to access the capital markets in a way that absent stockholder approval, we are generally unable to due to restrictions applicable to BDCs under the 1940 Act. Specifically, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current NAV per share of our common stock in one or more offerings for a period of one year, subject to certain conditions (including, but not limited to, that the number of common shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale).

We exercised this right with Board of Director approval in October 2012, when we completed a public offering of 4.4 million shares of our common stock at a public offering price of $7.50 per share, which was below our then current NAV of $8.65 per share. Gross proceeds totaled $33.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $31.0 million. The net dilutive effect of the issuance of common stock, net of expenses, below NAV was $0.31 per share of common stock.

At the upcoming annual stockholders meeting scheduled for August 8, 2013, our stockholders will again be asked to vote in favor of renewing this proposal for another year. During the past year, our common stock has consistently, and at times significantly, traded below NAV. Any decision to sell shares of our common stock below the then current NAV per share of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders' best interests.

If we were to sell shares of our common stock below NAV per share, such sales would result in an immediate dilution to the NAV per share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock

and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. The greater the difference between the sale price and the NAV per share at the time of the offering, the more significant the dilutive impact would be. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect, if any, cannot be currently predicted. However, if, for example, we sold an additional 10% of our common stock at a 5% discount from NAV, a stockholder who did not participate in that offering for its proportionate interest would suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV.

If we fail to pay dividends on our Term Preferred Stock for two years, the holders of our Term Preferred Stock will be entitled to elect a majority of our directors.

The terms of our Term Preferred Stock provide for annual dividends in the amount of $1.7813 per outstanding share of Term Preferred Stock. In accordance with the terms of our Term Preferred Stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of Term Preferred Stock will be entitled to elect a majority of our Board of Directors.

Our Term Preferred Stock magnifies the potential for gain or loss for our holders of common stock and the risks of investing in our common stock in the same way as our borrowings.

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are less subject to our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

An investment in Term Preferred Stock with a fixed interest rate bears interest rate risk.

Our Term Preferred Stock, in general, pays dividends at a fixed dividend rate of 7.125% per year. Prices of fixed income investments generally vary inversely with changes in market yields. The market yields on securities comparable to the Term Preferred Stock may increase, which would likely result in a decline in the secondary market price of the Term Preferred Stock prior to the term redemption date. This risk may be even more significant in light of the low nature of the currently prevailing market interest rates.

A liquid secondary trading market for our Term Preferred Stock may not develop.

Although our Term Preferred Stock is listed for trading on the NASDAQ Global Select Market ("NASDAQ"), such shares are thinly traded, and the market for such shares is relatively illiquid compared to the market for other types of securities, with the spread between the bid and ask prices considerably greater than the spreads of other securities with comparable terms and features.

The Term Preferred Stock is not rated.

We have not had the Term Preferred Stock rated by any rating agency. Unrated securities usually trade at a discount to similar rated securities. As a result, there is a risk that the shares of our Term Preferred Stock may trade at a price that is lower than they might otherwise trade if they were rated by a rating agency.

The Term Preferred Stock bear a risk of early redemption by us.

We may voluntarily redeem some or all of the Term Preferred Stock on or after February 28, 2016, which is one year prior to its mandatory redemption date of February 28, 2017. We also may be forced to redeem some or all of the Term Preferred Stock to meet regulatory requirements and the asset coverage requirements of such shares, and any such redemption may occur at a time that is unfavorable to holders of the Term Preferred Stock. We may have an incentive to redeem the Term Preferred Stock voluntarily before the mandatory redemption date if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the fixed dividend rate on the Term Preferred Stock.

Claims of holders of our Term Preferred Stock are subject to a risk of subordination relative to holders of our debt instruments.

Rights of holders of our Term Preferred Stock are subordinated to the rights of holders of our indebtedness. Therefore, dividends, distributions and other payments to holders of Term Preferred Stock in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. In addition, under some circumstances the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of holders of the Term Preferred Stock.

Holders of our Term Preferred Stock are subject to inflation risk.

Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted, or "real," value of an investment in Term Preferred Stock or the income from that investment will be worth less in the future. As inflation occurs, the real value of the Term Preferred Stock and dividends payable on such shares declines.

Holders of our Term Preferred Stock bear reinvestment risk.

Given the five-year term and potential for early redemption of the Term Preferred Stock, holders of such shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of the Term Preferred Stock may be lower than the return previously obtained from the investment in such shares.

Holders of our Term Preferred Stock bear dividend risk.

We may be unable to pay dividends on the Term Preferred Stock under some circumstances. The terms of our indebtedness preclude the payment of dividends in respect of equity securities, including the Term Preferred Stock, under certain conditions.

There is a risk of delay in our redemption of our Term Preferred Stock, and we may fail to redeem such securities as required by their terms.

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly-traded securities. The illiquidity of our investments may make it difficult for us to obtain cash equal to the value at which we record our investments quickly if a need arises. If we are unable to obtain sufficient liquidity prior to the term redemption date, we may be forced to engage in a partial redemption or to delay a required redemption. If such a partial redemption or delay were to occur, the market price of the Term Preferred Stock might be adversely affected.

Other Risks

We could face losses and potential liability if intrusion, viruses or similar disruptions to our technology jeopardize our confidential information, whether through breach of our network security or otherwise.

Maintaining our network security is of critical importance because our systems store highly confidential financial models and portfolio company information. Although we have implemented, and will continue to implement, security measures, our technology platform is and will continue to be vulnerable to intrusion, computer viruses or similar disruptive problems caused by transmission from unauthorized users. The misappropriation of proprietary information could expose us to a risk of loss or litigation.

Terrorist attacks, acts of war, or national disasters may affect any market for our common stock, impact the businesses in which we invest, and harm our business, operating results, and financial conditions.

Terrorist acts, acts of war, or national disasters have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or national disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results, and financial condition. Losses from terrorist attacks and national disasters are generally uninsurable.

Pending legislation may allow us to incur additional leverage.

As a BDC, we are generally not permitted to incur indebtedness (which include senior securities representing indebtedness and senior securities that are stock) unless immediately after such borrowing we have asset coverage (as defined in Section 18(h) of the 1940 Act) of at least 200% (i.e. the amount of borrowings may not exceed 50% of the value of our assets). Pending legislation in the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of such indebtedness that business development companies may incur by modifying the percentage from 200% to 150%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase. Our Term Preferred Stock is a senior security that is stock and so for this 200% asset coverage threshold is included as total indebtedness.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained herein or in any accompanying prospectus supplement, 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," "provide," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These 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: (1) further adverse changes in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker or David Dullum; (4) changes in our business strategy; (5) availability, terms and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; and (8) those factors described in the "Risk Factors" section of this prospectus and any accompanying prospectus supplement. We caution readers not to place undue reliance on any such forward-looking statement.

We have based the forward-looking statements on information available to us on the date of this prospectus. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to review any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of the Securities first to pay down existing short-term debt, then to make investments in small and mid-sized businesses in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. Indebtedness under our Credit Facility currently accrues interest at the rate of approximately 4% and matures on April 30, 2016. We anticipate that substantially all of the net proceeds of any offering of Securities 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 any offering of Securities 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.

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 IRS 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—Risks Related to Our Business and Structure—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."

Our common stock is traded on 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 fiscal years and the current fiscal year through June 5, 2013.

	Net Asset Value Per Share (1)	Sales Price High	Sales Price Low	Dividend Declared	Discount of High Sales Price to Net Asset Value (2)	Discount of Low Sales Price to Net Asset Value (2)
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 ended March 31, 2013						
First Quarter	$ 9.10	$7.81	$6.90	$ 0.150	14%	24%
Second Quarter	$ 8.93	$8.07	$7.20	$ 0.150	10%	19%
Third Quarter	$ 8.65	$8.02	$6.59	$ 0.150	7%	24%
Fourth Quarter	$ 9.10	$7.72	$6.95	$ 0.150	15%	24%
Fiscal Year ending March 31, 2014						
First Quarter (through June 5, 2013)	*	$7.52	$7.02	$ 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 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.

Common shares of closed-end investment companies frequently trade at a discount to their NAV. The possibility that our shares may trade at such discount to our NAV 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, although during the past three years, our common stock has consistently traded, and at times significantly, below NAV.

As of May 31, 2013, there were approximately 25 record owners of our common stock.

The following are our outstanding classes of securities as of March 31, 2013.

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by us or for Our Account	(4) Amount Outstanding Exclusive of Amounts Shown Under(3)
Common Stock	100,000,000	—	26,475,958
Preferred Stock	1,610,000	—	1,600,000

RATIOS OF EARNINGS TO FIXED CHARGES

For the years ended March 31, 2013, 2012, 2011, 2010 and 2009 the ratios of three income metrics to fixed charges of the Company, computed as set forth below, were as follows:

	Year Ended March 31,				
	2013	2012	2011	2010	2009
Net investment income plus fixed charges to fixed charges	5.0x	10.7x	14.6x	3.9x	3.4x
Net investment income plus realized gains (losses) plus fixed charges to fixed charges	5.2x	14.2x	34.3x	(6.0x)	2.5x
Net increase (decrease) in net assets resulting from operations plus fixed charges to fixed charges	5.2x	16.4x	14.8x	(2.1x)	(1.0x)

For purposes of computing the ratios, fixed charges include interest expense on borrowings, dividend expense on mandatorily redeemable preferred stock and amortization of deferred financing fees.

CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA

The following consolidated selected financial data as of and for the fiscal years ended March 31, 2013, 2012, 2011, 2010, and 2009, are derived from our audited consolidated financial statements. The other data included at the bottom of the table is unaudited. The data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	Year Ended March 31,				
($ in Thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Statement of operations data:					
Total investment income	**$ 30,538**	$ 21,242	$ 26,064	$ 20,785	$ 25,812
Total expenses net of credits from Adviser	**14,050**	7,499	9,893	10,187	12,424
Net investment income	**16,488**	13,743	16,171	10,598	13,388
Net gain (loss) on investments	**791**	8,223	268	(21,669)	(24,837)
Net increase (decrease) in net assets resulting from operations	**$ 17,279**	$ 21,966	$ 16,439	$ (11,071)	$ (11,449)
Per share data[1]:					
Net increase (decrease) in net assets resulting from operations per common share—basic and diluted	**$ 0.71**	$ 0.99	$ 0.74	$ (0.50)	$ (0.53)
Net investment income before net gain (loss) on investments per common share—basic and diluted	**0.68**	0.62	0.73	0.48	0.62
Weighted common shares outstanding—basic and diluted	**24,189,148**	22,080,133	22,080,133	22,080,133	21,545,936
Cash distributions declared per share	**$ 0.60**	$ 0.61	$ 0.48	$ 0.48	$ 0.96
Statement of assets and liabilities data:					
Total assets	**$ 379,803**	$ 325,297	$ 241,109	$ 297,161	$ 326,843
Net assets	**240,963**	207,216	198,829	192,978	214,802
NAV per share	**9.10**	9.38	9.00	8.74	9.73
Common shares outstanding	**26,475,958**	22,080,133	22,080,133	22,080,133	22,080,133
Senior securities data:					
Borrowings under Credit Facility[2]	**$ 31,000**	$ —	$ —	$ 27,812	$ 110,265
Short term loan[2]	**58,016**	76,005	40,000	75,000	—
Mandatorily redeemable preferred stock[2]	**40,000**	40,000	—	—	—
Asset coverage ratio[3]	**272%**	268%	534%	281%	293%
Asset coverage per unit[4]	**$ 2,725**	$ 2,676	$ 5,344	$ 2,814	$ 2,930
Other unaudited data:					
Number of portfolio companies	**21**	17	17	16	46
Average size of portfolio company investment at cost	**$ 15,544**	$ 15,670	$ 11,600	$ 14,223	$ 7,586
Principal amount of new investments	**87,607**	91,298	43,634	4,788	49,959
Proceeds from loan repayments and investments sold	**28,424**	27,185	97,491	90,240	46,742
Weighted average yield on investments[5]	**12.51%**	12.32%	11.36%	11.02%	8.22%
Total return[6]	**4.73**	5.58	38.56	79.80	(51.65)

(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" 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.
(5) Weighted average yield on investments equals interest income on investments divided by the weighted average interest-bearing debt investment balance throughout the year.
(6) 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.

SELECTED QUARTERLY FINANCIAL DATA

The following tables set forth certain quarterly financial information for each of the eight quarters in the two years ended March 31, 2013. The information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

	Quarter Ended			
Fiscal Year 2013	**June 30, 2012**	**September 30, 2012**	**December 31, 2012**	**March 31, 2013**
Total investment income	$ 5,905	$ 6,974	$ 7,184	$ 10,475
Net investment income	3,238	3,451	3,952	5,847
Net (decrease) increase in net assets resulting from operations	(3,017)	(353)	4,699	15,950
Net (decrease) increase in net assets resulting from operations per weighted average common share – basic & diluted	$ (0.13)	$ (0.02)	$ 0.18	$ 0.60

	Quarter Ended			
Fiscal Year 2012	**June 30, 2011**	**September 30, 2011**	**December 31, 2011**	**March 31, 2012**
Total investment income	$ 5,263	$ 5,034	$ 5,169	$ 5,776
Net investment income	3,501	3,309	3,442	3,491
Net increase (decrease) in net assets resulting from operations	4,188	12,695	5,495	(412)
Net increase (decrease) in net assets resulting from operations per weighted average common share – basic & diluted	$ 0.19	$ 0.57	$ 0.25	$ (0.02)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(dollar amounts in thousands, except per share data and as otherwise indicated)

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto contained elsewhere herein.

OVERVIEW

General

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Code. As a business development company and a RIC, we are also subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

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 ("U.S."). Debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. To a much lesser extent, we also invest in senior and subordinated syndicated loans. Our investment objectives are (a) 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 and (b) 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. We aim to maintain a portfolio consisting of approximately 80% debt investment and 20% equity investment, at cost.

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 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.

Our common stock and Term Preferred Stock are traded on the NASDAQ Global Select Market ("NASDAQ") under the symbols "GAIN" and "GAINP," respectively.

Business Environment

The strength of the global economy, and the U.S. economy in particular, continues to be uncertain and volatile, and we remain cautious about a long-term economic recovery. The 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 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.

Capital Raising Efforts

Despite the challenges in these uncertain economic times, over the past year and a half, we have been able to extend and increase the size of our revolving line of credit (our "Credit Facility") and complete public offerings of preferred and common stock. In October 2012, we extended the maturity date on our Credit Facility an additional year to 2015 and subsequently, in April 2013, we extended the maturity date another six months into 2016 and increased the commitment amount from $60 million to $70 million. In March 2012, we issued 1.6 million shares of 7.125% Series A Cumulative Term Preferred Stock (our "Term Preferred Stock") for gross proceeds of $40.0 million. In October 2012, we issued 4.4 million shares of common stock for gross proceeds of $33.0 million. We discuss each of the foregoing in detail below under "*Recent Developments*."

Despite our public offering of common stock during the fiscal year, market conditions continue to affect the trading price of our common stock and thus our ability to finance new investments through the issuance of equity. On May 10, 2013, the closing market price of our common stock was $7.25, which represented a 20.3% discount to our March 31, 2013, net asset value ("NAV") per share of $9.10. When our stock trades below NAV, our ability to issue equity is constrained by provisions of the Investment Company Act of 1940 (the "1940 Act"), which generally prohibits the issuance and sale of our common stock at an issuance price below the then current 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 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. With our Board of Directors' approval, we issued shares of our common stock in October and November 2012 at a price per share below the then current NAV per share. The resulting proceeds, in part, have and will allow us to grow the portfolio by making new investments, generate additional income through these new investments, provide us additional equity capital to help ensure continued compliance with regulatory tests and allow us to increase our debt capital while still complying with our applicable debt to equity ratios. At our next annual meeting of stockholders, scheduled to take place in August 2013, we expect to ask our stockholders to vote in favor of this proposal again so that it may be in effect for another year.

New Investments

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 debt and equity in support of management and sponsor-led buyouts of small and medium-sized companies in the U.S. These opportunities and the aforementioned capital raising efforts have allowed us to invest approximately $201.4 million into 11 new proprietary debt and equity deals since October 2010. During the fiscal year ended March 31, 2013, we invested a total of $69.0 million in four new deals. Subsequent to March 31, 2013, we invested $17.7 million in Jackrabbit, Inc. ("Jackrabbit"), a manufacturer of nut harvesting equipment.

Each of these new investments, as well as the majority of our debt securities in our portfolio has a success fee component, which enhances the yield on our debt investment. Unlike paid in kind ("PIK") income, we do not recognize the fee into income until it is received in cash. As a result, as of March 31, 2013, we had an off-balance sheet success fee receivable of $12.9 million, or approximately $0.49 per common share. Due to their contingent nature, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

Regulatory Compliance

Due to the limited number of investments in our portfolio, our asset composition may affect our ability to satisfy certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), for maintenance of our status as a regulated investment company ("RIC") under subchapter M of the Code. To maintain our status as a RIC, in addition to other requirements, as of the close of each quarter of our taxable year, 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 (the "50% threshold").

Failure to meet the 50% threshold alone, however, may 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 our 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. As of March 31, 2013, 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 March 31, 2013, 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 are once again below the 50% threshold.

Thus, while we currently qualify as a RIC despite our recent inability to continuously meet the 50% threshold and potential inability to do so in the future, if we make any new or additional investments before regaining continuous compliance with the asset diversification test, our RIC status could 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.

Until the composition of our assets satisfies 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 at each quarterly measurement date, 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 representing indebtedness and our senior securities that are stock, which we refer to collectively as "senior securities." As of March 31, 2013, our asset coverage ratio was 272%. The ratio is impacted, in part, by our need to obtain a short-term loan at quarter end to acquire short-term securities in order to satisfy the 50% threshold at each quarterly measurement date to maintain 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 continuously above the required 50% threshold on a consistent basis, we will have to continue to obtain short-term loans 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. Our October 2012 common stock offering, was completed, in part, to provide us additional equity capital to help ensure continued compliance with the 200% asset coverage ratio.

Investment Highlights

During the fiscal year ended March 31, 2013, we disbursed $68.0 million in new debt and equity investments and extended $15.5 million of investments to existing portfolio companies through revolver draws or additions to term notes. From our initial public offering in June 2005 through March 31, 2013, we have made 192 investments in 98 companies for a total of approximately $800.0 million, before giving effect to principal repayments on investments and divestitures.

Investment Activity

During our fiscal year ended March 31, 2013, the following significant transactions 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 is a processor of raw fluid whey, specializing in the production of protein supplements for dairy and beef cattle. In December 2012, our $7.0 million debt investment was paid off at par.
- In July 2012, we invested $21.3 million in a new Control investment, Drew Foam Companies, Inc. ("Drew Foam"), through a combination of debt and equity. Drew Foam is an expanded polystyrene foam molder and fabricator for a variety of applications in construction and packaging. In September 2012, $4.0 million of the debt and the line of credit was refinanced with a third-party. In December 2012, $1.8 million of our equity investment was sold to a third-party at cost.
- In July 2012, we invested $22.5 million in a new Control investment, Ginsey Home Solutions, Inc. ("Ginsey"), through a combination of debt and equity. Ginsey designs and markets a broad line of branded juvenile and adult bath products. In August 2012, we participated out $5.0 million of the debt to a third-party.

- In August 2012, we restructured our investment in Tread Corp. ("Tread"), converting $3.0 million of senior subordinated debt into preferred and common shares of Tread in a non-cash transaction.
- In November 2012, we invested $16.5 million in a new Control investment, Frontier Packaging, Inc. ("Frontier"), through a combination of debt and equity. Frontier is a supplier of a range of time sensitive packaging materials to the Alaskan seafood market, adding value through its expertise in product consolidation and logistics.
- In February 2013, we recapitalized our investment in Galaxy Tool Holding Corp. ("Galaxy"), converting $8.2 million of Galaxy preferred stock and its related $4.1 million in accrued dividends into a new $12.3 million senior debt investment in a non-cash transaction. We recognized $4.1 million in dividend income related to this recapitalization.

Recent Developments

Credit Facility Extension and Expansion

On April 30, 2013, we, through our wholly-owned subsidiary Gladstone Business Investment, LLC ("Business Investment") entered into a fifth amended and restated credit agreement providing for a $70.0 million revolving line of credit (the "Credit Facility") arranged by Key Equipment Finance Inc. ("KEF") as administrative agent. Branch Banking and Trust Company ("BB&T") also joined the Credit Facility as a lender. The fifth amended and restated agreement increased the net commitment amount from $60.0 million to $70.0 million and extended the maturity date approximately six months to April 30, 2016 (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 April 30, 2017 (one year after the Maturity Date). In addition, there are two one-year extension options to be agreed upon by all parties, which may be exercised on or before April 30, 2014 and 2015, as applicable. Subject to certain terms and conditions, the Credit Facility may be expanded to a total $200.0 million through the addition of other lenders to the facility. Advances under the Credit Facility will generally bear interest at the 30-day London Interbank Offered Rate ("LIBOR"), plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts.

Common Stock Offering

On October 5, 2012, we completed a public offering of 4.0 million shares of our common stock at a public offering price of $7.50 per share, which was below our then current NAV per share. Gross proceeds totaled $30.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $28.3 million, which we used to repay borrowings under our Credit Facility. In connection with the offering, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3.0 million and net proceeds, after deducting underwriting discounts, of $2.8 million.

Term Preferred Stock Offering

On March 6, 2012, we completed an offering of 1.4 million shares of Term Preferred Stock at a public offering price of $25.00 per share under our previous shelf registration statement on Form N-2 (File No. 333-160720). Net proceeds of the offering, after deducting underwriting discounts and offering expenses borne by us, were approximately $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. On March 13, 2012, the underwriters purchased an additional 0.2 million of our Term Preferred Stock to cover over-allotments, for which we received net proceeds, after deducting underwriting discounts, of $4.8 million.

Short-Term Loan

For each quarter end since December 31, 2009 (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.

For the March 31, 2013 measurement date, we purchased $65.0 million of short-term United States Treasury Bills ("T-Bills") through Jefferies & Company, Inc. ("Jefferies") on March 28, 2013. The T-Bills were purchased on margin using $7.0 million in cash and the proceeds from a $58.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 1.42%. On April 4, 2013, when the T-Bills matured, we repaid the $58.0 million loan from Jefferies and received the $7.0 million margin payment sent to Jefferies to complete the transaction.

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 the Adviser if it controls the fund) or any combination of the foregoing.

Modification to Investment Objectives and Strategies

On September 21, 2012, our Board of Directors approved limited revisions to our investment objectives and strategies, which went into effect on January 1, 2013. All of our portfolio investments fit within the scope of our revised objectives and strategies, and no changes were made to our portfolio as a result of the revision.

Departure of Executive Officer and Director

On November 27, 2012, George Stelljes III informed the Company that he intended to resign as chief investment officer and co-vice chairman of the Board of Directors of the Company. Subsequently, his resignation became effective January 31, 2013.

RESULTS OF OPERATIONS

Comparison of the Fiscal Year Ended March 31, 2013, to the Fiscal Year Ended March 31, 2012

	For the Fiscal Years Ended March 31,			
	2013	**2012**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$24,798**	$19,588	$ 5,210	26.6%
Other income	**5,740**	1,654	4,086	247.0
Total investment income	**30,538**	21,242	9,296	43.8
EXPENSES				
Base management fee	**5,412**	4,386	1,026	23.4
Incentive fee	**2,585**	19	2,566	13,505.3
Administration fee	**785**	684	101	14.8
Interest and dividend expense	**3,977**	966	3,011	311.7
Amortization of deferred financing costs	**791**	459	332	72.3
Other	**1,828**	2,145	(317)	(14.8)
Total expenses before credits from Adviser	**15,378**	8,659	6,719	77.6
Credits to fees	**(1,328)**	(1,160)	(168)	14.5
Total expenses net of credits to fees	**14,050**	7,499	6,551	87.4
NET INVESTMENT INCOME	**16,488**	13,743	2,745	20.0
REALIZED AND UNREALIZED GAIN ON:				
Net realized gain on investments	**843**	5,091	(4,248)	(83.4)
Net realized loss on other	**(41)**	(40)	(1)	2.5
Net unrealized appreciation of investments	**804**	3,163	(2,359)	NM
Net unrealized (depreciation) appreciation of other	**(815)**	9	(824)	NM
Net realized and unrealized gain on investments and other	**791**	8,223	(7,432)	(90.4)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$17,279**	$21,966	$(4,687)	(21.3)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE – BASIC AND DILUTED	**$ 0.71**	$ 0.99	(0.28)	(28.3)

NM = Not Meaningful

Investment Income

Total investment income increased by 43.8% for the year ended March 31, 2013, as compared to the prior year. This increase was primarily due to a significant amount of other income, including success fee and dividend income, that we recorded in the current year and due to an overall increase in interest income as a result of an increase in the size of our loan portfolio and holding higher-yielding debt investments during the year ended March 31, 2013.

Interest income from our investments in debt securities increased 26.6% for the year ended March 31, 2013, as compared to the prior year. 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 year ended March 31, 2013, was approximately $198.1 million, compared to approximately $159.0 million for the prior year. This increase was primarily due to investments originated during the period in Ginsey, Drew Foam and Frontier and the recapitalization of Galaxy. As of March 31, 2013, two loans, ASH Holdings Corp. (“ASH”) and Tread, were on non-accrual, with an aggregate weighted average principal balance of $20.5 million during the year ended March 31, 2013. Tread was put on non-accrual and Country Club Enterprises, LLC (“CCE”) was taken off non-accrual during the three months ended December 31, 2012. As of March 31, 2012, two loans, ASH and CCE, were on non-accrual, with a weighted average principal balance of $14.3 million during the year ended March 31, 2012.

The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and excluding receipts recorded as other income, for the year ended March 31, 2013, was 12.5%, compared to 12.3% for the prior year. 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 year ended March 31, 2013, is a result of the addition of higher-yielding debt investments throughout the past two fiscal years, which had an aggregate, weighted average interest rate of 13.2% as of March 31, 2013.

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

	As of March 31, 2013		Year Ended March 31, 2013	
Company	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Venyu Solutions, Inc.	$ 43,970	15.4%	$ 2,502	8.2%
SOG Specialty Knives and Tools, LLC	29,822	10.4	2,657	8.7
Acme Cryogenics, Inc.	27,340	9.5	2,368	7.8
Ginsey Home Solutions, Inc.(A)	21,833	7.6	1,331	4.4
Galaxy Tool Holding, Inc.(B)	20,876	7.3	4,711	15.4
Subtotal—five largest investments	**143,841**	**50.2**	**13,569**	**44.5**
Other portfolio companies	142,641	49.8	16,969	55.5
Total investment portfolio	**$286,482**	**100.0%**	**$ 30,538**	**100.0%**

	As of March 31, 2012		Year Ended March 31, 2012	
Company	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
SOG Specialty Knives and Tools, LLC(A)	$ 30,096	13.3%	$ 1,725	8.1%
Acme Cryogenics, Inc.	28,301	12.6	1,704	8.0
Venyu Solutions, Inc.	23,330	10.3	2,509	11.8
Channel Technologies Group, LLC (A)	19,066	8.5	484	2.3
Mitchell Rubber Products, Inc. (A)	18,491	8.2	1,758	8.3
Subtotal—five largest investments	**119,284**	**52.9**	**8,180**	**38.5**
Other portfolio companies	106,368	47.1	13,062	61.5
Total investment portfolio	**$225,652**	**100.0%**	**$ 21,242**	**100.0%**

(A) New investment during the applicable year.

(B) Investment income includes $4.1 million non-cash dividend recognized from recapitalization.

Other income increased 247.0% from the prior year, primarily due to $4.1 million of dividend income from the Galaxy recapitalization, $0.7 million in cash dividends received on preferred shares of Acme Cryogenics, Inc. (“Acme”) and elections by each of Mathey Investments, Inc.’s (“Mathey”) and Cavert II Holding Corp.’s (“Cavert”) to prepay $0.4 million of success fees during the fiscal year ended March 31, 2013. Other income for the year ended March 31, 2012, primarily consisted of $0.7 million of cash dividends received on preferred shares of Cavert, in connection with its recapitalization in April 2011, as well as an aggregate of $0.7 million of success fee income resulting from prepayments received from Mathey and Cavert during the year ended March 31, 2012.

Expenses

Total expenses, excluding any voluntary and irrevocable credits to the base management and incentive fees, increased 77.6% for the year ended March 31, 2013, primarily due to an increase in the incentive fee and dividend expense, as compared to the prior year.

The base management fee increased for the year ended March 31, 2013, as compared to the prior year, which is reflective of the increased size of our loan portfolio over the respective periods. An incentive fee was earned by the Adviser throughout the fiscal year ended March 31, 2013; however, the incentive fee was partially waived by the Adviser to ensure distributions to stockholders were covered entirely by net investment income during each respective quarter. The base management and incentive fees are computed quarterly, as described under "Management—Certain Transactions—Investment Advisory and Management Agreement" in Note 4 of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the following table:

	Year Ended March 31,	
	2013	**2012**
Average total assets subject to base management fee[A]	**$270,600**	$219,300
Multiplied by prorated annual base management fee of 2%	**2.0%**	2.0%
Base management fee[B]	**5,412**	4,386
Credit for fees received by Adviser from the portfolio companies	**(1,107)**	(1,106)
Net base management fee	**$ 4,305**	$ 3,280
Incentive fee[B]	**2,585**	19
Credit from waiver issued by Adviser's board of directors	**(221)**	(54)
Net Incentive fee	**$ 2,364**	$ (35)
Total credits to fees:		
Credit for fees received by Adviser from the portfolio companies	**(1,107)**	(1,106)
Credit from waiver issued by Adviser's board of directors[C]	**(221)**	(54)
Credit to fees from Adviser[B]	**$ (1,328)**	$ (1,160)

(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 *Consolidated Statement of Operations*.

Interest and dividend expense increased 311.7% for the year ended March 31, 2013, as compared to the prior year, primarily due to $2.8 million of dividends we paid on our Term Preferred Stock during the fiscal year 2013, compared to $0.2 million for a portion of the prior year. Removing the effect of the preferred stock dividend payment, interest expense for the year ended March 31, 2013, increased 46.7% over the prior year, due mainly to increased average borrowings under the Credit Facility, partially offset by a decreased average borrowing rate upon renewal of the Credit Facility in October 2011, which resulted in the removal of the LIBOR minimum rate of 2.0%. The average balance outstanding on our Credit Facility during the year ended March 31, 2013, was $15.5 million, as compared to $7.3 million in the prior year. The effective interest rate charged on our borrowings for the year ended March 31, 2013, excluding the impact of deferred financing fees, was 5.5%, as compared to 10.0% for the prior year.

Amortization of deferred financing costs increased $0.3 million, or 72.3%, during the fiscal year ended March 31, 2013, as compared to the prior year, primarily due to the Term Preferred Stock offering costs being deferred and amortized, resulting in $0.4 million in amortization during the fiscal year ended March 31, 2013. Minimal amortization was recorded in the prior year, as the Term Preferred Stock offering was not completed until March 2012.

Realized and Unrealized Gain on Investments

Realized Gain

During the fiscal year ended March 31, 2013, we recorded a realized gain of $0.8 million relating to post-closing adjustments on our previous investment exit of A. Stucki Holding Corp. ("A. Stucki"). In April 2011, we recapitalized our investment in Cavert, receiving $8.5 million in proceeds and realizing a gain of $5.5 million. Additionally, we recorded post-closing adjustments related to the A. Stucki exit in June 2010 and the Chase II Holding Corp ("Chase") exit in December 2010, which resulted in a net aggregate loss of $0.3 million during the year ended March 31, 2012.

Unrealized Appreciation and Depreciation

During the year ended March 31, 2013, we recorded net unrealized depreciation on investments in the aggregate amount of $0.8 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2013, were as follows:

		Year Ended March 31, 2013			
Portfolio Company	Investment Classification	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Venyu Solutions, Inc.	Control	$ —	$ 20,640	$ —	$ 20,640
Galaxy Tool Holding, Inc.	Control	—	12,057		12,057
Country Club Enterprises, LLC	Control	—	7,467	—	7,467
Mathey Investments, Inc.	Control	—	1,653	—	2,057
Precision Southeast, Inc.	Control	—	1,594	—	1,594
SBS, Industries, LLC	Control	—	1,238	—	1,238
A. Stucki Holding Corp.	Control	861	—	—	861
Drew Foam Company, Inc.	Control	—	750	—	750
SOG Specialty K&T, LLC	Control	—	(273)	—	(273)
Ginsey Home Solutions, Inc.	Control	—	(618)	—	(618)
Frontier Packaging, Inc.	Control	—	(872)	—	(872)
Quench Holdings Corp.	Affiliate	—	(944)	—	(944)
Acme Cryogenics, Inc.	Control	—	(962)	—	(962)
Channel Technologies Group, LLC	Affiliate	—	(1,288)	—	(1,288)
ASH Holdings Corp.	Control	—	(1,458)	—	(1,458)
Mitchell Rubber Products, Inc.	Control	—	(1,762)	—	(1,762)
Packerland Whey Products, Inc.	Affiliate	—	(2,131)	—	(2,131)
B-Dry, LLC	Non-Control/Non-Affiliate	—	(3,953)	—	(3,953)
Noble Logistics, Inc.	Affiliate	—	(6,420)	—	(6,420)
Danco Acquisition Corp.	Control	—	(8,225)	—	(8,225)
Tread Corp.	Control	—	(15,930)	—	(15,930)
Other, net (<$250 Net)	Various	(18)	241	—	223
Total		**$ 843**	**$ 804**	**$ —**	**$ 1,647**

The primary changes in our net unrealized appreciation for the fiscal year ended March 31, 2013, were due to notable unrealized appreciation of our equity investment in Venyu, primarily due to increased portfolio company performance and an increase in certain comparable multiples used to estimate the fair value. We also experienced notable appreciation in our investments in Galaxy and CCE, primarily due to increased portfolio company performance. This unrealized appreciation was partially offset by notable depreciation of our debt investments in Danco Acquisition Corp. ("Danco") and in our debt and equity investments in Tread, Noble Logistics, Inc. ("Noble") and B-Dry, LLC ("B-Dry"), 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. Excluding the impact of the aforementioned portfolio companies, the net unrealized depreciation of $4.8 million recognized on our investments was primarily due to a decrease in certain comparable multiples used to estimate the fair value of our investments, partially offset by increases in the performance of certain of our portfolio companies.

During the year ended March 31, 2012, we recorded net unrealized appreciation on investments in the aggregate amount of $3.2 million, which included the reversal of $6.0 million in aggregate unrealized appreciation, primarily related to the Cavert recapitalization. Excluding reversals, we had $9.2 million in net unrealized appreciation for the year ended March 31, 2012.

The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2012, were as follows:

		Year Ended March 31, 2012			
Portfolio Company	Investment Classification	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Acme Cryogenics, Inc.	Control	$ —	$ 8,811	$ —	$ 8,811
Mathey Investments, Inc.	Control	—	4,366	—	4,366
SBS, Industries, LLC	Control	—	3,434	—	3,434
Mitchell Rubber Products, Inc.	Control	—	2,114	—	2,114
Tread Corp.	Control	—	2,003	—	2,003
Quench Holdings Corp.	Affiliate	—	1,996	—	1,996
SOG Specialty K&T, LLC	Control	—	1,948	—	1,948
Survey Sampling, LLC	Non-Control/Non-Affiliate	(1)	807	1	807
A. Stucki Holding Corp.	Control	412	—	—	412
Cavert II Holding Corp.	Affiliate	5,507	351	(6,194)	(336)
Noble Logistics, Inc.	Affiliate	—	(460)	95	(365)
Chase II Holding Corp.	Control	(563)	—	—	(563)
Precision Southeast, Inc.	Control	—	(619)	—	(619)
Venyu Solutions, Inc.	Control	—	(1,682)	—	(1,682)
Danco Acquisition Corp.	Affiliate	—	(3,077)	—	(3,077)
ASH Holdings Corp.	Control	—	(3,147)	—	(3,147)
Country Club Enterprises, LLC	Control	—	(7,560)	—	(7,560)
Other, net (<$250 Net)	Various	(264)	(101)	77	(288)
Total		**$ 5,091**	**$ 9,184**	**$ (6,021)**	**$ 8,254**

The primary changes in our net unrealized appreciation for the year ended March 31, 2012, were notable appreciation in our equity investments in Acme, Mathey and SBS Industries, LLC ("SBS"), primarily due to both improved performance and an increase in multiples, and appreciation of our debt investment in Quench Holdings Corp. ("Quench"), which was paid off at par during the three months ended December 31, 2011. This appreciation was partially offset by increased notable depreciation in CCE, ASH and Danco, primarily due to decreased performance, as well as the reversal of previously-recorded unrealized appreciation on the Cavert recapitalization. Excluding the impact of the aforementioned portfolio companies, the net unrealized appreciation of $4.2 million recognized on our investments was primarily due to an increase in certain comparable multiples used to estimate the fair value of our investments, partially offset by decreases in the performance of certain of our portfolio companies.

Over our entire investment portfolio, we recorded, in the aggregate, approximately $23.2 million of net unrealized depreciation and $24.0 million of net unrealized appreciation on our debt positions and equity holdings, respectively, for the year ended March 31, 2013. As of March 31, 2013, the fair value of our investment portfolio was less than our cost basis by approximately $39.9 million, as compared to $40.7 million as of March 31, 2012, representing net unrealized appreciation of approximately $0.8 million for fiscal year 2013. We believe that our aggregate investment portfolio was valued at a depreciated value due to the lingering effects of the recession that began in late 2007 and its effects on the performance of certain of our portfolio companies. Our entire investment portfolio was fair valued at 87.8% of cost as of March 31, 2013. 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 Loss on Other

Realized Loss on Interest Rate Caps

For the fiscal years ended March 31, 2013 and 2012, we recorded a net realized loss of $41 and $40, respectively, due to the expiration of interest rate cap agreements in each year.

Net Unrealized Appreciation on Borrowings

For the fiscal years ended March 31, 2013 and 2012, we recorded $0.9 million and $0, respectively, of net unrealized appreciation primarily due to increased borrowings outstanding and comparable market rates decreasing during the current year. Our Credit Facility was fair valued at $31.9 million as of March 31, 2013. There were no borrowings outstanding as of March 31, 2012.

Comparison of the Fiscal Year Ended March 31, 2012, to the Fiscal Year Ended March 31, 2011

	For the Fiscal Years Ended March 31,			
	2012	2011	$ Change	% Change
INVESTMENT INCOME				
Interest income	$19,588	$ 15,722	$ 3,866	24.6%
Other income	1,654	10,342	(8,688)	(84.0)
Total investment income	21,242	26,064	(4,822)	(18.5)
EXPENSES				
Base management fee	4,386	3,979	407	10.2
Incentive fee	19	2,949	(2,930)	(99.4)
Administration fee	684	753	(69)	(9.2)
Interest and dividend expense	966	690	276	40.0
Amortization of deferred financing costs	459	491	(32)	(6.5)
Other	2,145	1,711	434	25.4
Total expenses before credits from Adviser	8,659	10,573	(1,914)	(18.1)
Credits to fees	(1,160)	(680)	(480)	70.6
Total expenses net of credits to fees	7,499	9,893	(2,394)	(24.2)
NET INVESTMENT INCOME	13,743	16,171	(2,428)	(15.0)
REALIZED AND UNREALIZED GAIN ON:				
Net realized gain on investments	5,091	23,489	(18,398)	(78.3)
Net realized loss on other	(40)	—	(40)	NM
Net unrealized appreciation (depreciation) of investments	3,163	(23,197)	26,360	NM
Net unrealized appreciation (depreciation) of other	9	(24)	33	NM
Net realized and unrealized gain on investments and other	8,223	268	7,955	2968.3
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$21,966	$ 16,439	$ 5,527	33.6%
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE – BASIC AND DILUTED	$ 0.99	$ 0.74	0.25	33.8%

NM = Not Meaningful

Investment Income

Total investment income decreased by 18.5% for the year ended March 31, 2012, as compared to the prior year. This decrease was primarily due to a significant amount of other income, including success fee and dividend income, that we recorded in the prior year as part of the A. Stucki and Chase exits in June and December 2010, respectively, partially offset by an overall increase in interest income in the year ended March 31, 2012 as a result of an increase in the size of our loan portfolio and holding higher-yielding debt investments during the year ended March 31, 2012.

Interest income from our investments in debt securities increased 24.6% for the year ended March 31, 2012, as compared to the prior year. 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 year ended March 31, 2012, was approximately $159.0 million, compared to approximately $138.1 million for the prior year. This increase was primarily due to investments originated during the period in Venyu, Precision Southeast, Inc. (“Precision”), Mitchell Rubber Products, Inc. (“Mitchell”), SOG Specialty K&T, LLC (“SOG”), SBS and Channel Technologies Group, LLC (“Channel”) and the recapitalization of Cavert, partially offset by the exits from A. Stucki and Chase and the restructurings of Galaxy and CCE. As of March 31, 2012, two loans, ASH and CCE, were on non-accrual, with an aggregate weighted average principal balance of $14.3 million during the year ended March 31, 2012. CCE was put on non-accrual during the three months ended September 30, 2011. As of March 31, 2011, one loan, ASH, was on non-accrual, with a weighted average principal balance of $8.4 million during the year ended March 31, 2011.

The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and excluding receipts recorded as other income, for the year ended March 31, 2012, was 12.3%, compared to 11.4% for the prior year. 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 year ended March 31, 2012, is a result of the exits of lower interest-bearing debt investments, such as A. Stucki, Chase, Survey Sampling, LLC, Quench and American Greetings Corporation, 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 Venyu, Precision, Mitchell, SOG, SBS and Channel, which had an aggregate, weighted average interest rate of 13.1% as of March 31, 2012.

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

	As of March 31, 2012		Year Ended March 31, 2012	
Company	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
SOG Specialty Knives and Tools, LLC[A]	$ 30,096	13.3%	$ 1,725	8.1%
Acme Cryogenics, Inc.	28,301	12.6	1,704	8.0
Venyu Solutions, Inc.	23,330	10.3	2,509	11.8
Channel Technologies Group, LLC [A]	19,066	8.5	484	2.3
Mitchell Rubber Products, Inc. [A]	18,491	8.2	1,758	8.3
Subtotal—five largest investments	**119,284**	**52.9**	**8,180**	**38.5**
Other portfolio companies	106,368	47.1	13,062	61.5
Total investment portfolio	**$225,652**	**100.0%**	**$ 21,242**	**100.0%**

	As of March 31, 2011		Year Ended March 31, 2011	
Company	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Venyu Solutions, Inc. [A]	$ 25,012	16.3%	$ 1,056	4.1%
Acme Cryogenics, Inc.	19,906	13.0	1,737	6.7
Cavert II Holding Corp.	18,252	11.9	1,675	6.4
Noble Logistics, Inc.	13,183	8.6	1,468	5.6
Danco Acquisition Corp.	12,746	8.3	1,599	6.1
Subtotal—five largest investments	**89,099**	**58.1**	**7,535**	**28.9**
Other portfolio companies	64,186	41.9	18,529	71.1
Total investment portfolio	**$153,285**	**100.0%**	**$ 26,064**	**100.0%**

[A] New investment during the applicable year.

Other income decreased 84.0% from the prior year, primarily due to an aggregate of $9.1 million of other income, including success fee and dividend income, that we recorded in the prior year as a result of our exits from A. Stucki and Chase in June 2010 and December 2010, respectively, in addition to $1.2 million of success fee income resulting from prepayments from Cavert and Mathey during the year ended March 31, 2011. Other income for the year ended March 31, 2012 primarily consisted of $0.7 million of cash dividends received on preferred shares of Cavert, in connection with its recapitalization in April 2011, as well as an aggregate of $0.7 million of success fee income resulting from prepayments received from Mathey and Cavert during the year ended March 31, 2012.

Expenses

Total expenses, excluding any voluntary and irrevocable credits to the base management and incentive fees, decreased 18.1% for the year ended March 31, 2012, primarily due to a decrease in the incentive fee expense, as compared to the prior year.

The base management fee increased for the year ended March 31, 2012, as compared to the prior year, which is reflective of the increased size of our loan portfolio over the respective periods. The increase in the credit we received from the Adviser was a result of additional fees earned by the Adviser during the year ended March 31, 2012, related to the closings of our investments in Mitchell, SOG, SBS and Channel. The Adviser earned an incentive fee of $19 during the three months ended June 30, 2011, because net investment income for the quarter was above the hurdle rate. The incentive fee earned during the prior year was primarily due to other income recorded in connection with the sales of A. Stucki and Chase. The base management and incentive fees are computed quarterly, as described under "Management—Certain Transactions—Investment Advisory and Management Agreement" in Note 4 of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the following table:

	Year Ended March 31,	
	2012	2011
Average total assets subject to base management fee[A]	$219,300	$198,950
Multiplied by annual base management fee of 2%	2.0%	2.0%
Base management fee[B]	4,386	3,979
Fee reduction for the waiver of 2.0% fee on senior syndicated loans to 0.5%	—	(15)
Credit for fees received by Adviser from the portfolio companies	(1,106)	(665)
Net base management fee	$ 3,280	$ 3,299
Incentive fee[B]	$ 19	$ 2,949
Credit from voluntary, irrevocable waiver issued by Adviser's board of directors[C]	(54)	—
Net incentive fee	$ (35)	$ 2,949
Total credits to fees:		
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5%	$ —	$ (15)
Credit for fees received by Adviser from portfolio companies	(1,106)	(665)
Incentive fee credit	(54)	—
Credit to base management and incentive fees from Adviser[B]	$ (1,160)	$ (680)

(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 *Consolidated Statement of Operations*.

(C) The credit to the incentive fee for the year ended March 31, 2012, was due to a payment of the incentive fee during the three months ended June 30, 2010, in relation to the dividend income recognized based on a best-efforts valuation of Neville, the property received in connection with the A. Stucki sale in June 2010. This property was sold during November 2011, resulting in an exit at a lower amount than the dividend recognized during the three months ended June 30, 2010. The Adviser determined to retroactively apply the exit value to the incentive fee calculation for the three months ended June 30, 2010, resulting in an additional credit of $54, which was recorded during the three months ended December 31, 2011.

Interest and dividend expense increased 40.0% for the year ended March 31, 2012, as compared to the prior year, primarily due to $0.2 million of dividends we paid on our Term Preferred Stock during a part of fiscal year 2012. Removing the effect of the Term Preferred Stock dividend payment, interest expense for the year ended March 31, 2012, increased 11.3% over the prior year, due mainly to increased average borrowings under the Credit Facility, partially offset by a decreased average borrowing rate upon renewal of the Credit Facility in October 2011. The average balance outstanding on our Credit Facility during the year ended March 31, 2012, was $7.3 million, as compared to $2.9 million in the prior year. The effective interest rate charged on our borrowings for the year ended March 31, 2012, excluding the impact of deferred financing fees, was 10.0%, as compared to 22.7% for the prior year, which was inflated upward due to an ongoing unused commitment fee being allocated against minimal borrowings outstanding on our Credit Facility during the year ended March 31, 2011.

Other expenses increased 25.4% for the year ended March 31, 2012, as compared to the prior year, primarily due to increases in stockholder-related costs and bad debt expense. We were required to write off certain deferred offering costs in connection with our registration statement during the year ended March 31, 2012, because we had not raised equity capital for a specified period of time. The increase in bad debt expense was due to the write-off of receivables from CCE, which we placed on non-accrual during the three months ended September 30, 2011.

Realized and Unrealized Gain (Loss) on Investments

Realized Gain

In April 2011, we recapitalized our investment in Cavert, receiving $8.5 million in proceeds and realizing a gain of $5.5 million. In November 2011, we sold Neville, the property we received as a dividend from A. Stucki in June 2010, for total proceeds of $0.3 million, which resulted in a realized loss of $0.3 million. We also recorded post-closing adjustments related to the A. Stucki exit in June 2010 and the Chase exit in December 2010, which we realized as a net loss of $0.1 million during the year ended March 31, 2012. During the year ended March 31, 2011, we exited two proprietary investments, A. Stucki and Chase, and one syndicated loan, Interstate FiberNet, Inc., for total proceeds of $92.5 million and recorded an aggregate realized gain of $23.5 million.

Unrealized Appreciation and Depreciation

During the year ended March 31, 2012, we recorded net unrealized appreciation on investments in the aggregate amount of $3.2 million, which included the reversal of $6.0 million in aggregate unrealized appreciation, primarily related to the Cavert recapitalization. Excluding reversals, we had $9.2 million in net unrealized appreciation for the year ended March 31, 2012.

The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2012, were as follows:

Portfolio Company	Investment Classification	Year Ended March 31, 2012 Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Acme Cryogenics, Inc.	Control	$ —	$ 8,811	$ —	$ 8,811
Mathey Investments, Inc.	Control	—	4,366	—	4,366
SBS, Industries, LLC	Control	—	3,434	—	3,434
Mitchell Rubber Products, Inc.	Control	—	2,114	—	2,114
Tread Corp.	Control	—	2,003	—	2,003
Quench Holdings Corp.	Affiliate	—	1,996	—	1,996
SOG Specialty K&T, LLC	Control	—	1,948	—	1,948
Survey Sampling, LLC	Non-Control/Non-Affiliate	(1)	807	1	807
A. Stucki Holding Corp.	Control	412	—	—	412
Cavert II Holding Corp.	Affiliate	5,507	351	(6,194)	(336)
Noble Logistics, Inc.	Affiliate	—	(460)	95	(365)
Chase II Holding Corp.	Control	(563)	—	—	(563)
Precision Southeast, Inc.	Control	—	(619)	—	(619)
Venyu Solutions, Inc.	Control	—	(1,682)	—	(1,682)
Danco Acquisition Corp.	Affiliate	—	(3,077)	—	(3,077)
ASH Holdings Corp.	Control	—	(3,147)	—	(3,147)
Country Club Enterprises, LLC	Control	—	(7,560)	—	(7,560)
Other, net (<$250 Net)	Various	(264)	(101)	77	(288)
Total		**$ 5,091**	**$ 9,184**	**$ (6,021)**	**$ 8,254**

The primary changes in our net unrealized appreciation for the year ended March 31, 2012, were notable appreciation in our equity investments in Acme, Mathey and SBS, primarily due to both improved performance and an increase in multiples, and appreciation of our debt investment in Quench, which was paid off at par during the three months ended December 31, 2011. This appreciation was partially offset by increased depreciation in CCE, ASH and Danco, primarily due to decreased performance, as well as the reversal of previously-recorded unrealized appreciation on the Cavert recapitalization. Excluding the impact of the aforementioned portfolio companies, the net unrealized appreciation of $4.2 million recognized on our investments was primarily due to an increase in certain comparable multiples used to estimate the fair value of our investments, partially offset by decreases in the performance of certain of our portfolio companies.

During the year ended March 31, 2011, we had net unrealized depreciation of investments in the aggregate amount of $23.2 million, which included the reversal of $21.9 million in unrealized appreciation, primarily related to the A. Stucki and Chase sales. Excluding reversals, we had $1.3 million in net unrealized depreciation for the year ended March 31, 2011. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2011, were as follows:

Portfolio Company	Investment Classification	Year Ended March 31, 2011 Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Chase II Holding Corp.	Control	$ 6,856	$ 3,753	$ (4,444)	$ 6,165
Acme Cryogenics, Inc.	Control	—	5,906	—	5,906
Noble Logistics, Inc.	Affiliate	—	4,489	—	4,489
Cavert II Holding Corp.	Control	—	2,446	—	2,446
Survey Sampling, LLC	Non-Control/Non-Affiliate	—	507	—	507
Precision Southeast, Inc.	Control	—	253	—	253
Country Club Enterprises, LLC	Control	—	(309)	—	(309)
Quench Holdings Corp.	Affiliate	—	(747)	—	(747)
A. Stucki Holding Corp.	Control	16,614	—	(17,405)	(791)
ASH Holdings Corp.	Control	—	(3,718)	—	(3,718)
Galaxy Tool Holding Corp.	Control	—	(13,956)	—	(13,956)
Other, net (<$250 Net)	Various	19	47	(19)	47
Total		**$ 23,489**	**$ (1,329)**	**$ (21,868)**	**$ 292**

The primary changes in our net unrealized depreciation for the year ended March 31, 2011, were the reversal of previously-recorded unrealized appreciation on the A. Stucki and Chase sales, the unrealized depreciation recorded on Galaxy, which underwent a restructuring that resulted in the conversion of $12.1 million of debt at fair value as of June 30, 2010, into preferred and common equity, and a full markdown in fair value of ASH, which had a fair value of $0 as of March 31, 2011. Considerable appreciation was experienced in our equity holdings of Acme, Noble and Cavert. Excluding the impact of Galaxy, A. Stucki and Chase, the net unrealized appreciation recognized on our portfolio investments was primarily due to an increase in certain comparable multiples and, to a lesser extent, 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 $7.6 million of net unrealized depreciation and $10.8 million of net unrealized appreciation on our debt positions and equity holdings, respectively, for the year ended March 31, 2012. As of March 31, 2012, the fair value of our investment portfolio was less than our cost basis by approximately $40.7 million, as compared to $43.9 million as of March 31, 2011, representing net unrealized appreciation of approximately $3.2 million for fiscal year 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 84.7% of cost as of March 31, 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

For the year ended March 31, 2012, we recorded a net realized loss of $40 due to the expiration of one of our interest rate cap agreement. There were no non-investment realized gains or losses during the year ended March 31, 2011.

Unrealized Appreciation and Depreciation

For the year ended March 31, 2012, we recorded a minimal amount of unrealized appreciation due to the reversal of previously-recorded unrealized depreciation on an interest rate cap agreement upon its expiration and the resulting realized loss, partially offset by the decrease in fair value of our interest rate cap agreements. For the year ended March 31, 2011, we recorded unrealized depreciation of $24 due to the decrease in fair value of our interest rate cap agreements.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities for the year ended March 31, 2013, was approximately $39.7 million, as compared to $48.7 million during the year ended March 31, 2012. This decrease in cash used in operating activities was primarily due to the increase in principal repayments received from portfolio companies during the year ended March 31, 2013, when compared to the prior year. 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, management fees to the Adviser, and other entity-level expenses.

As of March 31, 2013, we had equity investments in or loans to 21 private companies with an aggregate cost basis of approximately $326.4 million. As of March 31, 2012, we had investments in equity of, loans to or syndicated participations in 17 private companies with an aggregate cost basis of approximately $266.4 million. The following table summarizes our total portfolio investment activity during the years ended March 31, 2013 and 2012:

	Years Ended March 31,	
	2013	2012
Beginning investment portfolio, at fair value	**$225,652**	$153,285
New investments	**68,004**	76,895
Disbursements to existing portfolio companies	**15,498**	14,403
Scheduled principal repayments	**(363)**	(921)
Unscheduled principal repayments	**(24,856)**	(18,233)
Proceeds from sales	**(3,182)**	(8,031)
Net realized gain	**843**	5,091
Net unrealized appreciation	**804**	9,184
Reversal of net unrealized appreciation	**—**	(6,021)
Other cash activity, net	**(24)**	—
Other non-cash activity[(A)]	**4,106**	—
Ending investment portfolio, at fair value	**$286,482**	$225,652

(A) In February 2013, we recapitalized our investment in Galaxy, converting $8.2 million of Galaxy preferred stock and its related $4.1 million in accrued dividends into a new $12.3 million senior debt investment in a non-cash transaction. The $4.1 million in accrued dividends increased our cost basis in Galaxy.

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of March 31, 2013:

		Amount
For the fiscal year ending March 31:	2014	$ 20,118
	2015	64,348
	2016	42,164
	2017	60,935
	2018	51,983
	Thereafter	—
	Total contractual repayments	**$239,548**
	Investments in equity securities	87,129
	Adjustments to cost basis on debt securities	(256)
	Total cost basis of investments held as of March 31, 2013:	**$326,421**

Financing Activities

Net cash provided by financing activities for the year ended March 31, 2013, was approximately $34.1 million, consisting primarily of proceeds from the common stock issuance of $31.0 million and net borrowings on the short-term loan and Credit Facility in excess of repayments by $18.0 million, partially offset by $14.5 million in distributions to common stockholders. Net cash provided by financing activities for the year ended March 31, 2012, was approximately $59.6 million, consisting primarily of proceeds from the issuance of our Term Preferred Stock of $40.0 million and net borrowings on the short-term loan in excess of repayments by $36.0 million, partially offset by $13.6 million in distributions to common stockholders.

Distributions

To continue 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 the excess of our net short-term capital gains over our net long-term capital losses to our stockholders on an annual basis. In accordance with these requirements, we declared and paid monthly cash distributions of $0.040 per common share for each month during the year ended March 31, 2011. During the fiscal year ended March 31, 2012, we declared and paid monthly cash distributions of $0.045 per common share for the months of April, May and June 2011 and $0.050 per common share for the months of July 2011 through March 2012. During the fiscal year ended March 31, 2012, we also paid a cash distribution of $0.12369792 per share of our Term Preferred Stock, representing the pro-rated monthly distribution amount for the period that the Term Preferred Stock was issued and outstanding in the month of March 2013. Additionally, our Board of Directors declared, and we paid, a one-time dividend of $0.03 per common share in March 2012. In total, our cash distributions to common stockholders were approximately $13.6 million, or $0.615 per common share. We declared and paid monthly cash distributions of $0.050 per common share for each month during the year ended March 31, 2013. We declared these distributions based on our estimates of net taxable income for the year ended March 31, 2013. During the fiscal year ended March 31, 2013, we also paid cash distributions in the aggregate of $1.78125 per share on our Term Preferred Stock.

For the fiscal years ended March 31, 2013 and 2012, our distributions to common stockholders of approximately $14.5 million and $13.6 million, respectively, were less than our taxable income over the same years. At both year-ends, we elected to treat a portion 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. 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.

Equity

We filed a universal registration statement (the “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. The SEC declared the Registration Statement effective on July 26, 2012. The Registration Statement, of which this prospectus 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. To date, under the Registration Statement, we have issued $33.0 million in common stock. Currently, we have the availability to raise up to $270.0 million of additional capital through the sale of securities that are registered under the Registration Statement in one or more future public offerings.

Common Stock

Pursuant to our Registration Statement, on October 5, 2012, we completed a public offering of 4.0 million shares of our common stock at a public offering price of $7.50 per share, which was below then current NAV of $8.65 per share. Gross proceeds totaled $30.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $28.3 million, which was used to repay borrowings under our Credit Facility. In connection with the offering, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3.0 million and net proceeds, after deducting underwriting discounts, of $2.8 million.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. 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. To the extent that our common stock continues to trade at a market price below our NAV per common share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder approval or through a rights offering to existing common stockholders. 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. We will again ask our stockholders to approve such a proposal at the 2013 annual meeting of stockholders.

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 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, with the remaining proceeds being held to make additional investments and for general corporate purposes. 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.

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 the date of redemption. The 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 the 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 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.

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, the Term Preferred Stock is not convertible into our common stock or any other security.

Revolving Credit Facility

On April 30, 2013, we, through our wholly-owned subsidiary, Business Investment, entered into a fifth amended and restated credit agreement providing for a $70.0 million revolving line of credit (the "Credit Facility") arranged by KEF as administrative agent. BB&T also joined the Credit Facility as a lender. The fifth amended and restated agreement increased the net commitment amount from $60.0 million to $70.0 million and extended the maturity date approximately six months to April 30, 2016 (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 April 30, 2017 (one year after the Maturity Date). In addition, there are two one-year extension options to be agreed upon by all parties, which may be exercised on or before April 30, 2014 and 2015, as applicable. Subject to certain terms and conditions, the Credit Facility may be expanded up to a total of $200.0 million through the addition of other lenders to the facility. Advances under the Credit Facility will generally bear interest at the 30-day London Interbank Offered Rate ("LIBOR"), plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. We incurred fees of $0.3 million in connection with this fifth amended and restated agreement.

The Credit Facility replaced the prior revolving line of credit entered into by us, BB&T and KEF, on October 26, 2011, providing for a $60.0 million, three-year revolving line of credit, which was scheduled to mature on October 25, 2015, and, if not renewed or extended by October 25, 2015, all principal and interest would have been due and payable on or before October 25, 2016.

As of March 31, 2013, we had $31.0 million in borrowings outstanding with approximately $29.0 million of availability under the revolving line of credit, which, as previously noted, was replaced by the Credit Facility subsequent to the fiscal year ended March 31, 2013. Up to and including the date we entered into the Credit Facility, we were in compliance with all covenants of the revolving line of credit.

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 material changes to our credit and collection policies without lenders' consent. The facility also limits payments as distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2014, 2015, 2016 and 2017. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, average life and lien property. The Credit Facility also requires us to comply with other financial and operational covenants, which obligate us 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 of $170.0 million plus 50% of all equity and subordinated debt raised after April 30, 2013, (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 May 10, 2013, we were in compliance with all covenants.

In April 2010, we entered into a forward interest rate cap agreement, effective May 2011 which expired in May 2012, for a notional amount of $45.0 million that effectively limited the interest rate on a portion of the borrowings under the line of credit pursuant to the terms of the revolving line of credit. We incurred a premium fee of approximately $41 in conjunction with this agreement.

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 the revolving line of credit and the 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. KEF is also the trustee of the account and generally remits the collected funds to us once a month. As of May 10, 2013, the amount due from the custodian was $0.

The Adviser services the loans pledged under the 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 the Credit Facility. As of May 10, 2013, we were in compliance with the covenants under the performance guaranty.

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. In particular, depreciation in the valuation of our assets, which is partially subject to changing market conditions that are presently very volatile, affects our ability to comply with these covenants. Our entire portfolio was fair valued at 82.0% of cost as of March 31, 2013. Given the unstable capital markets, net unrealized depreciation in our portfolio may return in future periods and threaten our ability to comply with the covenants under our Credit Facility. Accordingly, there are no assurances that we will be able to continue to comply with these covenants. Failure to comply with these covenants would result in a default, which, if we are unable to obtain a waiver from the lenders, could accelerate our repayment obligations under the Credit Facility and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay distributions to our stockholders, as more fully described below.

The Credit Facility matures on April 30, 2016, and, if the Credit Facility is not renewed or extended by this date, all unpaid principal and interest will be due and payable on or before April 30, 2017. There can be no guarantee that we will be able to renew, extend or replace the Credit Facility on terms that are favorable to us, or at all. Our ability to obtain replacement financing will be constrained by then current economic conditions affecting the credit markets. If we are not able to renew, extend or refinance the Credit Facility, this would likely have a material adverse effect on our liquidity and ability to fund new investments or pay distributions to our stockholders. Our inability to pay distributions could result in our failure to qualify to be taxed as a RIC. Consequently, any income or gains could become taxable at corporate rates. If we are unable to secure replacement financing or issue Senior Securities in place of the Credit Facility, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses. Such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. In addition to selling assets, or as an alternative, we may issue equity in order to repay amounts outstanding under the Credit Facility. The asset coverage requirement of a BDC under Section 18(h) of the 1940 Act effectively limits our ability to issue Senior Securities by requiring that the asset coverage on all of our Senior Securities (after such issuance) be at least 200%. Based on the recent trading prices of our common stock, a common equity offering may have a substantial dilutive impact on our existing stockholders' interest in our earnings and assets and voting interest in us.

Short-Term Loan

For each quarter ended since June 30, 2009, we satisfied the 50% threshold to maintain RIC status, in part, through the purchase of short-term qualified securities, which was 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, before the end of the most recent quarter, on March 28, 2013, we purchased $65.0 million short-term U.S. Treasury Bills ("T-Bills") through Jefferies & Company, Inc. ("Jefferies"). The T-Bills were purchased on margin using $7.0 million in cash and the proceeds from a $58.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 1.42%. On April 4, 2013, when the T-Bills matured, we repaid the $58.0 million loan from Jefferies and received the $7.0 million margin payment sent to Jefferies to complete the transaction.

Contractual Obligations and Off-Balance Sheet Arrangements

We have lines of credit 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. We estimate the fair value of the unused line of credit commitments as of March 31, 2013 and 2012 to be minimal.

In addition to the lines of credit to our portfolio companies, we have also extended certain guaranties on behalf of some our portfolio companies, whereby we have guaranteed an aggregate of $3.8 million of obligations of ASH and CCE. As of March 31, 2013, we have not been required to make any payments on any of the guaranties and we consider the credit risks to be remote and the fair value of the guaranties to be minimal.

The following table shows our contractual obligations as of March 31, 2013, at cost:

	Payments Due by Period				
Contractual Obligations[A]	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Short-term loan	$ 58,016	$58,016	$ —	$ —	$ —
Credit Facility	31,000	—	—	31,000	—
Term Preferred Stock	40,000	—	—	40,000	—
Other secured borrowings	5,000	—	—	5,000	—
Interest payments on obligations[B]	17,827	4,601	9,202	4,024	—
Total	$151,843	$62,617	$ 9,202	$80,024	$ —

(A) Excludes our unused line of credit commitments and guaranties to our portfolio companies in the aggregate amount of $5.5 million.

(B) Includes interest payments due on our Credit Facility and dividend obligations on the Term Preferred Stock. Interest payments on the Credit Facility include only the unused commitment fee, as there were no borrowings outstanding under the Credit Facility as of March 31, 2013. 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 most critical accounting policies as follows:

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 ("FASB") Accounting Standards Codification ("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;
- *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 March 31, 2013 and 2012, all of our investments were valued using Level 3 inputs. See Note 3 *Investments* in our accompanying notes to our *Consolidated Financial Statements* included elsewhere in this prospectus 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, the 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 the 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: The Adviser determines 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 a restricted security that is not freely tradable, but for which a public market otherwise exists, the Adviser will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature. As of March 31, 2013 and 2012, we did not have any investments in publicly traded securities.

Securities for which a limited market exists: The Adviser values 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, the Adviser assesses trading activity in an asset class, evaluates variances in prices and other market insights to determine if any available quote prices are reliable. In general, if the Adviser concludes 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, the Adviser bases the value of the security upon 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 the Adviser uses the IBP as a basis for valuing the security, it 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, the Adviser 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 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, the alternative outlined in ASC 820 is the valuation of investments based on DCF. For the purposes of using DCF to provide fair value estimates, the Adviser considers 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, the Adviser developed a modified discount rate approach that incorporates risk premiums including, among other things, increased probability of default, or higher loss given default, or 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. The Adviser applies the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity. As of March 31, 2013 and 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-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 limited 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 in accordance with the terms of the Policy, which utilizes opinions of value submitted to the Adviser by Standard & Poor's Securities Evaluations, Inc. ("SPSE"). The Adviser may also submit PIK interest to SPSE for their evaluation when it is determined that PIK interest is likely to be received.

In the case of Non-Public Debt Securities, the Adviser has 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 the Adviser specifically requests evaluation and may decline to make requested evaluations for any reason, at its sole discretion. Quarterly, the Adviser collects 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 then forwarded to SPSE for review and analysis. SPSE makes its independent assessment of the data that the Adviser has 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 the Adviser's supplemental assessment and recommendation regarding valuation of each of these investments. The Adviser generally accepts the opinion of value given by SPSE; however, in certain limited circumstances, such as when the Adviser may learn new information regarding an investment between the time of submission to SPSE and the date of our Board of Directors' assessment, the Adviser's conclusions as to value may differ from the opinion of value delivered by SPSE. Our Board of Directors then reviews whether the Adviser has followed its established procedures for determinations of fair value and votes to accept or reject the recommended valuation of our investment portfolio. The 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 our accompanying *Consolidated Schedule of Investments.*

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, the Adviser makes its own determination about the value of these investments in accordance with our 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 ("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, the Adviser first calculates 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, the Adviser generally references industry statistics and may use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Adviser has estimated the TEV of the issuer, the Adviser 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:**The Adviser values 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")), the Adviser has defined our "unit of account" at the investment level (either debt or equity) and as such determined our fair value of these non-control investments assuming the sale of an individual security using the standalone premise of value.

As such, the Adviser estimates the fair value of the debt component using estimates of value provided by SPSE and the Adviser's 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, the Adviser estimates 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, the Adviser 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, the Adviser's own assumptions.

(D) **Portfolio investments comprised of non-publicly traded non-control equity securities of other funds:** The Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the NAV provided by the non-control fund. As March 31, 2013 and 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.

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, the Adviser's 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: The 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 the 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, the 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. 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.

We seek to have our risk rating system mirror the risk rating systems of major risk rating organizations, such as those provided by a Nationally Recognized Statistical Rating Organization ("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 significantly 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, the 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 the 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 March 31, 2013, two control investments, ASH and Tread, were on non-accrual with an aggregate fair value of $0. As of March 31, 2012, two control investments, ASH and CCE, were on non-accrual with a fair value of $0. 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 March 31, 2013 and 2012, representing approximately 100.0%, of the principal balance of all loans in our portfolio at the end of each period:

	As of March 31,	
Rating	2013	2012
Highest	**7.4**	7.9
Average	**5.2**	5.0
Weighted Average	**5.3**	5.3
Lowest	**1.3**	2.4

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 capital gains in excess of capital losses for preceding years that were not distributed during such years. However, we did incur an excise tax of $31 and $30 for the calendar years ended December 31, 2012 and 2011, respectively. Under the RIC Modernization Act (the "RIC Act"), we will be 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.

We sought and received approval for a change in accounting method from the IRS related to our tax treatment for success fees. As a result, we will continue to account for the recognition of income from the success fees upon receipt, or when the amount becomes fixed. However, starting January 1, 2011, the tax characterization of the success fee amount was and will continue to be treated as ordinary income. Prior to January 1, 2011, we had treated the success fee amount as a capital gain for tax characterization purposes. The approved change in accounting method does not require us to retroactively change the capital gains treatment of the success fees received prior to January 1, 2011.

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. As of March 31, 2013, ASH and Tread were on non-accrual. These non-accrual loans had an aggregate cost value of $24.9 million, or 10.4% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $0. As of March 31, 2012, ASH and CCE were on non-accrual. These non-accrual loans had an aggregate cost value 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 as of March 31, 2013. During the year ended March 31, 2012, we recorded PIK income of $7. 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 which had a PIK provision was paid off at par in July 2011.

Other Income Recognition

We accrue dividend income on preferred and common 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 or other consideration. We recorded and collected $4.9 million of dividends in the fiscal year ended March 31, 2013. In February 2013, we recapitalized our investment in Galaxy, converting $8.2 million of Galaxy preferred stock and its related $4.1 million in accrued dividends into a new $12.3 million senior debt investment in a non-cash transaction. We recognized $4.1 million in dividend income related to this recapitalization. The remainder of the dividend income recorded during the year ended March 31, 2013, resulted from the collection of cash for accrued dividends on our preferred shares of Acme and Drew Foam. During the year ended March 31, 2012, we recorded and collected $0.7 million of dividends on accrued preferred shares in connection with the recapitalization of Cavert.

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We recorded $0.8 million of success fees during the year ended March 31, 2013, representing prepayments received from Mathey and Cavert. During the year ended March 31, 2012, we recorded success fees of $0.7 million representing prepayments received from Mathey and Cavert.

Both dividends and success fees are recorded in Other income in our accompanying*Consolidated Statements of Operations*.

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 March 31, 2013, our portfolio consisted of the following breakdown based on total principal balance of all outstanding debt investments:

80.1	Variable rates with a floor
19.9	Fixed rates
100.0%	**Total**

The U.S. is recovering from the recession that largely began in late 2007. Despite signs of economic improvement, unstable economic conditions could adversely affect the financial position and results of operations of certain of the middle-market companies in our portfolio, which ultimately could lead to difficulty in meeting debt service requirements and an increase in defaults. During the year ended March 31, 2010, we experienced write-downs across our portfolio, most of which were due to reductions in comparable multiples and market pricing and to a lesser extent reductions in the performance of certain portfolio companies used to estimate the fair value of our investments. There can be no assurance that the performance of our portfolio companies will not be further impacted by economic conditions, which could have a negative impact on our future results.

On April 30, 2013, we, through our wholly-owned subsidiary, Business Investment, entered into a Credit Facility providing for a $70.0 million revolving line of credit. The Credit Facility matures on April 30, 2016, and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before April 30, 2017 (one year after the Maturity Date). Advances under the Credit Facility will generally bear interest at the 30-day LIBOR, plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. This replaced the previous revolving line of credit that we entered into in October 2011 and amended to extend in October 2012. In connection with the extension and renewal of the previous revolving line of credit, in December 2012, we entered into a forward interest rate cap agreement, effective May 2013 and expiring in October 2013. The interest rate cap agreement remains in effect. As of March 31, 2013, the interest rate cap agreement had a minimal fair value.

The current interest rate cap agreement entitles us to receive payments, if any, equal to the amount by which interest payments on the current notional amount at the one month LIBOR exceed the payments on the current notional amount at 6.0%. This agreement effectively caps our interest payments on our line of credit borrowings, up to the notional amount of the interest rate cap over the remaining term of the agreement. This mitigates our exposure to increases in interest rates on our borrowings on our line of credit, which are at variable rates.

All of our variable-rate loans have rates generally associated with either the current LIBOR or prime rate.

To illustrate the potential impact of changes in interest rates on our net increase (decrease) in net assets resulting from operations, we have performed the following hypothetical analysis, which assumes that our balance sheet and interest rates remain constant as of March 31, 2013 and no further actions are taken to alter our existing interest rate sensitivity.

Basis Point Change (a)	Increase in Interest Income	Increase (Decrease) in Interest Expense	Net Increase (Decrease) in Net Assets Resulting from Operations
Up 300 basis points	$ 1,280	$ 930	$ 350
Up 200 basis points	365	620	(255)
Up 100 basis points	36	310	(274)
Down 20 basis points	—	(63)	63

(a) As of March 31, 2013, our effective average LIBOR was 0.20%, therefore the largest decrease in basis points that could occur was 20 basis points.

Although management believes that this analysis is indicative of our existing interest rate sensitivity, it does not adjust for potential changes in credit quality, size and composition of our loan portfolio on the balance sheet and other business developments that could affect net (decrease) increase in net assets resulting from operations. Accordingly, actual results could differ significantly from those in the hypothetical analysis in the table above.

We may also experience risk associated with investing in securities of companies with foreign operations. Some of our portfolio companies have operations located outside the U.S. These risks include, but are not limited to, fluctuations in foreign currency exchange rates, imposition of foreign taxes, changes in exportation regulations and political and social instability.

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2012 annual stockholders meeting, our stockholders approved our ability to sell or otherwise issue 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. To sell shares of common stock pursuant to this authorization, no further authorization from our stockholders will be solicited but a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (i) find that the sale is in our best interests and in the best interests of our stockholders and (ii) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares of common stock, or immediately prior to the issuance of such common stock, 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. Further, the total number of shares issued and sold pursuant to such Stockholder Approval may not exceed 25% of our then outstanding common stock immediately prior to each such sale, aggregated over a period of one year from the date of such Stockholder Approval.

Any offering of common stock below its NAV per share will be designed to raise capital for investment in accordance with our investment objective.

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 will consider 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 will also consider 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.

We will not sell shares of our common stock under this prospectus or an accompanying prospectus supplement pursuant to the Stockholder Approval without first filing a post-effective amendment to the registration statement if the cumulative dilution to the Company's NAV per share from offerings under the registration statement exceeds 15%. This would be measured separately for each offering pursuant to the registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV per share at the time of the first offering is $10.00 and we have 140 million shares outstanding, the sale of 35 million shares at net proceeds to us of $5.00 per share (a 50% discount) would produce dilution of 10%. If we subsequently determined that our NAV per share increased to $11.00 on the then 175 million shares outstanding and then made an additional offering, we could, for example, sell approximately an additional 43.75 million shares at net proceeds to us of $8.25 per share, which would produce dilution of 5%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

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 the offering, as well as for new investors who participate in the offering. Any sale of common stock at a price below NAV per share would result 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 or Preferred Stock."

The following three headings and accompanying tables explain and provide hypothetical examples on the impact of an 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 relative 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 an Offering

Our existing common stockholders who do not participate in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called 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 the 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. Further, if current common stockholders do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current NAV, their voting power will be diluted.

The following table illustrates the level of NAV dilution that would be experienced by a nonparticipating common stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per common share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that we have 1,000,000 common shares outstanding, $15,000,000 in total assets and $5,000,000 in total liabilities. The current NAV and NAV per common share are thus $10,000,000 and $10.00. The table illustrates the dilutive effect on a nonparticipating common stockholder of (1) an offering of 50,000 shares of common stock (5% of the outstanding common shares) at $9.50 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 100,000 shares (10% of the outstanding common shares) at $9.00 per share after offering expenses and commissions (a 10% discount from NAV) and (3) an offering of 200,000 shares of common stock (20% of the outstanding common shares) at $8.00 per common share after offering expenses and commissions (a 20% discount from NAV). The prospectus supplement pursuant to which any discounted offering is made will include a chart based on the actual number of shares of common stock in such offering and the actual discount to the most recently determined NAV.

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	Example 1 5% Offering at 5% Discount % Change	Example 2 10% Offering at 10% Discount Following Sale	Example 2 10% Offering at 10% Discount % Change	Example 3 20% Offering at 20% Discount Following Sale	Example 3 20% Offering at 20% Discount % Change
Offering Price							
Price per Common Share to Public	—	$ 10.00	—	$ 9.47	—	$ 8.42	—
Net Proceeds per Common Share to Issuer	—	$ 9.50	—	$ 9.00	—	$ 8.00	—
Decrease to NAV							
Total Common Shares Outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per Common Share	$ 10.00	$ 9.98	(0.20)%	$ 9.91	(0.90)%	$ 9.67	(3.33)%
Dilution to Stockholder							
Common Shares Held by Stockholder	10,000	10,000	—	10,000	—	10,000	—
Percentage Held by Common Stockholder	1.0%	0.95%	(4.76)%	0.91%	(9.09)%	0.83%	(16.67)%
Total Asset Values							
Total NAV Held by Common Stockholder	$ 100,000	$ 99,800	(0.20)%	$ 99,100	(0.90)%	$ 96,700	(3.33)%
Total Investment by Common Stockholder (Assumed to be $10.00 per Common Share)	$ 100,000	$ 100,000	—	$ 100,000	—	$ 100,000	—
Total Dilution to Common Stockholder (Total NAV Less Total Investment)	—	$ (200)	—	$ (900)	—	$ (3,300)	—
Per Share Amounts							
NAV Per Share Held by Common Stockholder	—	$ 9.98	—	$ 9.91	—	$ 9.67	—
Investment per Share Held by Common Stockholder (Assumed to be $10.00 per Common Share on Common Shares Held prior to Sale)	$ 10.00	$ 10.00	—	$ 10.00	—	$ 10.00	—
Dilution per Common Share Held by Stockholder (NAV per Common Share Less Investment per Share)	—	$ (0.02)	—	$ (0.09)	—	$ (0.33)	—
Percentage Dilution to Common Stockholder (Dilution per Common Share Divided by Investment per Common Share)	—	—	(0.20)%	—	(0.90)%	—	(3.33)%

Impact on Existing Stockholders Who Do Participate in an Offering

Our existing common stockholders who participate in an offering below NAV per common share 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 purchase 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 the offering, experience an increase (often called 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 the 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 chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart for a common stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 1,000 shares, which is 0.50% of the offering 200,000 common shares rather than its 1% proportionate share) and (2) 150% of such percentage (i.e., 3,000 shares, which is 1.50% of an offering of 200,000 common shares rather than its 1% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per common share. It is not possible to predict the level of market price decline that may occur.

		50% Participation		150% Participation	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per Common Share to Public	—	$ 8.42	—	$ 8.42	—
Net Proceeds per Common Share to Issuer	—	$ 8.00	—	$ 8.00	—
Increases in Shares and Decrease to NAV					
Total Common Shares Outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
NAV per Common Share	$ 10.00	$ 9.67	(3.33)%	$ 9.67	(3.33)%
Dilution/Accretion to Common Stockholder					
Common Shares Held by Stockholder	10,000	11,000	10.00%	13,000	30.00%
Percentage Held by Common Stockholder	1.0%	0.92%	(8.33)%	1.08%	8.33%
Total Asset Values					
Total NAV Held by Common Stockholder	$ 100,000	$ 106,333	6.33%	$ 125,667	25.67%
Total Investment by Common Stockholder (Assumed to be $10.00 per Common Share on Common Shares Held prior to Sale)	$ 100,000	$ 108,420	—	$ 125,260	—
Total Dilution/Accretion to Common Stockholder (Total NAV Less Total Investment)	—	(2,087)	—	$ 407	—
Per Common Share Amounts					
NAV Per Common Share Held by Stockholder	—	$ 9.67	—	$ 9.67	—
Investment per Common Share Held by Stockholder (Assumed to be $10.00 per Common Share on Common Shares Held prior to Sale)	$ 10.00	$ 9.86	(1.44)%	$ 9.64	(3.65)%
Dilution/Accretion per Common Share Held by Stockholder (NAV per Common Share Less Investment per Common Share)	—	$ (0.19)	—	$ 0.03	—
Percentage Dilution/Accretion to Stockholder (Dilution/Accretion per Common Share Divided by Investment per Common Share)	—	—	(1.92)%	—	0.32%

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, albeit small, 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 an offering below NAV per common share 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 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 discounts increases.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same 5%, 10% and 20% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (1%) of the common shares in the offering as the common stockholder in the prior examples held immediately prior to the offering, The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of common shares in such offering and the actual discount from the most recently determined NAV per common share. It is not possible to predict the level of market price decline that may occur.

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	Example 1 5% Offering at 5% Discount % Change	Example 2 10% Offering at 10% Discount Following Sale	Example 2 10% Offering at 10% Discount % Change	Example 3 20% Offering at 20% Discount Following Sale	Example 3 20% Offering at 20% Discount % Change
Offering Price							
Price per Common Share to Public	—	$ 10.00	—	$ 9.47	—	$ 8.42	—
Net Proceeds per Common Share to Issuer	—	$ 9.50	—	$ 9.00	—	$ 8.00	—
Decrease to NAV							
Total Common Shares Outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per Common Share	$ 10.00	$ 9.98	(0.20)%	$ 9.91	(0.90)%	$ 9.67	(3.33)%
Dilution/Accretion to Common Stockholder							
Common Shares Held by Stockholder	—	500	—	1,000	—	2,000	—
Percentage Held by Common Stockholder	0.0%	0.05%	—	0.09%	—	0.17%	—
Total Asset Values							
Total NAV Held by Common Stockholder	—	$ 4,990	—	$ 9,910	—	$ 19,340	—
Total Investment by Common Stockholder	—	$ 5,000	—	$ 9,470	—	$ 16,840	—
Total Dilution/Accretion to Common Stockholder (Total NAV Less Total Investment)	—	$ (10)	—	$ 440	—	$ 2,500	—
Per Common Share Amounts							
NAV Per Common Share Held by Common Stockholder	—	$ 9.98	—	$ 9.91	—	$ 9.67	—
Investment per Share Held by Common Stockholder	—	$ 10.00	—	$ 9.47	—	$ 8.42	—
Dilution/Accretion per Common Share Held by Common Stockholder (NAV per Common Share Less Investment per Common Share)	—	$ (0.02)	—	$ 0.44	—	$ 1.25	—
Percentage Dilution/Accretion to Common Stockholder (Dilution/Accretion per Common Share Divided by Investment per Common Share)	—	—	(0.20)%	—	4.65%	—	14.85%

SENIOR SECURITIES

Information about our senior securities is shown in the following table as of March 31, 2013, (the end of our fiscal year of operations) and for the years indicated in the table, unless otherwise noted. The annual information has been derived from our audited financial statements for each respective period, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. PricewaterhouseCoopers LLP's report on the senior securities table as of March 31, 2013 is attached as an exhibit to the registration statement of which this prospectus is a part.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities (1)	Asset Coverage Per Unit (2)	Involuntary Liquidating Preference Per Unit (3)	Average Market Value Per Unit (4)
7.125% Series A Cumulative Term Preferred Stock				
March 31, 2013	$ 40,000,000	$ 2,725	$ 25.00	$ 26.92
March 31, 2012	40,000,000	2,676	25.00	24.97
Revolving credit facilities				
March 31, 2013	31,000,000	2,725	—	N/A
March 31, 2012	—	N/A	—	N/A
March 31, 2011	—	N/A	—	N/A
March 31, 2010	27,800,000	2,814	—	N/A
March 31, 2009	110,265,000	2,930	—	N/A
March 31, 2008	144,835,000	2,422	—	N/A
March 31, 2007	100,000,000	3,228	—	N/A
Short-term loan				
March 31, 2013	58,016,000	2,725	—	N/A
March 31, 2012	76,005,000	2,676	—	N/A
March 31, 2011	40,000,000	5,344	—	N/A
March 31, 2010	75,000,000	2,814	—	N/A
Secured borrowings (5)				
March 31, 2013	5,000,000	2,725	—	N/A

(1) Total amount of each class of senior securities outstanding as of the dates presented.

(2) Asset coverage ratio is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness (including interest payable and guarantees). Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Only applicable to 7.125% Series A Cumulative Term Preferred Stock because the other senior securities are not registered for public trading. Average market value per unit is the average of the closing price of the shares on the NASDAQ during the last 10 trading days of the period.

(5) In August 2012, we entered into a participation agreement with a third-party related to $5.0 million of our senior subordinated term debt investment in Ginsey. We evaluated whether the transaction should be accounted for as a sale or a financing-type transaction under the applicable guidance of ASC 860. Based on the terms of the participation agreement, we are required to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our *Consolidated Statements of Assets and Liabilities* reflects the entire senior subordinated term debt investment in Ginsey and a corresponding $5.0 million secured borrowing liability. The secured borrowing has a stated interest rate of 7% and a maturity date of January 3, 2018.

BUSINESS

Overview

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. On June 22, 2005 we completed an initial public offering and commenced operations. We operate as an externally managed, closed-end, non-diversified management investment company and have elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). For federal income tax purposes, we have elected to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). In order to continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements.

Investment Objectives and Strategy

Our Board of Directors approved limited revisions to our investment objectives and strategies, effective on January 1, 2013, which are reflected in the descriptions of our investment objectives and strategies below. All of our current portfolio investments fit within the scope of our revised investment objectives and strategies and no changes were required for our portfolio as a result of this revision.

Our investment objectives are to: (1) 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; and (2) 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. To achieve our objectives, our investment strategy is 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. We expect that our investment mix over time will consist of approximately 80% in debt securities and 20% in equity securities. However, as of March 31, 2013, our investment mix is approximately 73% in debt securities and 27% in equity securities, at cost.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the London Interbank Offered Rate ("LIBOR")) and, to a lesser extent, at fixed rates. We 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 of 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" ("PIK").

Typically, our equity investments consist of common stock, preferred stock, limited liability company interests, or warrants or options to purchase the foregoing. Often, these equity investments occur in connection with our original investment, buyouts and recapitalizations of a business, or refinancing existing debt.

Since our initial public offering in 2005, we have invested in over 98 different companies, while making over 102 consecutive monthly distributions to common stockholders.

We expect that our target portfolio over time will primarily include the following four categories of investments in private companies in the United States ("U.S."):

- *Senior Debt Securities:* We 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, though we have none in our investment portfolio at this time.
- *Senior Subordinated Debt Securities:* We 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, such as success fees, in connection with these senior subordinated debt securities.
- *Junior Subordinated Debt Securities:* We 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.
- *Equity Securities:* We seek to invest a portion of our assets in equity securities which consist of preferred and common equity or limited liability company interests, or warrants or options to acquire such securities, and are generally 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.

Additionally, pursuant to the 1940 Act, we must maintain at least 70% of our total assets in qualifying assets, which generally include each of the investment types listed above. Therefore, the 1940 Act permits us to invest up to 30% of our assets in other non-qualifying assets. See "*—Regulation as a Business Development Company — Qualifying Assets*" for a discussion of the types of qualifying assets in which we are permitted to invest pursuant to Section 55(a) of the 1940 Act.

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated 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, as compared to investment-grade debt instruments. In addition, many of our debt securities we hold typically do not amortize prior to maturity.

Investment Concentrations

As of March 31, 2013, our investment portfolio consisted of investments in 21 portfolio companies located in 15 states across 13 different industries with an aggregate fair value of $286.5 million, of which SOG Specialty K&T, LLC ("SOG"), Acme Cryogenics, Inc. ("Acme"), and Venyu Solutions, Inc. ("Venyu"), collectively, comprised approximately $101.1 million, or 35.3%, of our total investment portfolio at fair value. The following table outlines our investments by security type as of March 31, 2013 and 2012:

	March 31, 2013				March 31, 2012			
	Cost		Fair Value		Cost		Fair Value	
Senior debt	**$135,745**	**41.6%**	**$103,882**	**36.3%**	$110,475	41.5%	$ 94,886	42.0%
Senior subordinated debt	**103,547**	**31.7**	**86,811**	**30.3**	80,461	30.2	70,661	31.3
Total debt	**239,292**	**73.3**	**190,693**	**66.6**	190,936	71.7	165,547	73.3
Preferred equity	**81,710**	**25.0**	**82,157**	**28.7**	71,084	26.6	46,669	20.7
Common equity/equivalents	**5,419**	**1.7**	**13,632**	**4.7**	4,375	1.7	13,436	6.0
Total equity/equivalents	**87,129**	**26.7**	**95,789**	**33.4**	75,459	28.3	60,105	26.7
Total investments	**$326,421**	**100.0%**	**$286,482**	**100.0%**	$266,395	100.0%	$225,652	100.0%

Investments at fair value consisted of the following industry classifications as of March 31, 2013 and 2012:

	March 31, 2013		March 31, 2012	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Chemicals, Plastics, and Rubber	**$ 59,170**	**20.7%**	$ 46,793	20.7%
Electronics	**43,970**	**15.3**	23,330	10.3
Diversified/Conglomerate Manufacturing	**32,698**	**11.4**	29,017	12.9
Machinery (Non-agriculture, Non-construction, Non-electronic	**32,662**	**11.4**	30,770	13.6
Leisure, Amusement, Motion Pictures, Entertainment	**29,822**	**10.4**	30,096	13.3
Home and Office Furnishings, Housewares, and Durable Consumer Products	**23,512**	**8.2**	2,623	1.2
Containers, Packaging, and Glass	**23,019**	**8.0**	24,332	10.8
Aerospace and Defense	**20,876**	**7.3**	6,713	3.0
Automobile	**7,467**	**2.6**	—	—
Cargo Transport	**6,897**	**2.4**	13,017	5.8
Buildings and Real Estate	**6,020**	**2.2**	9,277	4.1
Beverage Food and Tobacco	**369**	**0.1**	—	—
Oil and Gas	—	—	9,684	4.3
Total Investments	**$286,482**	**100.0%**	$225,652	100.0%

The investments, at fair value, were included in the following geographic regions of the U.S. as of March 31, 2013 and 2012:

	March 31, 2013		March 31, 2012	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	**$125,518**	**43.8%**	$110,411	48.9%
West	**81,400**	**28.4**	77,604	34.4
Northeast	**58,319**	**20.4**	30,924	13.7
Midwest	**21,245**	**7.4**	6,713	3.0
Total Investments	**$286,482**	**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.

Our Investment Adviser and Administrator

Gladstone Management Corporation (the "Adviser") is our affiliate, investment adviser, and a privately-held company led by a management team that has extensive experience in our lines of business. Another of our and the Adviser's affiliates, a privately-held company, Gladstone Administration, LLC (the "Administrator"), employs, among others, our chief financial officer and treasurer, chief compliance officer, internal legal counsel and their respective staffs. Excluding our chief financial officer and treasurer, all of our executive officers serve as directors or executive officers, or both, of the following of our affiliates: Gladstone Commercial Corporation ("Gladstone Commercial"), a publicly-traded real estate investment trust; Gladstone Capital Corporation ("Gladstone Capital"), a publicly-traded BDC and RIC; Gladstone Land Corporation ("Gladstone Land"), a publicly-traded real estate company that invests in farmland and farm related property; the Adviser; and the Administrator. Our chief financial officer and treasurer is also the treasurer of Gladstone Capital. David Gladstone, our chairman and chief executive officer, also serves on the board of managers of our affiliate, Gladstone Securities, LLC ("Gladstone Securities"), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA") and insured by the Securities Investor Protection Corporation.

The Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to, Gladstone Commercial; Gladstone Capital; and Gladstone Land. In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

We have been externally managed by the Adviser pursuant to an investment advisory and management agreement since October 1, 2004. The 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. The Adviser is headquartered in McLean, Virginia, a suburb of Washington, D.C., and also has offices in several other states.

Investment Process

Overview of Investment and Approval Process

To originate investments, the Adviser's investment professionals use an extensive referral network comprised primarily of private equity sponsors, venture capitalists, leveraged buyout funds, investment bankers, attorneys, accountants, commercial bankers and business brokers. The Adviser's investment professionals review information received from these and other sources in search of potential financing opportunities. If a potential opportunity matches our investment objectives, the investment professionals will seek an initial screening of the opportunity with our president, David Dullum, to authorize the submission of an indication of interest ("IOI") to the prospective portfolio company. If the prospective portfolio company passes this initial screening and the IOI is accepted by the prospective company, the investment professionals will seek approval to issue a letter of intent ("LOI") from the Adviser's investment committee, which is composed of David Gladstone (our chairman and chief executive officer) and Terry Lee Brubaker (our vice chairman, chief operating officer and assistant secretary), to the prospective company. If this LOI is issued, then the Adviser and Gladstone Securities (the "Due Diligence Team") will conduct a due diligence investigation and create a detailed profile summarizing the prospective portfolio company's historical financial statements, industry, competitive position and management team and analyzing its conformity to our general investment criteria. The investment professionals then present this profile to the Adviser's investment committee, which must approve each investment. Further, each investment is available for review by the members of our Board of Directors, a majority of whom are not "interested persons" as defined in Section 2(a)(19) of the 1940 Act.

Prospective Portfolio Company Characteristics

We have identified certain characteristics that we believe are important in identifying and investing in prospective small and medium-sized privately-owned portfolio companies. The criteria listed below provide general guidelines for our investment decisions, although not all of these criteria may be met by each portfolio company.

- *Value-and-Income Orientation and Positive Cash Flow.* Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value-and-income orientation. In seeking value, we focus on established companies in which we can invest at relatively low multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), and that have positive operating cash flow at the time of investment. In seeking income, we 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. Typically, we do not expect to invest in start-up companies or companies with what we believe to be speculative business plans.
- *Experienced Management with Meaningful Equity Ownership.* We generally require that the businesses in which we invest have experienced management teams. We also require the businesses to have in place proper incentives to induce management to succeed and act in concert with our interests as investors. Generally, we focus on companies with management having significant equity or other interests in the financial performance of their companies.
- *Strong Competitive Position in an Industry.* We 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 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, is an important factor in our investment analysis in collateralizing our debt securities.

Extensive Due Diligence

The Due Diligence Team conducts what we believe are extensive due diligence investigations of our prospective portfolio companies and investment opportunities. The due diligence investigation may begin with a review of publicly available information followed by in depth business analysis, including, but not limited to, some or all of the following:

- a review of the prospective portfolio company's historical and projected financial information, including a quality of earnings analysis;
- visits to the prospective portfolio company's business site(s);

- interviews with the prospective portfolio company's management, employees, customers and vendors;
- review of loan documents and material contracts;
- background checks and a management capabilities assessment on the prospective portfolio company's management team; and
- research on the prospective portfolio company's products, services or particular industry and its competitive position therein.

Upon completion of a due diligence investigation and a decision to proceed with an investment, the Adviser's investment professionals who have primary responsibility for the investment present the investment opportunity to the Adviser's investment committee. The investment committee then determines whether to pursue the potential investment. Additional due diligence of a potential investment may be conducted on our behalf by attorneys and independent accountants, as well as other outside advisers, prior to the closing of the investment, as appropriate.

We also rely on the long-term relationships that the Adviser's investment professionals have with venture capitalists, leveraged buyout funds, investment bankers, commercial bankers, private equity sponsors, and business brokers. In addition, the extensive direct experiences of our executive officers and managing directors in the operations of and providing debt and equity capital to small and medium-sized private businesses plays a significant role in our investment evaluation and assessment of risk.

Investment Structure

Once the Adviser has determined that an investment meets our standards and investment criteria, the Adviser works with the management of that company and other capital providers to structure the transaction in a way that we believe will provide us with the greatest opportunity to maximize our return on the investment, while providing appropriate incentives to management of the company. As discussed above, the capital classes through which we typically structure a deal include senior debt, senior subordinated debt, junior subordinated debt, and preferred and common equity or equivalents. Through its risk management process, the Adviser seeks to limit the downside risk of our investments by:

- making investments with an expected total return (including both interest and potential equity appreciation) that it believes compensates us for the credit risk of the investment;
- seeking collateral or superior positions in the portfolio company's capital structure where possible;
- incorporating put rights and call protection into the investment structure where possible;
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility as possible in managing their businesses, consistent with preserving our capital; and
- holding board seats or securing board observation rights at the portfolio company.

We expect to hold most of our investments in senior debt and senior and junior subordinated debt until maturity or repayment, but may sell our investments (including our equity investments) earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company or, in the case of an equity investment in a company, its initial public offering. Occasionally, we may sell some or all of our investment interests in a portfolio company to a third party, such as an existing investor in the portfolio company, in a privately negotiated transaction.

Temporary Investments

Pending investment in our target market of small and medium-sized companies, we invest our otherwise uninvested cash primarily in cash, cash equivalents, government securities or high-quality debt securities maturing in one year or less from the time of investment. We refer to such investments collectively as temporary investments, so that at least 70% of our assets are "qualifying assets" for purposes of certain provisions of the 1940 Act that pertain specifically to BDCs. For information regarding regulations to which we are subject and the definition of "qualifying assets," see *"—Regulation as a Business Development Company."*

Hedging Strategies

On April 30, 2013, we, through our wholly-owned subsidiary Gladstone Business Investment, LLC ("Business Investment"), entered into a fifth amended and restated credit agreement providing for a $70.0 million revolving line of credit (the "Credit Facility") arranged by Key Equipment Finance Inc. ("KEF") as administrative agent. Branch Banking and Trust Company ("BB&T") joined the Credit Facility as a lender. Pursuant to our Credit Facility, we have agreed to enter into interest rate cap agreements, in connection with the borrowings that we make under our Credit Facility. We currently hold one interest rate cap agreement, which is not designated as a hedge for accounting purposes.

Competitive Advantages

A large number of entities compete with us and make the types of investments that we seek to make in small and medium-sized privately-owned businesses. Such competitors include private equity funds, leveraged buyout funds, other BDCs, venture capital funds, investment banks and other equity and non-equity based investment funds, and other financing sources, including traditional financial services companies such as commercial banks. Many of our competitors are substantially larger than we are and have considerably greater funding sources that are not available to us. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many of these competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. However, we believe that we have the following competitive advantages over other providers of financing to small and mid-sized businesses.

Management expertise

David Gladstone, our chairman and chief executive officer, is also the chairman and chief executive officer of the Adviser and its affiliated companies (the "Gladstone Companies") and has been involved in all aspects of the Gladstone Companies' investment activities, including serving as a member of the Adviser's investment committee. David Dullum, our president and a director, has extensive experience in private equity investing in middle market companies. Terry Lee Brubaker, our vice chairman, chief operating officer and assistant secretary, has substantial experience in acquisitions and operations of companies. Messrs. Gladstone and Brubaker also have principal management responsibility for the Adviser as its senior executive officers. These two individuals dedicate a significant portion of their time to managing our investment portfolio. Our senior management has extensive experience providing capital to small and mid-sized companies and has worked together at the Gladstone Companies for more than 10 years. In addition, we have access to the resources and expertise of the Adviser's investment professionals and support staff who possess a broad range of transactional, financial, managerial, and investment skills.

Increased Access to Investment Opportunities Developed Through Proprietary Research Capability and an Extensive Network of Contacts

The Adviser seeks to identify potential investments through active origination and due diligence and through its dialogue with numerous management teams, members of the financial community and potential corporate partners with whom the Adviser's investment professionals have long-term relationships. We believe that the Adviser's investment professionals have developed a broad network of contacts within the investment, commercial banking, private equity and investment management communities, and that their reputation in investment management enables us to identify well-positioned prospective portfolio companies, which provide attractive investment opportunities. Additionally, the Adviser expects to generate information from its professionals' network of accountants, consultants, lawyers and management teams of portfolio companies and other companies.

Disciplined, Value and Income-Oriented Investment Philosophy with a Focus on Preservation of Capital

In making its investment decisions, the Adviser focuses on the risk and reward profile of each prospective portfolio company, seeking to minimize the risk of capital loss without foregoing the potential for capital appreciation. We expect the Adviser to use the same value and income-oriented investment philosophy that its professionals use in the management of the other Gladstone Companies and to commit resources to management of downside exposure. The Adviser's approach seeks to reduce our risk in investments by using some or all of the following approaches:

- focusing on companies with good market positions and cash flow;
- investing in businesses with experienced and established management teams with meaningful equity ownership;
- engaging in extensive due diligence from the perspective of a long-term investor;
- investing at low price-to-cash flow multiples; and
- adopting flexible transaction structures by drawing on the experience of the investment professionals of the Adviser and its affiliates.

Longer Investment Horizon with Attractive Publicly-Traded Model

Unlike private equity and venture capital funds that are typically organized as finite-life partnerships, we are not subject to standard periodic capital return requirements. The partnership agreements of most private equity and venture capital funds typically provide

that these funds may only invest investors' capital once and must return all capital and realized gains to investors within a finite time period, often seven to ten years. These provisions often force private equity and venture capital funds to seek returns on their investments by causing their portfolio companies to pursue mergers, public equity offerings, or other liquidity events more quickly than might otherwise be optimal or desirable, potentially resulting in a lower overall return to investors and/or an adverse impact on their portfolio companies. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles provides us with the opportunity to achieve greater long-term returns on invested capital.

Flexible Transaction Structuring

We believe the management team's broad expertise and its ability to draw upon many years of combined experience enables the Adviser to identify, assess, and structure investments successfully across all levels of a company's capital structure and manage potential risk and return at all stages of the economic cycle. We are not subject to many of the regulatory limitations that govern traditional lending institutions, such as banks. As a result, we are flexible in selecting and structuring investments, adjusting investment criteria and transaction structures and, in some cases, the types of securities in which we invest. We believe that this approach enables the Adviser to identify attractive investment opportunities that will continue to generate current income and capital gain potential throughout the economic cycle, including during turbulent periods in the capital markets. One example of our flexibility is our ability to exchange our publicly-traded stock for the stock of an acquisition target in a tax-free reorganization under the Code. After completing an acquisition in such an exchange, we can restructure the capital of the small company to include senior and subordinated debt.

Leverage

For the purpose of making investments and taking advantage of favorable interest rates, we may issue senior securities up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us to issue senior securities representing indebtedness and senior securities that are stock, to which we refer collectively as "Senior Securities," in amounts such that we maintain an asset coverage ratio, as defined in Section 18(h) of the 1940 Act, of at least 200% on each such Senior Security immediately after each issuance of such Senior Security. We may also incur such indebtedness to repurchase our common stock. As a result of incurring indebtedness generally, such as through our revolving line of credit or issuing senior securities representing indebtedness, such as our 7.125% Series A Cumulative Term Preferred Stock (the "Term Preferred Stock"), we are exposed to the risks of leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. Our Board of Directors is authorized to provide for the issuance of Senior Securities with such preferences, powers, rights and privileges as it deems appropriate, subject to the requirements of the 1940 Act. See "*—Regulation as a Business Development Company—Asset Coverage*" for a discussion of our leveraging constraints.

Ongoing Management of Investments and Portfolio Company Relationships

The Adviser's investment professionals actively oversee each investment by continuously evaluating the portfolio company's performance and typically working collaboratively with the portfolio company's management to identify and incorporate best resources and practices that help us achieve our projected investment performance.

Monitoring

The Adviser's investment professionals monitor the financial performance, trends, and changing risks of each portfolio company on an ongoing basis to determine if each company is performing within expectations and to guide the portfolio company's management in taking the appropriate courses of action. The Adviser employs various methods of evaluating and monitoring the performance of our investments in portfolio companies, which can include the following:

- Monthly analysis of financial and operating performance;
- Assessment of the portfolio company's performance against its business plan and our investment expectations;
- Assessment of the investment's risks;
- Attendance at and participation in the portfolio company's board of directors or management meetings;
- Assessment of portfolio company management, sponsor, governance and strategic direction;

- Assessment of the portfolio company's industry and competitive environment; and
- Review and assessment of the portfolio company's operating outlook and financial projections.

Relationship Management

The Adviser's investment professionals interact with various parties involved with a portfolio company, or investment, by actively engaging with internal and external constituents, including:

- Management;
- Boards of directors;
- Financial sponsors;
- Capital partners; and
- Advisers and consultants.

Managerial Assistance and Services

As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Neither we, nor the Adviser, currently receive fees in connection with the managerial assistance we make available. At times, the Adviser provides other services to certain of our portfolio companies and it receives fees for these other services. We credit 50% of certain of these fees and 100% of others against the base management fee that we would otherwise be required to pay to the Adviser.

In February 2011, Gladstone Securities started providing other services (such as investment banking and due diligence services) to certain of our portfolio companies. The fees the portfolio companies paid to Gladstone Securities do not impact the overall fees we pay to the Adviser or the overall fees credited against the base management fee.

Valuation Process

The following is a general description of the steps we take each quarter to determine the value of our investment portfolio. We value our investments in accordance with the requirements of the 1940 Act. We value securities for which market quotations are readily available at their market value. We value all other securities and assets at fair value as determined in good faith by our Board of Directors. In determining the value of our investments, the Adviser has established an investment valuation policy (the "Policy"). The Policy has been approved by our Board of Directors and each quarter the Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether or not to accept the recommended valuation of our investment portfolio. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the securities existed. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations. With respect to any investments for which market quotations are not readily available, we perform the following valuation process each quarter:

- Quarterly, each portfolio company or investment is initially assessed by the Adviser's investment professionals responsible for the investment, using the Policy;
- Preliminary valuation conclusions are then discussed with our management, and documented, along with any independent opinions of value provided by Standard & Poor's Securities Evaluations, Inc. ("SPSE"), for review by our Board of Directors;
- Next, our Board of Directors reviews this documentation and discusses the information provided by our management, and the opinions of value provided by SPSE to arrive at a determination that the Policy has been followed for determining the aggregate fair value of our portfolio of investments.

Our valuation policies, procedures and processes are more fully described under *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Investment Valuation."*

Investment Advisory and Management Agreement

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

Base Management Fee

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2.0% computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. Overall, the base management fee cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year. In addition, the following three items are potential adjustments to the base management fee calculation.

- *Loan Servicing Fees*

  Our Adviser also services the loans held by our wholly owned subsidiary, Business Investment, in return for which our Adviser receives a 2.0% annual fee based on the monthly aggregate outstanding balance of loans pledged under our Credit Facility. Since we own these loans, all loan servicing fees paid to our 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 syndicated loan participations, for the years ended March 31, 2013 and 2012.

- *Portfolio Company Fees*

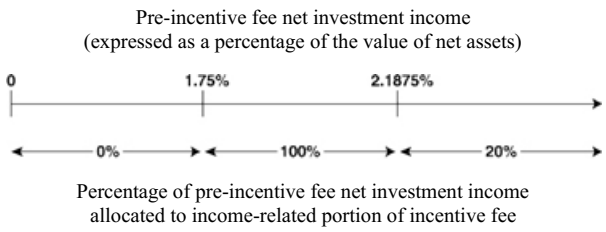
  Under the Advisory Agreement, our Adviser has also provided and continues to provide managerial assistance and other services to our portfolio companies and may receive fees for services other than managerial assistance. We credit 50% of certain of these fees and 100% of others against the base management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

Quarterly Incentive Fee Based on Net Investment Income



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 the Adviser, we 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 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years.

Additionally, in accordance with accounting principles generally accepted in the U.S. ("GAAP"), we did not accrue a capital gains-based incentive fee for the year ended March 31, 2013. This GAAP 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. There was no GAAP accrual for a capital gains-based incentive fee for the years ended March 31, 2013 or 2012.

Administration Agreement

We have entered into an administration agreement with the Administrator (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 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 serviced by the Administrator under similar agreements. On July 10, 2012, the Board of Directors approved the renewal of the Administration Agreement through August 31, 2013.

Staffing

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of our Adviser or our Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. No employee of our Adviser and our Administrator will dedicate all of his or her time to us. However, we expect that 25-30 full time employees of our Adviser and our Administrator will spend substantial time on our matters during the remainder of calendar year 2013 and all of calendar year 2014. To the extent we acquire more investments, we anticipate that the number of employees of our Adviser and our Administrator who devote time to our matters will increase.

As of May 31, 2013, our Adviser and Administrator collectively had 56 full-time employees. A breakdown of these employees is summarized by functional area in the table below:

Number of Individuals	Functional Area
10	Executive Management
33	Investment Management, Portfolio Management and Due Diligence
13	Administration, Accounting, Compliance, Human Resources, Legal and Treasury

Properties

We do not own any real estate or other physical properties materially important to our operations. Gladstone Management Corporation is the current leaseholder of all properties in which we operate. We occupy these premises pursuant to the Advisory Agreement and Administration Agreement. Our Adviser and Administrator are headquartered in McLean, Virginia and our Adviser also has offices in several other states.

Legal Proceedings

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us.

PORTFOLIO COMPANIES

The following table sets forth certain information as of March 31, 2013, regarding each portfolio company in which we had a debt or equity security as of such date. All such investments have been made in accordance with our investment policies and procedures described in this prospectus.

Company[A]	Industry	Investment	Percentage of Class Held on a Fully-Diluted Basis (B)	Cost	Fair Value
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc. 2801 Mitchell Avenue Allentown, PA 18103	Manufacturing — manifolds and pipes for industrial gasses	Senior Subordinated Term Debt		$14,500	$ 14,500
		Preferred Stock	84.7%	6,984	11,292
		Common Stock	70.1%	1,045	1,179
		Common Stock Warrants	70.1%	25	369
				22,554	27,340
ASH Holdings Corp. 2630 W. Buckeye Rd. Phoenix, AZ 85009	Retail and Service — school buses and parts	Revolving Credit Facility, $288 available[C]		7,856	—
		Senior Subordinated Term Debt[C]		6,050	—
		Preferred Stock	100.0%	2,500	—
		Common Stock	73.6%	—	—
		Common Stock Warrants	73.6%	4	—
		Guaranty ($500)			
				16,410	—
Country Club Enterprises, LLC 29 Tobey Rd. W. Wareham, MA 02576	Service — golf cart distribution	Senior Subordinated Term Debt		4,000	4,000
		Preferred Stock[F]	59.9%	7,725	3,467
		Guaranty ($ 2,000)			
		Guaranty ($ 1,370)			
				11,725	7,467
Danco Acquisition Corp. 950 George St. Santa Clara, CA 95054	Manufacturing — machining and sheet metal work	Revolving Credit Facility, $282 available		2,868	717
		Senior Term Debt		2,575	644
		Senior Term Debt		8,795	2,199
		Senior Term Debt		1,150	287
		Preferred Stock	59.5%	2,500	—
		Common Stock Warrants	92.5%	3	—
				17,891	3,847
Drew Foam Company, Inc. 1093 Highway 278 East Monticello, AR 71655	Manufacturing — molds and fabricates expanded polystyrene	Senior Term Debt		10,913	10,913
		Preferred Stock	63.2%	3,375	3,511
		Common Stock	53.7%	63	676
				14,351	15,100
Frontier Packaging, Inc. 1201 Andover Park East, Suite 101 Tukwila, WA 98188	Manufacturing — packaging products	Senior Term Debt		12,500	12,500
		Preferred Stock	67.8%	1,373	653
		Common Stock	57.6%	153	—
				14,026	13,153
Galaxy Tool Holding Corp. 1111 Industrial Rd. Winfield, KS 67156	Manufacturing — aerospace and Plastics	Senior Subordinated Term Debt		15,520	15,520
		Preferred Stock	74.7%	11,464	5,356
		Common Stock	55%	48	—
				27,032	20,876

Company[A]	Industry	Investment	Percentage of Class Held on a Fully-Diluted Basis (B)	Cost	Fair Value
Ginsey Home Solutions, Inc. 2078 Center Square Rd Swedesboro, NJ 08085	Retail and Service — children and home products	Senior Subordinate Term Debt		13,050	13,050
		Preferred Stock	95.3%	9,393	8,783
		Common Stock	78.5%	8	—
				22,451	21,833
Mathey Investments, Inc. 4344 S. Maybelle Ave. Tulsa, OK 74107	Manufacturing — pipe-cutting and pipe-fitting equipment	Senior Term Debt		1,375	1,375
		Senior Term Debt		3,727	3,727
		Senior Term Debt		3,500	3,500
		Common Stock	85.0%	777	5,817
				9,379	14,419
Mitchell Rubber Products, Inc. 10220 San Sevaine Way Mira Loma, CA 91752	Manufacturing — rubber compounds	Subordinated Term Debt		13,560	13,679
		Preferred Stock	31.7%	2,790	3,051
		Common Stock	31.7%	28	—
				16,378	16,730
Precision Southeast, Inc. P.O. Box 50610 4900 Hwy 501 Myrtle Beach, SC 29579	Manufacturing — injection molding and plastics	Senior Term Debt		7,775	7,775
		Preferred Stock	90.9%	1,909	2,273
		Common Stock	77.3%	91	955
				9,775	11,003

Company[A]	Industry	Investment	Percentage of Class Held on a Fully-Diluted Basis (B)	Cost	Fair Value
SBS, Industries, LLC 1843 N. 106th E. Ave. Tulsa, OK 74116	Manufacturing — specialty fasteners and threaded screw products				
		Senior Term Debt		11,355	11,355
		Preferred Stock	90.9%	1,994	2,253
		Common Stock	76.2%	221	4,635
				13,570	18,243
SOG Specialty K&T, LLC 6521 212th St. SW Lynnwood, WA 98036	Manufacturing — specialty knives and tools				
		Senior Term Debt		6,200	6,200
		Senior Term Debt		12,199	12,199
		Preferred Stock	70.9%	9,749	11,423
				28,148	29,822
Tread Corp. 176 Eastpark Dr. Roanoke, VA 24019	Manufacturing — storage and transport equipment				
		Revolving Credit Facility, $1,014 available[C]		1,736	—
		Senior Subordinated Term Debt[C]		5,000	—
		Senior Subordinated Term Debt[C]		2,750	—
		Senior Subordinated Term Debt[C]		1,000	—
		Senior Subordinated Term Debt[C]		510	—
		Preferred Stock	86.4%	3,333	—
		Common Stock	89.7%	501	—
		Common Stock Warrants	89.7%	3	—
				14,833	—
Venyu Solutions, Inc. 7127 Florida Blvd. Baton Rouge, LA 70806	Service — online servicing suite				
		Senior Subordinated Term Debt		7,000	7,000
		Senior Subordinated Term Debt		12,000	12,000
		Preferred Stock	64.0%	6,000	24,970
				25,000	43,970
Total Control Investments (represents 85.1% of total investments at fair value)				**$263,522**	**$243,803**

Company[A]	Industry	Investment	Percentage of Class Held on a Fully-Diluted Basis (B)	Cost	Fair Value
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp. 620 Forum Parkway Rural Hall, NC 27045	Manufacturing — bailing wire				
		Senior Subordinated Term Debt		2,200	2,258
		Subordinated Term Debt		4,671	4,805
		Preferred Stock	86.4%	1,844	2,803
				8,715	9,866
Channel Technologies Group, LLC 879 Ward Drive Santa Barbara, CA 93111	Manufacturing — acoustic products				
		Revolving Credit Facility, $0 available		1,250	1,248
		Senior Term Debt		5,596	5,589
		Senior Term Debt		10,750	10,737
		Preferred Stock	11.2%	1,599	275
		Common Stock	9.8%	—	—
				19,195	17,849
Noble Logistics, Inc. 11335 Clay Rd. Ste, 100 Houston, TX 77041	Service — aftermarket auto parts delivery				
		Revolving Credit Facility, $0 available		800	360
		Senior Term Debt		7,227	3,252
		Senior Term Debt		3,650	1,643
		Senior Term Debt		3,650	1,643
		Preferred Stock	69.2%	1,750	—
		Common Stock	13.1%	1,682	—
				18,759	6,898
Packerland Whey Products, Inc. 407 Fourth Street Luxemberg, WI 05417	Manufacturing — dairy, meat, and protein supplements				
		Preferred Stock	27.4%	2,479	367
		Common Stock	20.6%	21	—
				2,500	367
Quench Holdings Corp. 780 5th Ave., Ste, 110 King of Prussia, PA 19046	Service — sales, installation and service of water coolers				
		Preferred Stock	4.1%	2,950	1,679
		Common Stock	1.7%	447	—
				3,397	1,679
Total Affiliate Investments (represents 12.8% of total investments at fair value)				**$ 52,566**	**$ 36,659**
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
B-Dry, LLC 13876 Cravath Place Woodbridge, VA 22191	Service — basement waterproofer				
		Revolving Credit Facility, $0 available		750	450
		Senior Term Debt		6,443	3,866
		Senior Term Debt		2,840	1,704
		Common Stock Warrants [C][F]	5.5%	300	—
				10,333	6,020
Total Non-Control/Non-Affiliate Investments (represents 2.1% of total investments at fair value)				**$ 10,333**	**$ 6,020**
TOTAL INVESTMENTS[H]				**$326,421**	**$286,482**

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

(B) The "percentage of class held on a fully-diluted basis" represents the percentage of the class of security we may own assuming the exercise of our warrants or options (whether or not they are in-the-money) and assuming that warrants, options or convertible securities held by others are exercised or converted. The percentage was calculated based on the most current outstanding share information available to us provided by that company.

(C) Debt security is on non-acrual status.

Significant Portfolio Companies

Set forth below is a brief description of each portfolio company in which we have made an investment that currently represents greater than 5% of our total assets (excluding cash and cash equivalents pledged to creditors). Because of the relative size of our investments in these companies, we are exposed to a greater degree to the risks associated with these companies.

Acme Cryogenics, Inc.

We currently hold investments, having an aggregate fair value of $27.3 million as of March 31, 2013, in Acme Cryogenics, Inc. and its affiliates, which we collectively refer to as Acme. Our investments in Acme consist of redeemable preferred stock, which we purchased for $7.0 million, common stock and warrants, which we purchased for $1.1 million and a subordinated loan to Acme for $14.5 million that matures on March 27, 2015.

Founded in 1969, Acme manufactures manifolds used in regulating the flow of industrial gasses at extremely low temperatures (cryogenic), manufactures vacuum insulated pipe used in the transmission of gasses that have been liquefied, repairs cryogenic storage tanks, and repairs and manufactures tank trailers used in transporting liquid nitrogen, oxygen, helium, etc.

Our Adviser has entered into a services agreement with Acme, pursuant to which our Adviser has agreed to advise and provide certain management and consulting services as mutually agreed upon by Acme and our Adviser.

Because of the relative size of this investment, we are significantly exposed to the risks associated with Acme's business. The industrial gas industry has several large companies that dominate the production and distribution of liquefied gasses. These companies are Acme's primary customers. Acme is exposed to the risk that these large companies could change their buying patterns, attempt to dictate purchase terms that are unfavorable to Acme, or suffer downturns in their businesses that would lead them to reduce their purchases of Acme's products and services. Acme purchases metals and other raw materials that are subject to changes in the price levels of these commodities. There is no assurance that Acme can pass price increases on to its customers. Acme is also dependent upon a small group of managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

Our vice chairman and chief operating officer, Terry Brubaker, serves as a director of Acme. Acme's principal executive office is located at 2801 Mitchell Avenue, Allentown, Pennsylvania 18103.

Channel Technologies Group, LLC

We currently hold investments, having an aggregate fair value of $17.8 million as of March 31, 2013, in Channel Technologies Group, LLC, and its affiliates, which we collectively refer to as Channel. Our investments in Channel consist of preferred and common stock, which we purchased for $1.6 million, a senior term loan for $10.8 million that matures on December 29, 2016, a senior term loan for $5.6 million that matures on December 29, 2014 and a $1.3 million revolving credit facility, which was paid off on April 22, 2013.

Channel is located in Santa Barbara, California, and is a manufacturer of acoustic products for undersea and medical applications. Channel has three divisions that specialize in 1) manufacturing piezoelectric ceramics, 2) manufacturing build to print transducers and repair/refurbishment of transducers, and 3) engineering and consulting services related to underwater acoustic systems for mission critical technologies for military and commercial applications.

Because of the relative size of this investment, we are significantly exposed to the risks associated with Channel's business. The undersea acoustic industry that Channel participates in is limited and often dependent on the U.S government for funding. Due to larger U.S. deficits and the possibility for spending cuts in the defense industry, Channel is exposed to reduced revenues. Channel is also dependent upon a small group of managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

One of our Adviser's directors of private finance, Gregory Bowie, serves as director of Channel. Channel's principal executive office is located at 879 Ward Drive, Santa Barbara, California 93111.

Galaxy Tool Holding Corporation

We currently hold investments, having an aggregate fair value of $20.9 million as of March 31, 2013 in Galaxy Tool Holding Corporation and its affiliates, which we collectively refer to as Galaxy. Our investment in Galaxy includes a $15.5 million second lien term loan due August 2017 and $11.5 million in preferred and common stock.

Galaxy, based in Winfield, Kansas, is a designer and manufacturer of precision tools for the aerospace industry and of injection and blow molds for the plastics industry.

Because of the relative size of this investment, we are significantly exposed to the risks associated with Galaxy's business. Galaxy is levered to the aerospace manufacturing industry. The company's performance will be affected by changes in the demand for new planes and the performance of key customers in particular. The company continues to make investments in top level managers to supplement the team and in new technology to keep abreast of changes in the aircraft manufacturing industry.

Our Adviser has entered into an investment banking agreement with Galaxy. Under the terms of the investment banking agreement, our Adviser has agreed to assist Galaxy with obtaining or structuring credit facilities, long-term loans or additional equity, to provide advice and administrative support in the management of Galaxy's credit facilities and other important contractual financial relationships, and to monitor and review Galaxy's capital structure and financial performance as it relates to raising additional debt and equity capital for growth and acquisitions. The investment banking agreement also provides that our Adviser will be available to assist and advise Galaxy in connection with adding key people to the management team that will lead to the development of best industry practices in business promotion, business development and employee and customer relations.

One of our Adviser's directors of private finance, Christopher Lee, is a director of Galaxy. The principal executive offices of Galaxy are located at 1111 Industrial Road, Winfield, Kansas 67156.

Ginsey Holdings, Inc.

We currently hold investments, having an aggregate fair value of $21.8 million as of March 31, 2013, in Ginsey Holdings, and its affiliates, which we collectively refer to as Ginsey. We invested approximately $9.4 million in Ginsey to purchase $9.4 million in redeemable preferred stock and $8,000 in common stock of Ginsey. We also extended a subordinated loan to Ginsey for $13.1 million that matures on January 3, 2018.

Ginsey is located in Bellmawr, New Jersey and designs and markets a broad line of branded juvenile and adult bath products.

Because of the relative size of this investment, we are significantly exposed to the risks associated with Ginsey's business. Ginsey's customer base is concentrated in a limited number of retailers. If several of these retailers were to discontinue using Ginsey products, Ginsey is exposed to reduced revenues. Additionally, Ginsey is largely dependent on licensing agreements with several major brands. If several of these licenses are not renewed, Ginsey is exposed to reduced product offerings and associated reductions in revenue. Ginsey is also dependent upon a small group of managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

Our Adviser has entered into an advisory services agreement with Ginsey. Under the terms of the agreement, our Adviser has agreed to assist Ginsey with obtaining or structuring credit facilities, long term loans or additional equity, to provide advice and administrative support in the management of Ginsey's credit facilities and other important contractual financial relationships, and to monitor and review Ginsey's capital structure and financial performance as it relates to raising additional debt and equity capital for growth and acquisitions. The agreement also provides that our Adviser will be available to assist and advise Ginsey in connection with adding key people to the management team that will lead to the development of best industry practices in business promotion, business development and employee and customer relations.

One of our Adviser's managing directors of private finance, John Freal, and one of our Adviser's directors of private finance, Erika Highland, serve as directors of Ginsey. Ginsey's principal executive office is located at 281 Benigno Boulevard, Bellmawr, New Jersey 08031.

Jackrabbit, Inc.

We currently hold investments, having an aggregate fair value of $16.8 million as of April 11, 2013, the date we made our initial investment in Jackrabbit, Inc. and its affiliates, which we collectively refer to as Jackrabbit. Our investment in Jackrabbit includes an $11.0 million first lien term loan maturing April 1, 2018, $3.6 million in preferred and common stock and a $3.0 million revolving credit facility, of which $2.2 million was drawn as of April 11, 2013, maturing April 1, 2014.

Jackrabbit, based in Ripon, California, manufacturers nut (primarily almond) harvesting equipment. Founded in 1981, the Company has been a leader in its product categories with significant market share in the United States and a large presence in Australia.

Because of the relative size of this investment, we are significantly exposed to the risks associated with Jackrabbit's business. Jackrabbit is specialized in a relatively small market. The company's performance will be affected by changes in the demand for its equipment from almond growers and the potential of increased competition with larger manufacturers expanding their product lines and entering into the market. Jackrabbit's growth is dependent on the end consumer of the nuts, and if there are any negative changes in consumer consumption that could reduce sales and profitability. Jackrabbit is dependent on a small group of long-time managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

Our Adviser has entered into an investment banking agreement with Jackrabbit. Under the terms of the investment banking agreement, our Adviser has agreed to assist Jackrabbit with obtaining or structuring credit facilities, long-term loans or additional equity, to provide advice and administrative support in the management of Jackrabbit's credit facilities and other important contractual financial relationships, and to monitor and review Jackrabbit's capital structure and financial performance as it relates to raising additional debt and equity capital for growth and acquisitions. The investment banking agreement also provides that our Adviser will be available to assist and advise Jackrabbit in connection with adding key people to the management team that will lead to the development of best industry practices in business promotion, business development and employee and customer relations.

One of our Adviser's managing directors of private finance, Christopher Daniels, and one of our Adviser's directors of private finance, Marshall Earl, are directors of Jackrabbit. The principal executive offices of Jackrabbit are located at 471 Industrial Avenue, Ripon, California 95366.

Mitchell Rubber Products, Inc.

We currently hold investments, having an aggregate fair value of $16.7 million as of March 31, 2013, in Mitchell Rubber Products, Inc., which we refer to as Mitchell. Our investments in Mitchell include preferred stock and common stock, which we purchased for $2.8 million, and a subordinated term loan with a principal amount outstanding of $13.6 million maturing on October 7, 2016.

Mitchell, based in City of Industry, California, develops, mixes, manufactures and molds proprietary rubber-based compounds for the non-tire rubber market.

Because of the size of this investment, we are significantly exposed to the risks associated with Mitchell's business. Mitchell purchases materials, particularly resin, that are subject to changes in the price levels of such commodities. Unfavorable price swings could adversely affect the company's production capability, with no assurance of passing the higher prices along to its customers. Mitchell's end markets, which are key indicators for rubber demand, tend to be cyclical, which could cause unfavorable fluctuations in the company's sales. Mitchell is dependent on a small group of long-time managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

Our Adviser has entered into a services agreement with Mitchell. Under the terms of the agreement, our Adviser has agreed to assist Mitchell with various specified services, including, but not limited to, providing Mitchell and its affiliates with a range of corporate development and strategic management services and assisting Mitchell and its affiliates in identifying potential acquisition targets that meet Mitchell's or its affiliates' respective acquisition criteria.

One of our Adviser's managing directors of private finance, John Freal, is a director of Mitchell. The principal executive offices of Mitchell are located at 491 Wilson Way, City of Industry, California 91744.

SBS Industries, LLC

We currently hold investments, having an aggregate fair value of $18.2 million as of March 31, 2013, in SBS Industries, LLC, which we refer to as SBS. Our investments in SBS include preferred stock, which we purchased for $2.0 million, common stock, which we purchased for $0.2 million, and a senior term loan with a principal amount outstanding of $11.4 million, maturing on August 31, 2016.

SBS, founded in 1975 and headquartered in Tulsa, Oklahoma, is a manufacturer and value-added distributor of specialty fasteners and threaded screw products.

Because of the relative size of this investment, we are significantly exposed to the risks associated with SBS's business. The company bears inventory risk for its customers, and should parts become obsolete or if customers fail, SBS could be subject to large losses. The company's revenues are concentrated with a small number of core customers and the loss of any of these customers could have an impact on its profitability. SBS is dependent on a small group of long-time managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

Our Adviser has entered into an advisory services agreement with SBS. Under the terms of the agreement, our Adviser has agreed to assist SBS with obtaining or structuring credit facilities, long term loans or additional equity, to provide advice and administrative support in the management of SBS's credit facilities and other important contractual financial relationships, and to monitor and review SBS's capital structure and financial performance as it relates to raising additional debt and equity capital for growth and acquisitions. The agreement also provides that our Adviser will be available to assist and advise SBS in connection with adding key people to the management team.

Two of our Adviser's directors of private finance, Erika Highland and Kyle Largent, are directors of SBS. The principal executive offices of SBS are located at 1843 N. 106th E. Ave., Tulsa, Oklahoma 74116.

SOG Specialty K&T, LLC

We currently hold investments, having an aggregate fair value of $29.8 million as of March 31, 2013, in SOG Specialty K&T, LLC, which we refer to as SOG. Our investments in SOG include convertible preferred stock, which we purchased for $9.7 million, and two senior term loans with an aggregate principal amount outstanding of $18.4 million, each maturing on August 5, 2016.

SOG, based in Lynnwood, Washington, takes its name from the Studies and Observations Group (the forefathers of the U.S. military's Special Operations Forces), designs and produces specialty knives and tools for the hunting/outdoors, military/law enforcement and industrial markets.

Because of the relative size of this investment, we are significantly exposed to the risks associated with SOG's business. The company's brand has a good reputation among those within the industry; however, it is largely viewed as more of a niche player, with somewhat limited awareness outside of core customer segments. Although it has experienced recent gains in market share, it still lags behind some of its competitors based on overall market size. Thus, SOG could be adversely affected by the aggressive actions of one of those competitors. SOG is dependent on a small group of long-time managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

Our Adviser has entered into an advisory services agreement with SOG. Under the terms of the agreement, our Adviser has agreed to assist SOG with obtaining or structuring credit facilities, long term loans or additional equity, to provide advice and administrative support in the management of SOG's credit facilities and other important contractual financial relationships, and to monitor and review SOG's capital structure and financial performance as it relates to raising additional debt and equity capital for growth and acquisitions. The agreement also provides that our Adviser will be available to assist and advise SOG in connection with adding key people to the management team that will lead to the development of best industry practices in business promotion, business development and employee and customer relations.

One of our Adviser's directors of private finance, Marshall Earl, is a director of SOG. The principal executive offices of SOG are located at 6521 212th Street SW, Lynnwood, Washington 98036.

Venyu Solutions, Inc.

We currently hold investments, having an aggregate fair value of $44.0 million as of March 31, 2013, in Venyu Solutions, Inc. which we refer to as Venyu. Our investments in Venyu included convertible preferred equity, which we purchased for $6.0 million and two subordinated term loans which collectively have a principal amount outstanding of $19.0 million maturing on October 28, 2015.

Venyu, headquartered in Baton Rouge, Louisiana, is a leader in commercial-grade, customizable solutions for data protection, data hosting, and disaster recovery.

Because of the size of this investment, we are significantly exposed to the risks associated with Venyu's business. The company has a good brand name in the industry, but is subject to competitive pricing and commodization of online backup by consumer-focused backup firms. Venyu is dependent on a small group of long-time managers for the execution of its business plan. The death, disability or departure by one or more of these individuals could have a negative impact on its business and operations.

Our Adviser has entered into a services agreement with Venyu. Under the terms of the agreement, our Adviser has agreed to assist Venyu with obtaining or structuring credit facilities, long term loans or additional equity, to provide advice and administrative support in the management of Venyu's credit facilities and other important contractual financial relationships, and to monitor and review Venyu's capital structure and financial performance as it relates to raising additional debt and equity capital for growth and acquisitions. The agreement also provides that our Adviser will be available to assist and advise Venyu in connection with adding key people to the management team that will lead to the development of best industry practices in business promotion, business development and employee and customer relations.

Our president, David Dullum, and one of our Adviser's directors of private finance, Kyle Largent, are directors of Venyu. The principal executive offices of Venyu are located at 7127 Florida Blvd, Baton Rouge, Louisiana 70806.

MA NAGEMENT

Our business and affairs are managed under the direction of our Board of Directors (the "Board"). Our Board currently consists of nine members, six of whom are not considered to be "interested persons" of Gladstone Investment as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our Board of Directors elects our officers, who serve at the discretion of the Board.

Board of Directors

Under our certificate of incorporation, our directors are divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three year term. Holders of our common stock and preferred stock vote together as a class for the election of directors, except that the holders of our term preferred stock have the sole right to elect two of our directors. At each annual meeting of our stockholders, the successors to the class of directors whose term expires at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Information regarding our Board is as follows (the address for each director is c/o Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102):

Name	Age	Position	Director Since	Expiration of Term
Interested Directors				
David Gladstone	71	Chairman of the Board and Chief Executive Officer(1)(2)(6)	2005	2013
Terry L. Brubaker	69	Vice Chairman, Chief Operating Officer and Director(1)(2)(6)	2005	2015
David A. R. Dullum	65	President and Director(1)	2005	2015
Independent Directors				
Paul W. Adelgren	70	Director(4)(5)(7)	2005	2013
Terry Earhart	70	Director(4)(5)(7)	2012	2013
Michela A. English	63	Director(3)(7)	2005	2014
John H. Outland	67	Director(4)(5)(7)	2005	2013
Anthony W. Parker	67	Director(2)(3)(6)(7)	2005	2014
John D. Reilly	70	Director(3)(7)	2011	2015

(1) Interested person as defined in Section 2(a)(19) of the 1940 Act due to the director's position as our officer and/or employment by our Adviser.
(2) Member of the executive committee.
(3) Member of the audit committee.
(4) Member of the ethics, nominating, and corporate governance committee.
(5) Member of the compensation committee.
(6) Member of the offering committee
(7) Each independent director serves as an alternate member of each committee for which they do not serve as a regular member. Alternate members of the committees serve and participate in meetings of the committees only in the event of an absence of a regular member of the committee.

The biographical information for each of our directors includes all of the public company directorships held by such directors for the past five years.

Independent Directors (in alphabetical order)

Paul W. Adelgren. Mr. Adelgren has served as a director since June 2005. Mr. Adelgren has also served as a director of Gladstone Commercial since August 2003, Gladstone Capital since January 2003 and Gladstone Land since January 2013. From 1997 to the present, Mr. Adelgren has served as the pastor of Missionary Alliance Church. From 1991 to 1997, Mr. Adelgren was pastor of New Life Alliance Church. From 1988 to 1991, Mr. Adelgren was vice president-finance and materials for Williams & Watts, Inc., a logistics management and procurement business located in Fairfield, NJ. Prior to joining Williams & Watts, Mr. Adelgren served in the United States Navy, where he served in a number of capacities, including as the director of the Strategic Submarine Support Department, as an executive officer at the Naval Supply Center, and as the director of the Joint Uniform Military Pay System. He is a retired Navy Captain. Mr. Adelgren holds an MBA from Harvard Business School and a BA from the University of Kansas. Mr. Adelgren was selected to serve as an independent director on our Board, due to his strength and experience in ethics, which also led to his appointment to the chairmanship of our Ethics, Nominating & Corporate Governance Committee.

Terry Earhart. Mr. Earhart has served as a director since October 2012. Mr. Earhart founded and, since 2005, has served as Executive Vice President and a member of the board of directors of Strategic Global Services Network, a non-governmental organization, or NGO, that has opened six schools, a medical clinic and facilitated the start-up of several micro enterprise businesses in Africa. Mr. Earhart has also served as a director of Gladstone Capital and Gladstone Commercial since October 2012 and Gladstone Land since January 2013. From 1989 to 2011, Mr. Earhart was a professor of business information systems and management at Messiah College in Grantham, Pennsylvania, teaching courses in strategic management, finance and computers. He also served as Chair of the Faculty and Chair of the Management and Business Department at Messiah College. Mr. Earhart previously served on boards of directors of Jacksonville Navy Federal Credit Union (1981-1984), Navy Mutual Aid Society (1977-1979), Athens-Clarke Country Humane Society (1969-1971), and Navy Supply Corps Foundation (1969-1971). Mr. Earhart was also the founder of both Athens-Clarke Country Humane Society and Navy Supply Corps Foundation, which has distributed over three million dollars in scholarships. From 1964 to 1989, Mr. Earhart held several positions in the United States Navy, including Engineering Officer, Supply Officer, Comptroller, Director Inventory Control, Director of Navy Payroll, Director of Naval Weapons and Ammunition, and Director of Naval Software Development for Inventory Control Systems. During his career in the Navy he served on ships and naval stations throughout the world. He received numerous awards and medals during his distinguished career and he retired as Navy Captain to pursue his interest in teaching college. Mr. Earhart holds a MBA from Harvard Business School and a Bachelor of Science in Engineering from the U.S. Naval Academy. Mr. Earhart was selected to serve as an independent director on our Board due to his experience and knowledge in the field of enterprise management.

Michela A. English. Ms. English has served as a director since June 2005. Ms. English has served as President and CEO of Fight for Children, a non-profit charitable organization focused on providing high quality education and health care services to underserved youth in Washington, D.C. since June 2006. Ms. English has also been a director of Gladstone Commercial since August 2003, Gladstone Capital since June 2002 and Gladstone Land since January 2013. From March 1996 to March 2004, Ms. English held several positions with Discovery Communications, Inc., including president of Discovery Consumer Products, president of Discovery Enterprises Worldwide and president of Discovery.com. From 1991 to 1996, Ms. English served as senior vice president of the National Geographic Society and was a member of the National Geographic Society's Board of Trustees and Education Foundation Board. Prior to 1991, Ms. English served as vice president, corporate planning and business development for Marriott Corporation and as a senior engagement manager for McKinsey & Company. Ms. English currently serves as director of the Educational Testing Service (ETS), as a director of D.C. Preparatory Academy, a director of the D.C. Public Education Fund, a director of the National Women's Health Resource Center, a director of the Society for Science and the Public, a trustee of the Corcoran Gallery of Art and College of Art and Design, and a member of the Virginia Institute of Marine Science Council. Ms. English is an emeritus member of the board of Sweet Briar College. Ms. English holds a Bachelor of Arts in International Affairs from Sweet Briar College and a Master of Public and Private Management degree from Yale University's School of Management. Ms. English was selected to serve as an independent director on our Board due to her greater than twenty years of senior management experience at various corporations and non-profit organizations as well as her past service on our Board since 2005.

John H. Outland. Mr. Outland has served as a director since June 2005. Mr. Outland has also served as a director of Gladstone Commercial, and Gladstone Capital since December 2003 and Gladstone Land since January 2013. From March 2004 to June 2006, he served as vice president of Genworth Financial, Inc. From 2002 to March 2004, Mr. Outland served as a managing director for 1789 Capital Advisors, where he provided market and transaction structure analysis and advice on a consulting basis for multifamily commercial mortgage purchase programs. From 1999 to 2001, Mr. Outland served as vice president of mortgage-backed securities at Financial Guaranty Insurance Company where he was team leader for bond insurance transactions, responsible for sourcing business, coordinating credit, loan files, due diligence and legal review processes, and negotiating structure and business issues. From 1993 to 1999, Mr. Outland was senior vice president for Citicorp Mortgage Securities, Inc., where he securitized non-conforming mortgage products. From 1989 to 1993, Mr. Outland was vice president of real estate and mortgage finance for Nomura Securities International, Inc., where he performed due diligence on and negotiated the financing of commercial mortgage packages in preparation for securitization. Mr. Outland holds an MBA from Harvard Business School and a bachelor's degree in Chemical Engineering from Georgia Institute of Technology. Mr. Outland was selected to serve as an independent director on our Board due to his more than twenty years of experience in the real estate and mortgage industry as well as his past service on our Board since 2005.

Anthony W. Parker. Mr. Parker has served as a director since June 2005. Mr. Parker has also served as a director of Gladstone Commercial since August 2003, Gladstone Capital since August 2001 and Gladstone Land since January 2013. In January 2011, Mr. Parker was elected as treasurer of the Republican National Committee. In 1997 Mr. Parker founded Parker Tide Corp., formerly known as Snell Professional Corp. Parker Tide Corp. is a government contracting company providing mission critical solutions to the Federal government. From 1992 to 1996, Mr. Parker was chairman of, and a 50 percent stockholder of, Capitol Resource Funding, Inc., or CRF, a commercial finance company. Mr. Parker practiced corporate and tax law for over 15 years: from 1980 to 1983, he practiced at Verner, Liipfert, Bernhard & McPherson and from 1983 to 1992, in private practice. From 1973 to 1977, Mr. Parker served as executive assistant to the administrator of the U.S. Small Business Administration. Mr. Parker is currently a director of the Naval Sailing Foundation, a 501(c) organization located in Annapolis, MD. Mr. Parker received his J.D. and Masters in Tax Law from Georgetown Law Center and his undergraduate degree from Harvard College. Mr. Parker was selected to serve as an independent director on our Board due to his expertise and experience in the field of corporate taxation as well as his past service on our Board since 2005. Mr. Parker's knowledge of corporate tax was instrumental in his appointment to the chairmanship of our Audit Committee.

John D. Reilly. Mr. Reilly has served as a director since January 2011. Mr. Reilly has also served as a director of Gladstone Capital and Gladstone Commercial since January 2011 and Gladstone Land since January 2013. From 1987 until the present, Mr. Reilly has served as president of Reilly Investment Corporation, where he provides advisory services to public and private companies, and financing and joint venture development. From March 1976 until April 1984 he served as principal stockholder, president and chief executive officer of Reilly Mortgage Group, Inc., where he provided origination and construction lending and permanent loan placement of commercial real estate loans for institutional investors. In 1988, Mr. Reilly assumed the role of chairman. In 1992, Stonehurst Ventures, L.P., purchased Reilly Mortgage Group, at which time he then assumed the role of executive director until 1994. From 1971 to 1976, Mr. Reilly served as vice president of Walker & Dunlop, Inc. where he provided services for commercial loan originations, joint ventures, HUD programs and secondary marketing. From 1967 to 1969, Mr. Reilly served as a research engineer for Crane Company, and from 1964 to 1967 he served as a supply officer in the United States Navy. Mr. Reilly also has served as a member of the board of directors of Beekman Helix India from 2009 to 2012, and has served as co-chairman of the board of directors for Community Preservation and Development Corporation since 2006. Mr. Reilly also served on the board of Victory Housing from 2005 to 2011 and 2013 to present. He has served as the chairman of the advisory board of the Snite Museum of Art at the University of Notre Dame since 1996. Mr. Reilly has held a D.C. real estate broker license since 1973. Mr. Reilly is a graduate of Mortgage Bankers School I, II and II and Income School I and II. Mr. Reilly holds an MBA from Harvard Business School and a Bachelor of Science in Mathematical Engineering from the University of Notre Dame. Mr. Reilly was selected to serve as an independent director on our Board due to his expertise and experience in the real estate and mortgage industry.

Interested Directors

David Gladstone. Mr. Gladstone is our founder and has served as our chief executive officer and chairman of our Board of Directors since our inception. Mr. Gladstone is also the founder of our Adviser and has served as its chief executive officer and chairman of its board of directors since its inception. Mr. Gladstone also founded and serves as the chief executive officer and chairman of the boards of directors of our affiliates, Gladstone Capital, Gladstone Commercial and Gladstone Land. Prior to founding the Gladstone Companies, Mr. Gladstone served as either chairman or vice chairman of the board of directors of American Capital Strategies, Ltd., a publicly traded leveraged buyout fund and mezzanine debt finance company, from June 1997 to August 2001. From 1974 to February 1997, Mr. Gladstone held various positions, including chairman and chief executive officer, with Allied Capital Corporation (a mezzanine debt lender), Allied Capital Corporation II (a subordinated debt lender), Allied Capital Lending Corporation (a small business lending company), Allied Capital Commercial Corporation (a real estate investment company), and Allied Capital Advisers, Inc., a registered investment adviser that managed the Allied companies. The Allied companies were the largest group of publicly-traded mezzanine debt funds in the United States and were managers of two private venture capital limited partnerships (Allied Venture Partnership and Allied Technology Partnership) and a private REIT (Business Mortgage Investors). From 1992 to 1997, Mr. Gladstone served as a director, president and chief executive officer of Business Mortgage Investors, a privately held mortgage REIT managed by Allied Capital Advisors, which invested in loans to small and medium-sized businesses. Mr. Gladstone is also a past director of Capital Automotive REIT, a real estate investment trust that purchases and net leases real estate to automobile dealerships. Mr. Gladstone served as a director of The Riggs National Corporation (the parent of Riggs Bank) from 1993 to May 1997 and of Riggs Bank from 1991 to 1993. He has served as a trustee of The George Washington University and currently is a trustee emeritus. He is a past member of the Listings and Hearings Committee of the National Association of Securities Dealers, Inc. He is a past member of the advisory committee to the Women's Growth Capital Fund, a venture capital firm that finances women-owned small businesses. Mr. Gladstone was the founder and managing member of The Capital Investors, LLC, a group of angel investors, and is currently a member emeritus. He is also the past chairman and past owner of Coastal Berry Company, LLC, a large strawberry farming operation in California. Mr. Gladstone holds an MBA from the Harvard Business School, an MA from American University and a BA from the University of Virginia. Mr. Gladstone has co-authored two books on financing for small and medium-sized businesses, *Venture Capital Handbook* and *Venture Capital Investing.* Mr. Gladstone was selected to serve as a director on our Board due to the fact that he is our founder and has greater than thirty years of experience in the industry, including his service as our chairman and chief executive since our inception.

Terry Lee Brubaker. Mr. Brubaker has been our chief operating officer and vice chairman since our inception. Mr. Brubaker served as our secretary from our inception through October 2012, when he became assistant secretary. Mr. Brubaker has also served as a director of our Adviser since its inception. He also served as president of our Adviser from its inception through February 2006, when he assumed the duties of vice chairman, chief operating officer and secretary. He has served as chief operating officer, secretary and as a director of Gladstone Capital since its inception. He also served as president of Gladstone Capital from May 2001 through April 2004, when he assumed the duties of vice chairman. Mr. Brubaker has also served chief operating officer, secretary and as a director of Gladstone Commercial since February 2003, and as president from February 2003 through July 2007, when he assumed the duties of vice chairman. Mr. Brubaker has also served as vice chairman and chief operating officer of Gladstone Land since April 2007. Mr. Brubaker stepped down as secretary and became assistant secretary of each of Gladstone Capital, Gladstone Commercial, Gladstone Land and the Adviser in October 2012. In March 1999, Mr. Brubaker founded and, until May 1, 2003, served as chairman of Heads Up Systems, a company providing process industries with leading edge technology. From 1996 to 1999, Mr. Brubaker served as vice president of the paper group for the American Forest & Paper Association. From 1992 to 1995, Mr. Brubaker served as president of Interstate Resources, a pulp and paper company. From 1991 to 1992, Mr. Brubaker served as president of IRI, a radiation measurement equipment manufacturer. From 1981 to 1991, Mr. Brubaker held several management positions at James River Corporation, a forest and paper company, including vice president of strategic planning from 1981 to 1982, group vice president of the Groveton Group and Premium Printing Papers from 1982 to 1990, and vice president of human resources development in 1991. From 1976 to 1981, Mr. Brubaker was strategic planning manager and marketing manager of white papers at Boise Cascade. Previously, Mr. Brubaker was a senior engagement manager at McKinsey & Company from 1972 to 1976. Prior to 1972, Mr. Brubaker was a U.S. Navy fighter pilot. Mr. Brubaker holds an MBA from the Harvard Business School and a BSE from Princeton University. Mr. Brubaker was selected to serve as a director on our Board due to his more than thirty years of experience in various mid-level and senior management positions at several corporations as well as his past service on our Board since our inception.

David A. R. Dullum. Mr. Dullum has served as our president since April 2008 and a director since June 2005. Mr. Dullum has been a senior managing director of our Adviser since February 2008, a director of Gladstone Commercial since August 2003, and a director of Gladstone Capital since August 2001. From 1995 2009, Mr. Dullum had been a partner of New England Partners, a venture capital firm focused on investments in small and medium-sized business in the Mid-Atlantic and New England regions. From 1976 to 1990, Mr. Dullum was a managing general partner of Frontenac Company, a Chicago-based venture capital firm. Mr. Dullum holds an MBA from Stanford Graduate School of Business and a BME from the Georgia Institute of Technology. Mr. Dullum was selected to serve as a director on our Board due to his more than thirty years of experience in various areas of the investment industry as well as his past service on our Board since 2005.

Executive Officers Who Are Not Directors

Information regarding our executive officers who are not directors is as follows (the address for each executive officer is c/o Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102):

Name	Age	Position
David Watson	37	Chief Financial Officer and Treasurer

David Watson. Mr. Watson has served as our chief financial officer since January 2010. Beginning in January 2011, Mr. Watson took on the additional position of chief financial officer of Gladstone Capital, a role that he held until April 2013. Mr. Watson has served as our treasurer and treasurer of Gladstone Capital since January 2012. Prior to joining our company, from July 2007 until January 2010, Mr. Watson was Director of Portfolio Accounting of MCG Capital Corporation. Mr. Watson was employed by Capital Advisory Services, LLC, which subsequently joined Navigant Consulting, Inc., where he held various positions providing finance and accounting consulting services from 2001 to 2007. Prior to that, Mr. Watson was an auditor at Deloitte and Touche. He received a BS from Washington and Lee University, an MBA from the University of Maryland's Smith School of Business, and is a licensed CPA with the Commonwealth of Virginia.

Employment Agreements

We are not a party to any employment agreements. Messrs. Gladstone and Brubaker have entered into employment agreements with our Adviser, whereby they are direct employees of our Adviser.

Director Independence

As required under NASDAQ Global Select Market ("NASDAQ") listing standards, our Board annually determines each director's independence. The NASDAQ listing standards provide that a director of a business development company is considered to be independent if he or she is not an "interested person" of ours, as defined in Section 2(a)(19) of the 1940 Act. Section 2(a)(19) of the 1940 Act defines an "interested person" to include, among other things, any person who has, or within the last two years had, a material business or professional relationship with us or our Adviser.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and us, our senior management and our independent auditors, the Board has affirmatively determined that the following six directors are independent directors within the meaning of the applicable NASDAQ listing standards: Messrs. Adelgren, Earhart, Outland, Parker and Reilly and Ms. English. In making this determination, the Board found that none of these directors had a material or other disqualifying relationship with us. Mr. Gladstone, the chairman of our Board and chief executive officer, Mr. Brubaker, our vice chairman, chief operating officer and assistant secretary, and Mr. Dullum, our president, are not independent directors by virtue of their positions as our officers and their employment by our Adviser.

Corporate Leadership Structure

Since our inception, Mr. Gladstone has served as chairman of our Board and our chief executive officer. Our Board believes that our chief executive officer is best situated to serve as chairman because he is the director most familiar with our business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. In addition, Mr. Adelgren, one of our independent directors, serves as the lead independent director for all meetings of our independent directors held in executive session. The lead independent director has the responsibility of presiding at all executive sessions of our Board, consulting with the chairman and chief executive officer on Board and committee meeting agendas, acting as a liaison between management and the independent directors and facilitating teamwork and communication between the independent directors and management.

Our Board believes the combined role of chairman and chief executive officer, together with a lead independent director, is in the best interest of stockholders because it provides the appropriate balance between strategic development and independent oversight of risk management.

Committees of Our Board of Directors

Executive Committee. Membership of our executive committee is comprised of Messrs. Gladstone, Brubaker and Parker. The executive committee has the authority to exercise all powers of our Board of Directors except for actions that must be taken by the full Board of Directors under the Delaware General Corporation Law, including electing our chairman and president. Mr. Gladstone serves as chairman of the executive committee. The executive committee did not meet during the last fiscal year.

Audit Committee. The members of the audit committee are Messrs. Parker and Reilly and Ms. English, and Messrs. Adelgren, Earhart and Outland serve as alternate members of the committee. Alternate members of the audit committee serve only in the event of an absence of a regular committee member. Mr. Parker serves as chairman of the audit committee. Each member and alternate member of the audit committee is an "independent director" as defined by NASDAQ rules and our own standards, and none of the members or alternate members of the audit committee are "interested persons" as defined in Section 2(a)(19) of the 1940 Act. The Board has unanimously determined that all members and alternate members of the audit committee are financially literate under current NASDAQ rules and that each of Messrs. Parker and Reilly and Ms. English qualify as an "audit committee financial expert" within the meaning of the SEC rules and regulations. The audit committee operates pursuant to a written charter and is primarily responsible for oversight of our financial statements and controls, assessing and ensuring the independence, qualifications and performance of the independent registered public accounting firm, approving the independent registered public accounting firm services and fees and reviewing and approving our annual audited financial statements before issuance, subject to board approval. The audit committee met eight times during the last fiscal year.

Compensation Committee. The members of the compensation committee are Messrs. Adelgren, Earhart and Outland, and Messrs. Parker and Reilly and Ms. English serve as alternate members of the committee. Each member and alternate member of the compensation committee is independent for purposes of the 1940 Act and NASDAQ listing standards. Mr. Outland serves as chairman of the compensation committee. The compensation committee operates pursuant to a written charter and conducts periodic reviews of our Advisory Agreement and our Administration Agreement to evaluate whether the fees paid to our Adviser under the Advisory Agreement, and the fees paid to our Administrator under the Administration Agreement, respectively, are in the best interests of us and our stockholders. The committee considers in such periodic reviews, among other things, whether the performance of our Adviser and our Administrator are reasonable in relation to the nature and quality of services performed and whether the provisions of the Advisory and Administration Agreements are being satisfactorily performed. The compensation committee also reviews with management our Compensation Discussion and Analysis to consider whether to recommend that it be included in proxy statements and other filings. The compensation committee met four times during the last fiscal year.

Ethics, Nominating, and Corporate Governance Committee. The members of the ethics, nominating, and corporate governance committee are Messrs. Adelgren, Earhart and Outland and Messrs. Parker and Reilly and Ms. English serve as alternate members of the committee. Each member and alternate member of the ethics, nominating and corporate governance committee is independent for purposes of the 1940 Act and NASDAQ listing standards. Mr. Adelgren serves as chairman of the ethics, nominating, and corporate governance committee. The ethics, nominating, and corporate governance committee operates pursuant to a written charter and is responsible for selecting, researching, and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles, and overseeing the evaluation of the board and our management. The committee is also responsible for our Code of Business Conduct and Ethics. The committee met four times during the last fiscal year.

Nominations for election to our Board may be made by our Board, or by any stockholder entitled to vote for the election of directors. Although there is not a formal list of qualifications, in discharging its responsibilities to nominate candidates for election to our Board, the ethics, nominating and corporate governance committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements, being over 21 years of age, having business experience, and possessing high moral character. Though we have no formal policy addressing diversity, the ethics, nominating and corporate governance committee and Board believe that diversity is an important attribute of directors and that our Board should be the culmination of an array of backgrounds and experiences and be capable of articulating a variety of viewpoints. Accordingly, the ethics, nominating and corporate governance committee considers in its review of director nominees factors such as values, disciplines, ethics, age, gender, race, culture, expertise, background and skills, all in the context of an assessment of the perceived needs of us and our Board at that point in time in order to maintain a balance of knowledge, experience and capability. In nominating candidates to fill vacancies created by the expiration of the term of a member, the committee's process for identifying and evaluating nominees includes reviewing such directors' overall service to us during their term, including the number of meetings attended, level of participation, quality of performance, and any transactions of such directors with us during their term. In addition, the committee may consider recommendations for nomination from any reasonable source, including officers, directors and stockholders of our company according to the foregoing standards.

Nominations made by stockholders must be made by written notice (setting forth the information required by our bylaws) received by the secretary of our company at least 120 days in advance of an annual meeting or within 10 days of the date on which notice of a special meeting for the election of directors is first given to our stockholders.

Offering Committee. The committee, which is comprised of Messrs. Gladstone (Chairman), Brubaker and Parker, with each of our other current and future directors who meet the independence requirements of NASDAQ serving as alternates for Mr. Parker. The offering committee is responsible for assisting the Board in discharging its responsibilities regarding the offering from time to time of our securities. The offering committee has all powers of the Board that are necessary or appropriate and may lawfully be delegated to the offering committee in connection with an offering of our securities. Our offering committee was formed in January 2013, and operates pursuant to a written charter. The offering committee did not meet during the last fiscal year.

Meetings. During the fiscal year ended March 31, 2013, each Board member attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he or she served.

Oversight of Risk Management

Since September 2007, Jack Dellafiora has served as our chief compliance officer and, in that position, Mr. Dellafiora directly oversees our enterprise risk management function and reports to our chief executive officer, the audit committee and our Board in this capacity. In fulfilling his risk management responsibilities, Mr. Dellafiora works closely with our internal counsel and members of our executive management including, among others, our chief executive officer, chief financial officer, and chief operating officer.

Our Board, in its entirety, plays an active role in overseeing management of our risks. Our Board regularly reviews information regarding our credit, liquidity and operations, as well as the risks associated with each. Each of the following committees of our Board plays a distinct role with respect to overseeing management of our risks:

- Audit Committee: Our audit committee oversees the management of enterprise risks. To this end, our audit committee meets at least annually (i) to discuss our risk management guidelines, policies and exposures and (ii) with our independent registered public accounting firm to review our internal control environment and other risk exposures.

- Compensation Committee: Our compensation committee oversees the management of risks relating to the fees paid to our Adviser and Administrator under the Advisory Agreement and the Administration Agreement, respectively. In fulfillment of this duty, the compensation committee meets at least annually to review these agreements. In addition, the compensation committee reviews the performance of our Adviser to determine whether the compensation paid to our Adviser was reasonable in relation to the nature and quality of services performed and whether the provisions of the Advisory Agreement were being satisfactorily performed.
- Ethics, Nominating and Corporate Governance Committee: Our ethics, nominating and corporate governance committee manages risks associated with the independence of our Board and potential conflicts of interest.

While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the committees each report to our Board on a regular basis to apprise our Board regarding the status of remediation efforts of known risks and of any new risks that may have arisen since the previous report.

Summary of Compensation

Executive Compensation

None of our executive officers receive direct compensation from us. We do not currently have any employees and do not expect to have any employees in the foreseeable future. The services necessary for the operation of our business are provided to us by our officers and the other employees of our Adviser and Administrator, pursuant to the terms of the Advisory and Administration Agreements, respectively. Mr. Gladstone, our chairman and chief executive officer, Mr. Brubaker, our vice chairman, chief operating officer and assistant secretary and Mr. Dullum, our president and a director, are all employees of and compensated directly by our Adviser. Mr. Watson, our chief financial officer and treasurer is an employee of our Administrator. Under the Administration Agreement, we reimburse our Administrator for our allocable portion of Mr. Watson's salary. During our last fiscal year, our allocable portion of Mr. Watson's compensation paid by our Administrator was $50,011.36 of his salary, $18,966.40 of his bonus, and $6,552.30 of the cost of his benefits.

During the fiscal year ended March 31, 2013, we incurred total fees of approximately $6.6 million to our Adviser under the Advisory Agreement and $0.8 million to our Administrator under the Administration Agreement. For a discussion of the terms of our Advisory and Administration Agreement, see "—Certain Transactions."

Compensation of Directors

The following table shows, for the fiscal year ended March 31, 2013, compensation awarded to or paid to our directors who are not executive officers, which we refer to as our non-employee directors, for all services rendered to us during this period. No compensation is paid to directors who are our executive officers for their service on the Board of Directors.

Name	Aggregate Compensation from Fund ($)	Total Compensation from Fund and Fund Complex Paid to Directors ($)(1)
Paul W. Adelgren	$ 35,000	126,000
Terry Earhart	14,000	91,000
Michela A. English	34,000	123,000
Gerard Mead (2)	18,000	22,000
John H. Outland	35,000	126,000
Anthony W. Parker	36,000	133,000
John D. Reilly	34,000	122,000

(1) Includes compensation the director received from Gladstone Capital, as part of our Fund Complex. Also includes compensation the director received from Gladstone Commercial, our affiliate and a real estate investment trust, and Gladstone Land, our affiliate real estate investment company, although not part of our Fund Complex.
(2) Mr. Meads term of office expired at our August 2012 annual meeting of stockholders.

As compensation for serving on our Board, each of our independent directors receives an annual fee of $20,000, an additional $1,000 for each Board meeting attended, and an additional $1,000 for each committee meeting attended if such committee meeting takes place on a day other than when the full Board meets. In addition, the chairperson of the audit committee receives an annual fee of $3,000, and the chairpersons of each of the compensation and ethics, nominating and corporate governance committees receive annual fees of $1,000 for their additional services in these capacities. During the fiscal year ended March 31, 2013, the total cash compensation paid to non-employee directors was $206,000. We also reimburse our directors for their reasonable out-of-pocket expenses incurred in attending Board and committee meetings.

We do not pay any compensation to directors who also serve as our officers, or as officers or directors of our Adviser or our Administrator, in consideration for their service to us. Our Board may change the compensation of our independent directors in its discretion. None of our independent directors received any compensation from us during the fiscal year ended March 31, 2013 other than for Board or committee service and meeting fees.

Certain Transactions

Investment Advisory and Management Agreement

Management Services

Our Adviser is a Delaware corporation registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Subject to the overall supervision of our Board, our Adviser provides investment advisory and management services to us. Under the terms of our Advisory Agreement, our Adviser has investment discretion with respect to our capital and, in that regard:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio, and the manner of implementing such changes;
- identifies, evaluates, and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make; and
- makes available on our behalf, and provides if requested, managerial assistance to our portfolio companies.

Our Adviser's services under the Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities, provided that its services to us are not impaired.

Portfolio Management

Our Adviser takes a team approach to portfolio management; however, the following persons are primarily responsible for the day-to-day management of our portfolio and comprise our Adviser's investment committee: David Gladstone and Terry Lee Brubaker, whom we refer to collectively as the Portfolio Managers. Our investment decisions are made on our behalf by the investment committee of our Adviser by unanimous decision.

Mr. Gladstone has served as the chairman and the chief executive officer of the Adviser, since he founded the Adviser in 2002, along with Mr. Brubaker. Mr. Brubaker has served as the vice chairman, chief operating officer of the Adviser since 2002. For more complete biographical information on Messrs. Gladstone and Brubaker, please see "Management—Interested Directors."

The Portfolio Managers are all officers or directors, or both, of our Adviser and our Administrator. David Gladstone is the controlling stockholder of our Adviser, which is the sole member of our Administrator. Although we believe that the terms of the Advisory Agreement are no less favorable to us than those that could be obtained from unaffiliated third parties in arms' length transactions, our Adviser and its officers and its directors have a material interest in the terms of this agreement. Based on an analysis of publicly available information, the Board believes that the terms and the fees payable under the Advisory Agreement are similar to those of the agreements between other business development companies that do not maintain equity incentive plans and their external investment advisers.

Our Adviser provides investment advisory services to other investment funds in the Gladstone Companies. As such, the Portfolio Managers also are primarily responsible for the day-to-day management of the portfolios of other pooled investment vehicles in the Gladstone Companies that are managed by the Adviser. As of the date hereof, Messrs. Gladstone and Brubaker are primarily responsible for the day-to-day management of the portfolios of Gladstone Capital, another publicly-traded business development company, Gladstone Commercial, a publicly-traded real estate investment trust, and Gladstone Land, a publicly-traded real estate investment company. As of March 31, 2013, the Adviser had an aggregate of approximately $1.3 billion in total assets under management.

Possible Conflicts of Interest

Our Portfolio Managers provide investment advisory services and serve as officers, directors or principals of certain of the other Gladstone Companies, which operate in the same or a related line of business as we do. Accordingly, they have corresponding obligations to investors in those entities. For example, Mr. Gladstone, our chairman and chief executive officer, is chairman of the board and chief executive officer of the Adviser, Gladstone Capital, Gladstone Commercial, and Gladstone Land with management

responsibilities for the other affiliated Gladstone Companies, other than Gladstone Securities, where he sits on the board of managers as an outside non-employee manager. In addition, Mr. Brubaker, our vice chairman, chief operating officer and assistant secretary, is vice chairman, chief operating officer and assistant secretary of the Adviser, Gladstone Capital, Gladstone Commercial and Gladstone Land. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the 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 the Adviser may face conflicts in the allocation of investment opportunities to other entities managed by the Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser. Our Board of Directors approved a revision of our investment objectives and strategies that became effective on January 1, 2013, which may enhance the potential for conflicts in the allocation of investment opportunities to us and other entities managed by the 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, the prior approval of our Board of Directors. As of March 31, 2013, 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 in July 2012, under certain circumstances, we may co-invest with Gladstone Capital and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund) or any combination of the foregoing subject to the conditions included therein.

Certain of our officers, who are also officers of the 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 the Adviser and will reimburse the 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 the 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 provide other services to such portfolio companies. Although, neither we nor the Adviser currently receives fees in connection with managerial assistance, the Adviser and Gladstone Securities have, at various times, provided other services to certain of our portfolio companies and received fees for these other services.

Portfolio Manager Compensation

The Portfolio Managers receive compensation from our Adviser in the form of a base salary plus a bonus. Each of the Portfolio Managers’ base salaries is determined by a review of salary surveys for persons with comparable experience who are serving in comparable capacities in the industry. Each Portfolio Manager’s base salary is set and reviewed yearly. Like all employees of the Adviser, a Portfolio Manager’s bonus is tied to the performance of the Adviser and the entities that it advises. A Portfolio Manager’s bonus increases or decreases when the Adviser’s income increases or decreases. The Adviser’s income, in turn, is directly tied to the management and performance fees earned in managing its investment funds, including Gladstone Investment. Pursuant to the investment advisory and management agreement between the Adviser and the Company, the Adviser receives an incentive fee based on net investment income in excess of the hurdle rates and capital gains as set out in the Advisory Agreement.

All compensation of the Portfolio Managers from the Adviser takes the form of cash. Each of the Portfolio Managers may elect to defer some or all of his bonus through the Adviser's deferred compensation plan. The Portfolio Managers are also portfolio managers for other members of the Gladstone Companies, two of which (Gladstone Capital and Gladstone Commercial) previously had stock option plans through which the Portfolio Managers previously received options to purchase stock of those entities. However, Gladstone Capital terminated its stock option plan effective September 30, 2006 and Gladstone Commercial terminated its stock option plan effective December 31, 2006. These plan terminations were effected in connection with the implementation of new advisory agreements between each of Gladstone Capital and Gladstone Commercial with our Adviser, which have been approved by their respective stockholders. All outstanding, unexercised options under the Gladstone Capital plan were terminated effective September 30, 2006, and all outstanding, unexercised options under the Gladstone Commercial plan were terminated effective December 31, 2006.

Investment Advisory and Management Agreement and Administration Agreement

We are externally managed pursuant to contractual arrangements with our Adviser, under which our Adviser has directly employed our personnel and paid our payroll, benefits, and general expenses directly. The management services and fees in effect under the Advisory Agreement are described below. In addition, we pay our direct expenses including, but not limited to, directors' fees, legal and accounting fees and stockholder related expenses under the Advisory Agreement.

The principal executive office of each of the Adviser and the Administrator is located at 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102.

Fees under the Investment Advisory and Management Agreement

In accordance with the Advisory Agreement, we pay our Adviser fees, as compensation for its services, consisting of a base management fee and an incentive fee.

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2%. Through December 31, 2006, it was computed on the basis of the average value of our gross invested assets at the end of the two most recently completed quarters, which were total assets less the cash proceeds and cash and cash equivalents from the proceeds of our initial public offering that were not invested in debt and equity securities of portfolio companies. Beginning on January 1, 2007, the base management fee is computed on the basis of the average value of our gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings.

Since January 9, 2007, our Board of Directors has accepted from our Adviser unconditional and irrevocable voluntary waivers on a quarterly basis to reduce the annual 2% base management fee on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings under our credit facility were used to purchase such syndicated loan participations. These waivers were applied through March 31, 2013 and any waived fees may not be recouped by our Adviser in the future. When our Adviser receives fees from our portfolio companies, 50% of certain of these fees are credited against the base management fee that we would otherwise be required to pay to our Adviser.

In addition, our Adviser services the loans held by Business Investment, in return for which our Adviser receives a 2% annual fee based on the monthly aggregate balance of loans held by Business Investment. Since we own these loans, all loan servicing fees paid to our Adviser are treated as reductions against the 2% base management fee. Overall, the base management fee due to our Adviser cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

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 our Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds the hurdle rate. We pay our 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% 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 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 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.

During the fiscal years ended March 31, 2013, 2012 and 2011, we incurred total fees of approximately $6.7 million, $3.2 million and $6.2 million, respectively, to our Adviser under the Advisory Agreement.

Duration and Termination

Unless terminated earlier as described below, the Advisory Agreement will remain in effect from year to year if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. On July 10, 2012, we renewed the Advisory Agreement through August 31, 2013. The Advisory Agreement will automatically terminate in the event of its assignment. The Advisory Agreement may be terminated by either party without penalty upon 60 days' written notice to the other. See "Risk Factors—We are dependent upon our key management personnel and the key management personnel of our Adviser, particularly David Gladstone, Terry Lee Brubaker and David Dullum, and on the continued operations of our Adviser, for our future success."

Administration Agreement

Pursuant to the Administration Agreement, our Administrator furnishes us with clerical, bookkeeping and record keeping services and our Administrator also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, our Administrator assists us in determining and publishing our NAV, oversees the preparation and filing of our tax returns, the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the Administration Agreement are generally equal to an amount based upon our allocable portion of our Administrator's overhead in performing its obligations under the Administration Agreement, including rent and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer, controller, treasurer, internal counsel and their respective staffs. On July 10, 2012, we renewed the Administration Agreement through August 31, 2013.

During the fiscal years ended March 31, 2013, 2012 and 2011, we incurred total fees of approximately $0.8 million, $0.7 million and $0.8 million, respectively, to our Administrator under the Administration Agreement.

Based on an analysis of publicly available information, the Board believes that the terms and the fees payable under the Administration Agreement are similar to those of the agreements between other business development companies that do not maintain equity incentive plans and their external investment advisers.

David Gladstone and Terry Lee Brubaker are both officers and directors, of our Adviser and our Administrator. David Gladstone is the controlling stockholder of our Adviser. Although we believe that the terms of the Administration Agreement are no less favorable to us than those that could be obtained from unaffiliated third parties in arms' length transactions, our Adviser and its officers and its directors have a material interest in the terms of this agreement.

Loan Servicing Agreement

Our Adviser services our loan portfolio pursuant to a loan servicing agreement with our wholly-owned subsidiary, Business Investment, in return for a 2% annual fee, based on the monthly aggregate outstanding loan balance of the loans pledged under our credit facility. Effective in April 2006, our Adviser's board of directors voted to reduce the portion of the 2% annual fee to 0.5% for

senior syndicated loans. Loan servicing fees paid to our Adviser under this agreement directly reduce the amount of fees payable under the Advisory Agreement. Loan servicing fees of $3.7 million, $3.0 million and $2.7 million were incurred for the fiscal years ended March 31, 2013, 2012 and 2011, respectively, all of which were directly credited against the amount of the base management fee due to our Adviser under the Advisory Agreement.

Indemnification

The Advisory Agreement and the Administration Agreement each provide that, absent willful misfeasance, bad faith, or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, our Adviser and our Administrator, as applicable, and their respective officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with them are entitled to indemnification from us for any damages, liabilities, costs, and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of our Adviser's services under the Advisory Agreement or otherwise as an investment adviser of us and from the rendering of our Administrator's services under the Administration Agreement or otherwise as an administrator for us, as applicable.

In our certificate of incorporation and bylaws, we have also agreed to indemnify certain officers and directors by providing, among other things, that we will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party by reason of his or her position as our director, officer or other agent, to the fullest extent permitted under Delaware law and our bylaws. Notwithstanding the foregoing, the indemnification provisions shall not protect any officer or director from liability to us or our stockholders as a result of any action that would constitute willful misfeasance, bad faith or gross negligence in the performance of such officer's or director's duties, or reckless disregard of his or her obligations and duties.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets forth, as of May 24, 2013 (unless otherwise indicated), the beneficial ownership of each current director, each of the executive officers, the executive officers and directors as a group and each stockholder known to our management to own beneficially more than 5% of the outstanding shares of common stock. None of our executive officers or directors own shares of our Series A Term Preferred Stock and, to our knowledge, no person beneficially owns more than 5% of our Series A Term Preferred Stock. Except as otherwise noted, the address of the individuals below is c/o Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 200, McLean, Virginia, 22102.

Beneficial Ownership of Common Stock(1)(2)

Name and Address	Number of Shares	Percent of Total
Directors:		
Paul Adelgren	4,097	*
Terry Lee Brubaker(3)	37,040	*
David A.R. Dullum(4)	36,065	*
Terry Earhart	0	*
Michela A. English	1,360	*
David Gladstone	456,564	1.7%
John H. Outland	2,291	*
Anthony W. Parker	8,357	*
John D. Reilly	4,000	*
Named Executive Officers (that are not also Directors):		
David Watson	6,480	*
All executive officers and directors as a group (10 persons)	556,254	2.1%
5% Stockholders:		
Burgundy Asset Management Ltd.(5) 181 Bay Street, Suite 4510 Bay Wellington Tower Toronto, Ontario M5J 2T3	2,640,553	10.0%

* Less than 1%

(1) This table is based upon information supplied by officers, directors and principal stockholders. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and sole investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 26,475,958 shares outstanding on May 24, 2013.

(2) Ownership calculated in accordance with Rule 13d-3 of the Exchange Act.

(3) Includes 4,281 shares held by Mr. Brubaker's spouse.

(4) Includes 1,349 shares held by Mr. Dullum's spouse.

(5) This information has been obtained from a Schedule 13G filed by Burgundy Asset Management Ltd., or Burgundy, on February 11, 2013, according to which Burgundy has sole voting power with respect to 1,723,730 shares and sole investment power with respect to all 2,640,553 shares reported as beneficially owned.

The following table sets forth, as of May 24, 2013, the dollar range of equity securities that are beneficially owned by each of our directors in the Company and in Gladstone Capital, our affiliate and a business development company, which is also externally managed by our Adviser.

Name	Dollar Range of Equity Securities of the Company Owned by Directors(1)(2)	Aggregate Dollar Range of Equity Securities in All Funds Overseen or to be Overseen by Director or Nominee in Family of Investment Companies(1)(2)
Interested Directors:		
David Gladstone	Over $100,000	Over $100,000
Terry Lee Brubaker	Over $100,000	Over $100,000
David A.R. Dullum	Over $100,000	Over $100,000
Independent Directors:		
Paul W. Adelgren	$10,001-$50,000	Over $100,000
Terry Earhart	None	$10,001-$50,000
Michela A. English	$1-$10,000	$50,001-$100,000
John H. Outland	$10,001-$50,000	$50,001-$100,000
Anthony Parker	$50,001-$100,000	Over $100,000
John D. Reilly	$10,001-$50,000	Over $100,000

(1) Ownership is calculated in accordance with Rule 16-1(a)(2) of the Exchange Act.

(2) The dollar range of equity securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Select Market as of May 24, 2013, times the number of shares of the respective class so beneficially owned and aggregated accordingly.

Gladstone Commercial Corporation, our affiliate and a real estate investment trust, is also managed by our Adviser. The following table sets forth certain information regarding the ownership of the common and preferred stock of Gladstone Commercial as of May 24, 2013, by each independent director. None of our independent directors owns any class of stock of Gladstone Commercial Corporation, other than those classes listed below and none of our independent directors owns more than 1% of any respective class.

Name	Number of Common Shares	Number of 7.125% Series C Cumulative Term Preferred Stock	Number of 7.5% Series B Cumulative Redeemable Preferred Stock	Number of 7.75% Series A Cumulative Redeemable Preferred Stock	Value of Securities($)(1)
Independent Directors:					
Paul W. Adelgren	4,345	0	0	0	$ 88,904
Terry Earhart	0	0	0	0	$ 0
Michela A. English	2,042	0	0	0	$ 41,779
John H. Outland	1,528	0	0	0	$ 31,263
Anthony Parker	19,810	0	0	0	$ 405,313
John D. Reilly	2,000	14,600(2)	0	0	$ 439,500

(1) Ownership calculated in accordance with Rule 16-1(a)(2) of the Exchange Act. The value of securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Select Market as of May 24, 2013, times the number of shares of the respective class so beneficially owned and aggregated accordingly.

(2) Includes 2,700 shares held by Mr. Reilly's daughter.

Gladstone Land Corporation, our affiliate and a real estate investment company, is also managed by our Adviser. The following table sets forth certain information regarding the ownership of the common stock of Gladstone Land as of May 24, 2013, by each independent incumbent director and nominee.

Name	Number of Common Shares	Percent of Class	Value of Securities($)(1)
Independent Directors:			
Paul W. Adelgren	3,015	*	$ 51,194
Terry Earhart	2,000	*	$ 33,960
Michela A. English	1,008	*	$ 17,116
John H. Outland	1,500	*	$ 25,470
Anthony Parker	4,700	*	$ 79,806
John D. Reilly	1,000	*	$ 16,980

* Less than 1%

(1) Ownership calculated in accordance with Rule 16a-1(a)(2) of the Exchange Act. The value of securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Market as of May 24, 2013, times the number of shares of the respective class so beneficially owned and aggregated accordingly.

DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our common stockholders upon their election as provided below. As a result, if our Board of Directors authorizes, and we declare, a cash dividend, then our common stockholders who have "opted in" to our dividend reinvestment plan will not receive cash dividends but, instead, such cash dividends will automatically be reinvested in additional shares of our common stock.

Pursuant to our dividend reinvestment plan, if your shares of our common stock are registered in your own name you can have all distributions reinvested in additional shares of our common stock by Computershare Shareholder Services LLC, the plan agent, if you enroll in the dividend reinvestment plan by delivering an authorization form to the plan agent prior to the corresponding dividend declaration date. The plan agent will effect purchases of our common stock under the dividend reinvestment plan in the open market.

If you do not elect to participate in the dividend reinvestment plan, you will receive all distributions in cash paid by check mailed directly to you (or if you hold your shares in street or other nominee name, then to your nominee) as of the relevant record date, by the plan agent, as our dividend disbursing agent. If your shares are held in the name of a broker or nominee or if you are transferring such an account to a new broker or nominee, you should contact the broker or nominee to determine whether and how they may participate in the dividend reinvestment plan.

The plan agent serves as agent for the holders of our common stock in administering the dividend reinvestment plan. After we declare a dividend, the plan agent will, as agent for the participants, receive the cash payment and use it to buy common stock on NASDAQ or elsewhere for the participants' accounts. The price of the shares will be the average market price at which such shares were purchased by the plan agent.

Participants in the dividend reinvestment plan may withdraw from the dividend reinvestment plan upon written notice to the plan agent. Such withdrawal will be effective immediately if received not less than ten days prior to a dividend record date; otherwise, it will be effective the day after the related dividend distribution date. When a participant withdraws from the dividend reinvestment plan or upon termination of the dividend reinvestment plan as provided below, certificates for whole shares of common stock credited to his or her account under the dividend reinvestment plan will be issued and a cash payment will be made for any fractional share of common stock credited to such account.

The plan agent will maintain each participant's account in the dividend reinvestment plan and will furnish monthly written confirmations of all transactions in such account, including information needed by the stockholder for personal and tax records. Common stock in the account of each dividend reinvestment plan participant will be held by the plan agent in non-certificated form in the name of such participant. Proxy materials relating to our stockholders' meetings will include those shares purchased as well as shares held pursuant to the dividend reinvestment plan.

In the case of participants who beneficially own shares of our common stock that are held in the name of banks, brokers or other nominees, the plan agent will administer the dividend reinvestment plan on the basis of the number of shares of common stock certified from time to time by the record holders as the amount held for the account of such beneficial owners. Shares of our common stock may be purchased by the plan agent through any of the underwriters, acting as broker or dealer.

We pay the plan agent's fees for the handling or reinvestment of dividends and other distributions. Each participant in the dividend reinvestment plan pays a pro rata share of brokerage commissions incurred with respect to the plan agent's open market purchases in connection with the reinvestment of distributions. There are no other charges to participants for reinvesting distributions.

Distributions are taxable whether paid in cash or reinvested in additional shares, and the reinvestment of distributions pursuant to the dividend reinvestment plan will not relieve participants of any U.S. federal income tax or state income tax that may be payable or required to be withheld on such distributions. For more information regarding taxes that our stockholders may be required to pay, see "Material U.S. Federal Income Tax Considerations."

We reserve the right to amend or terminate the dividend reinvestment plan as applied to any distribution paid subsequent to written notice of the change sent to participants in the dividend reinvestment plan at least 90 days before the record date for the distribution. The dividend reinvestment plan also may be amended or terminated by the plan agent with our prior written consent, on at least 90 days' written notice to participants in the dividend reinvestment plan. All correspondence concerning the reinvestment plan should be directed to the plan agent, Computershare Shareholder Services LLC, by mail at 480 Washington Boulevard, Jersey City, NJ 07310 or by phone at 866-296-3711.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

RIC Status

To maintain the qualification for treatment as a RIC under Subchapter M of the Code, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses. We refer to this as the annual distribution requirement. We must also meet several additional requirements, including:

- **BDC Status.** At all times during the taxable year, we must maintain our status as a BDC.
- **Income source requirements.** At least 90% of our gross income for each taxable year must be from dividends, interest, payments with respect to securities loans, gains from sales or other dispositions of securities or other income derived with respect to our business of investing in securities, and net income derived from interests in qualified, publicly-traded partnerships.

- **Asset diversification requirements.** As of the close of each quarter of our taxable year: (1) at least 50% of the value of our assets must consist of cash, cash items, U.S. government securities, the securities of other regulated investment companies and other securities to the extent that (a) we do not hold more than 10% of the outstanding voting securities of an issuer of such other securities and (b) such other securities of any one issuer do not represent more than 5% of our total assets, and (2) no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities or the securities of other regulated investment companies), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses or in the securities of one or more qualified, publicly-traded partnerships.

In the first quarter of the fiscal year ended March 31, 2010, we sold 29 senior syndicated loans (collectively the, "Syndicated Loan Sales") that were held in our portfolio of investments at March 31, 2009, to various investors in the syndicated loan market to repay amounts outstanding under our prior line of credit with Deutsche Bank AG (the "Prior Credit Facility"), which matured in April 2009 and was not extended by Deutsche Bank AG. Such sales changed our asset composition in a manner that has affected our ability to satisfy continuously the 50% threshold requirement of the asset diversification requirements applicable to RICs under the Code, which we refer to as the 50% threshold.

Failure to meet the 50% threshold alone may not result in our loss of RIC status. In circumstances where the failure to meet the quarterly 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 asset diversification test and, therefore, maintain our RIC status, as long as we have not made any new investments, including additional investments in our portfolio companies (such as advances under outstanding lines of credit), since the time that we fell below the 50% threshold. As of March 31, 2013, similar to other quarterly measurement dates subsequent to the Syndicated Loan Sales, we satisfied the 50% threshold through the purchase of short-term qualified securities, which was funded primarily through a short-term loan agreement. Subsequent to the March 31, 2013, measurement date, the short-term qualified securities matured, and we repaid the short-term loan, at which time we again fell below the 50% threshold. As of the date of this filing, we remain below the 50% threshold. Thus, while we currently qualify as a RIC despite our current inability to meet the 50% threshold on a continuous basis and our potential inability to do so on each quarterly measurement date in the future, our RIC status will be threatened if we make a new or additional investment before regaining consistent compliance with the 50% threshold. If we make such a new or additional investment and fail to regain compliance with the 50% threshold prior to 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 of the asset diversification test to avoid our loss of RIC status. Potential cures for failure of the asset diversification test include raising additional equity or debt capital, and changing the composition of our assets, which could include full or partial divestitures of investments, such that we would once again meet or exceed the 50% threshold. In addition, a RIC may be able to cure a failure to meet the asset diversification requirements (i) in certain circumstances by disclosing the assets that cause the RIC to fail to satisfy the diversification test and disposing of those assets within the time provided by law, or (ii) in other circumstances by paying an additional corporate-level tax and by disposing of assets within the time provided by law.

Until the composition of our assets is above the required 50% threshold, we will continue to seek to deploy similar purchases of qualified securities using short-term loans that would allow us to satisfy the 50% threshold on each quarterly measurement date, 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 regularly meet or exceed the 50% threshold. 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.

Failure to Qualify as a RIC. If we are unable to qualify for treatment as a RIC and unable to cure a failure to qualify, we will be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make such distributions. Distributions would be taxable to our stockholders as dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and then as a gain realized from the sale or exchange of property. If we fail to meet the RIC requirements for more than two consecutive years and then seek to requalify as a RIC, we would be required to recognize a gain to the extent of any unrealized appreciation on our assets recognized during the succeeding 10-year period unless we make a special election to pay corporate-level tax on any such unrealized appreciation. Absent such special election, any gain we recognized would be deemed distributed to our stockholders as a taxable distribution.

Qualification as a RIC. If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and gains we distribute to stockholders. We would, however, be subject to a 4% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, 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. For the calendar years ended December 31, 2012 and 2011, we incurred $31 and $30, respectively, in excise taxes.

The excise tax would apply only to the amount by which the required distributions exceed the amount of income we distribute, actually or on a deemed basis, to stockholders. We will be subject to regular corporate income tax, currently at rates up to 35%, on any undistributed income, including both ordinary income and capital gains. We intend to retain some or all of our long-term capital gains, but to treat the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each stockholder will be required to include its share of the deemed distribution in income as if it had been actually distributed to the stockholder and the stockholder will be entitled to claim a credit or refund equal to its allocable share of the tax we pay on the retained long-term capital gain. The amount of the deemed distribution net of such tax will be added to the stockholder's cost basis for its common stock. Since we expect to pay tax on any retained long-term capital gains at our regular corporate capital gain tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid will exceed the tax they owe on the capital gain dividend and such excess may be claimed as a credit or refund against the stockholder's other tax obligations. A stockholder that is not subject to U.S. federal income tax or tax on long-term capital gains would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to the stockholders after the close of the relevant tax year. We will also be subject to alternative minimum tax, but any tax preference items would be apportioned between us and our stockholders in the same proportion that distributions, other than capital gain dividends, paid to each stockholder bear to our taxable income determined without regard to the dividends paid deduction.

If we acquire debt obligations that were originally issued at a discount, which would generally include loans we make that are accompanied by warrants, that bear interest at rates that are not either fixed rates or certain qualified variable rates or that are not unconditionally payable at least annually over the life of the obligation, we will be required to include in taxable income each year a portion of the original issue discount ("OID") that accrues over the life of the obligation. Such OID will be included in our investment company taxable income even though we receive no cash corresponding to such discount amount. As a result, we may be required to make additional distributions corresponding to such OID amounts in order to satisfy the annual distribution requirement and to continue to qualify as a RIC and to avoid the imposition of federal income tax and the 4% excise tax. In this event, we may be required to sell temporary investments or other assets to meet the RIC distribution requirements. Through March 31, 2013, we incurred no OID income.

Taxation of Our U.S. Stockholders

Distributions. For any period during which we qualify as a RIC for federal income tax purposes, distributions to our stockholders attributable to our investment company taxable income generally will be taxable as ordinary income to stockholders to the extent of our current or accumulated earnings and profits. We first allocate our earnings and profits to our preferred stockholders and then to our common stockholders based on priority in our capital structure. Any distributions in excess of our earnings and profits will first be treated as a return of capital to the extent of the stockholder's adjusted basis in his or her shares of our stock and thereafter as gain from the sale of shares of our stock. Distributions of our long-term capital gains, reported by us as such, will be taxable to stockholders as long-term capital gains regardless of the stockholder's holding period for its shares of our stock and whether the distributions are paid in cash or invested in additional shares of our stock. Corporate stockholders are generally eligible for the 70% dividends received deduction with respect to ordinary income, but not for capital gains dividends, to the extent such amount reported by us does not exceed the dividends received by us from domestic corporations. Any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it were paid by us and received by the stockholders on December 31 of the previous year. In addition, we may elect to relate a dividend back to the prior taxable year if we (1) declare such dividend prior to the later of the due date for filing our return for that taxable year or the 15th day of the ninth month following the close of the taxable year, (2) make the election in that return, and (3) distribute the amount in the 12-month period following the close of the taxable year but not later than the first regular dividend payment of the same type following the declaration. Any such election will not alter the general rule that a stockholder will be treated as receiving a dividend in the taxable year in which the distribution is made, subject to the October, November, December rule described above.

If a common stockholder participates in our dividend reinvestment plan, any distributions reinvested under the plan will be taxable to the common stockholder to the same extent, and with the same character, as if the common stockholder had received the distribution in cash. The common stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the common stockholder's account. We do not have a dividend reinvestment plan for our preferred stock shareholders.

Sale of Our Shares. A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain

deemed received, with respect to such shares. Under the tax laws in effect as of the date of this filing, individual U.S. stockholders are subject to a maximum federal income tax rate of 20% on their net capital gain (*i.e.* the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the same rates applied to their ordinary income (currently up to a maximum of 35%). Capital losses are subject to limitations on use for both corporate and non-corporate stockholders.

Backup Withholding. We may be required to withhold federal income tax, or backup withholding, currently at a rate of 28%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the Internal Revenue Service ("IRS") notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is generally his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability, provided that proper information is provided to the IRS.

REGULATION AS A BUSINESS DEVELOPMENT COMPANY

We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under Section 54 of the 1940 Act. As such, we are subject to regulation under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than "interested persons," as defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding "voting securities," as defined in the 1940 Act.

We intend to conduct our business so as to retain our status as a BDC. A BDC may use capital provided by public stockholders and from other sources to invest in long-term private investments in businesses. A BDC provides stockholders the ability to retain the liquidity of a publicly-traded stock while sharing in the possible benefits, if any, of investing in primarily privately owned companies. In general, a BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in qualifying assets, as described in Section 55(a) (1) – (3) of the 1940 Act.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets, other than certain interests in furniture, equipment, real estate, or leasehold improvements ("operating assets") represent at least 70% of the company's total assets, exclusive of operating assets. The types of qualifying assets in which we may invest under the 1940 Act include, but are not limited to, the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer is an eligible portfolio company. An eligible portfolio company is generally defined in the 1940 Act as any issuer which:

- (a) is organized under the laws of, and has its principal place of business in, any State or States in the United States;
- (b) is not an investment company (other than a small business investment company wholly owned by the BDC or otherwise excluded from the definition of investment company); and
- (c) satisfies one of the following:
  - (i) it does not have any class of securities with respect to which a broker or dealer may extend margin credit;
  - (ii) it is controlled by the BDC and for which an affiliate of the BDC serves as a director;
  - (iii) it has total assets of not more than $4 million and capital and surplus of not less than $2 million;
  - (iv) it does not have any class of securities listed on a national securities exchange; or
  - (v) it has a class of securities listed on a national securities exchange, with an aggregate market value of outstanding voting and non-voting equity of less than $250 million.

(2) Securities received in exchange for or distributed on or with respect to securities described in (1) above, or pursuant to the exercise of options, warrants or rights relating to such securities.

(3) Cash, cash items, government securities or high quality debt securities maturing in one year or less from the time of investment.

Asset Coverage

Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that is stock. In either case, we may only issue such Senior Securities if such class of Senior Securities, after such issuance, has an asset coverage, as defined in Section 18(h) of the 1940 Act, of at least 200%.

In addition, our ability to pay dividends or distributions (other than dividends payable in our stock) to holders of any class of our capital stock would be restricted if our senior securities representing indebtedness fail to have an asset coverage of at least 200% (measured at the time of declaration of such distribution and accounting for such distribution). The 1940 Act does not apply this limitation to privately arranged debt that is not intended to be publicly distributed, unless this limitation is specifically negotiated by the lender. In addition, our ability to pay dividends or distributions (other than dividends payable in our common stock) to our common stockholders would be restricted if our senior securities that are stock fail to have an asset coverage of at least 200% (measured at the time of declaration of such distribution and accounting for such distribution). If the value of our assets declines, we might be unable to satisfy these asset coverage requirements. To satisfy the 200% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to our stockholders. If we are unable to regain asset coverage through these methods, we may be forced to suspend the payment of such dividends.

Significant Managerial Assistance

A BDC generally must make available significant managerial assistance to issuers of its portfolio securities that the BDC counts as a qualifying asset for the 70% test described above. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. Significant managerial assistance also may include the exercise of a controlling influence over the management and policies of the portfolio company. However, with respect to certain, but not all such securities, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance, or the BDC may exercise such control jointly.

Investment Policies

We seek to achieve a high level of current income and capital gains through investments in debt securities and preferred and common stock that we acquired in connection with buyout and other recapitalizations. The following investment policies, along with these investment objectives, may not be changed without the approval of our Board of Directors:

- We will at all times conduct our business so as to retain our status as a BDC. In order to retain that status, we must be operated for the purpose of investing in certain categories of qualifying assets. In addition, we may not acquire any assets (other than non-investment assets necessary and appropriate to our operations as a BDC or qualifying assets) if, after giving effect to such acquisition, the value of our "qualifying assets" is less than 70% of the value of our total assets. We anticipate that the securities we seek to acquire, as well as temporary investments, will generally be qualifying assets.
- We will at all times endeavor to conduct our business so as to retain our status as a RIC under the Code. To do so, we must meet income source, asset diversification and annual distribution requirements. We may issue senior securities, such as debt or preferred stock, to the extent permitted by the 1940 Act for the purpose of making investments, to fund share repurchases, or for temporary emergency or other purposes.

With the exception of our policy to conduct our business as a BDC, these policies are not fundamental and may be changed without stockholder approval.

Code of Ethics

We, our Adviser and our Administrator have each adopted a code of ethics and business conduct applicable to our officers, directors and all employees of our Adviser and our Administrator that complies with the guidelines set forth in Item 406 of Regulation S-K of the Securities Act. As required by the 1940 Act, this code establishes procedures for personal investments, restricts certain transactions by our personnel and requires the reporting of certain transactions and holdings by our personnel. A copy of this code is available for review, free of charge, at our website at www.GladstoneInvestment.com. We intend to provide any required disclosure of any amendments to or waivers of the provisions of this code by posting information regarding any such amendment or waiver to our website within four days of its effectiveness. A copy of this code is available for review, free of charge, at our website at www.GladstoneInvestment.com.

Compliance Policies and Procedures

We and our Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws, and our Board of Directors is required to review these compliance policies and procedures annually to assess their adequacy and the effectiveness of their implementation. We have designated a chief compliance officer, John Dellafiora, Jr., who also serves as chief compliance officer for our Adviser.

Co-Investment

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 the Adviser if it controls the fund) or any combination of the foregoing.

DESCRIPTION OF OUR SECURITIES

Our authorized capital stock consists of 100,000,000 shares of common stock, par value $0.001 per share, and 10,000,000 shares of preferred stock, par value $0.001 per share (our common stock and our preferred stock are collectively referred to as Capital Stock).

The following description is a summary based on relevant provisions of our certificate of incorporation and bylaws and the Delaware General Corporation Law. This summary does not purport to be complete and is subject to, and qualified in its entirety by the provisions of our certificate of incorporation and bylaws, as amended, and applicable provisions of the Delaware General Corporation Law.

Common Stock

As of the date hereof, we have 26,475,958 share of common stock outstanding. All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of Gladstone Investment, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director. Our common stock is listed on NASDAQ under the ticker symbol “GAIN.”

Preferred Stock

Our certificate of incorporation gives the Board of Directors the authority, without further action by stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications and restrictions granted to or imposed upon such preferred stock, including dividend rights, conversion rights, voting rights, rights and terms of redemption, and liquidation preference, any or all of which may be greater than the rights of the common stock. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. The issuance of preferred stock could adversely affect the voting power of holders of common stock and reduce the likelihood that such holders will receive dividend payments and payments upon liquidation, and could also decrease the market price of our common stock.

You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other Senior Securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. We have no present plans to issue any additional shares of our preferred stock, but believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings. If we offer additional preferred stock under this prospectus, we will issue an appropriate prospectus supplement. You should read that prospectus supplement for a description of such preferred stock, including, but not limited to, whether there will be an arrearage in the payment of dividends or sinking fund installments, if any, restrictions with respect to the declaration of dividends, requirements in connection with the maintenance of any ratio or assets, or creation or maintenance of reserves, or provisions for permitting or restricting the issuance of additional securities.

Series A Cumulative Term Preferred Stock

Of the 10,000,000 shares of our capital stock designated as preferred stock, 1,610,000 of such shares are designated as Term Preferred Stock. As of the date hereof, we have 1,600,000 shares of Term Preferred Stock outstanding. Shares of our Term Preferred Stock are listed on NASDAQ under the symbol "GAINP."

The following is a summary of the material terms of the Term Preferred Stock. The following summary is qualified in its entirety by reference to the Certificate of Designation of the 7.125% Series A Cumulative Term Preferred Shares, which is filed as an exhibit to the registration statement of which this prospectus is a part:

Dividend Rights

The holders of Term Preferred Stock are entitled to monthly dividends in the amount of 7.125% per annum on the stated liquidation preference of Term Preferred Stock, or $0.1484375 per share, and we are prohibited from issuing dividends or making distributions to the holders of our common stock while any shares of Term Preferred Stock are outstanding, unless all accrued and unpaid dividends on the Term Preferred Stock are paid in their entirety. In the event that we fail to pay dividends on the Term Preferred Stock when required, the dividend rate on the Term Preferred Stock will increase to 9% per annum until such default is cured. Further, in the event that we fail to redeem the Term Preferred Stock when due, as discussed in "*—Redemption*" below, the dividend rate will increase to 11% per annum until such shares are redeemed.

Voting Rights

The holders of the Term Preferred Stock are entitled to one vote per share and do not have cumulative voting. The holders of the Term Preferred Stock generally vote together with the holders of our common stock, except that the holders of the Term Preferred Stock have the right to elect two of our directors. Furthermore, during any period that we owe accumulated dividends, whether or not earned or declared, on our Term Preferred Stock equal to at least two full years of dividends, the holders of Term Preferred Stock will have the right to elect a majority of our Board of Directors.

Liquidation Rights

In the event of a dissolution, liquidation or winding up of our affairs, the Term Preferred Stock has a liquidation preference over our common stock equal to $25 per share, plus all unpaid dividends and distributions accumulated to (but excluding) the date fixed for payment on such shares.

Redemption

The Term Preferred Stock has a mandatory term redemption date of February 28, 2017, however, if we fail to maintain asset coverage as required by the 1940 Act, of at least 200%, we will be required to redeem a portion of the Term Preferred Stock to enable us to meet the required asset coverage at a price per share equal to the liquidation preference plus all accumulated and unpaid dividends and distributions. In the event of a change of control, we will also be required to redeem the shares of Term Preferred Stock at a price per share equal to the liquidation preference plus all accumulated and unpaid dividends and distributions. In addition, we have the option to redeem such shares at any time on or after February 28, 2016, subject to the requirement to pay an optional redemption premium on the amount of shares redeemed if we optionally redeem such shares before February 28, 2017.

Subscription Rights

General

We may issue subscription rights to our stockholders to purchase common stock or preferred stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with any subscription rights offering to our stockholders, we may enter into a standby underwriting arrangement with one or more underwriters pursuant to which such underwriters would purchase any offered securities remaining unsubscribed after such subscription rights offering to the extent permissible under applicable law. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the period of time the offering would remain open (which in no event would be less than fifteen business days);
- the title of such subscription rights;
- the exercise price for such subscription rights;
- the ratio of the offering (which in no event would exceed one new share of common stock for each three rights held);
- the number of such subscription rights issued to each stockholder;
- the extent to which such subscription rights are transferable;

- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights shall commence, and the date on which such rights shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities;
- if applicable, the material terms of any standby underwriting or other purchase arrangement that we may enter into in connection with the subscription rights offering; and
- any other terms of such subscription rights, including terms, procedures and limitations relating to the exchange and exercise of such subscription rights.

Exercise of Subscription Rights

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock, or preferred stock, at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the shares of common stock purchasable upon such exercise. We may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, including pursuant to standby underwriting arrangements, as set forth in the applicable prospectus supplement.

Warrants

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock. Such warrants may be issued independently or together with shares of common stock or other equity or debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;

- the number of shares of common stock purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants (except for warrants expiring not later than 120 days after issuance and issued exclusively and ratably to a class of our security holders) on the condition that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value of the securities underlying the warrants at the date of issuance; (3) our stockholders authorize the proposal to issue such warrants (our stockholders approved such a proposal to issue long-term rights, including warrants, in connection with our 2008 annual meeting of stockholders) and a "required" majority of our Board of Directors approves such issuance on the basis that the issuance is in the best interests of Gladstone Investment and our stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. A "required" majority of our Board of Directors is a vote of both a majority of our directors who have no financial interest in the transaction and a majority of the directors who are not interested persons of the company. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, options and subscription rights at the time of issuance may not exceed 25% of our outstanding voting securities.

Debt Securities

Any debt securities that we issue may be senior or subordinated in priority of payment. We have no present plans to issue any debt securities. If we offer debt securities under this prospectus, we will provide a prospectus supplement that describes the ranking, whether senior or subordinated, the specific designation, the aggregate principal amount, the purchase price, the maturity, the redemption terms, the interest rate or manner of calculating the interest rate, the time of payment of interest, if any, the terms for any conversion or exchange, including the terms relating to the adjustment of any conversion or exchange mechanism, the listing, if any, on a securities exchange, the name and address of the trustee and any other specific terms of the debt securities.

CERTAIN PROVISIONS OF DELAWARE LAW AND OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS

The following description of certain provisions of Delaware law and of our certificate of incorporation and bylaws, as amended, is only a summary. For a complete description, we refer you to the Delaware General Corporation Law, our certificate of incorporation and our bylaws. We have filed our amended and restated certificate of incorporation and bylaws, as amended, as exhibits to the registration statement of which this prospectus is a part.

Classified Board of Directors

Pursuant to our bylaws, as amended, our Board of Directors is divided into three classes of directors. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. The holders of outstanding shares of any preferred stock, including Term Preferred Stock, are entitled, as a class, to the exclusion of the holders of all other securities and classes of common stock, to elect two of our directors at all times (regardless of the total number of directors serving on the Board of Directors). We refer to these directors as the Preferred Directors. One of the Preferred Directors, Mr. Earhart, will be up for election in 2013, and the other Preferred Director, Mr. Reilly, will be up for election in 2015. The holders of outstanding shares of common stock and preferred stock, voting together as a single class, elect the balance of our directors. Any director elected to fill a vacancy shall serve for the remainder of the full term of the class in which the vacancy occurred and until a successor is elected and qualified. We believe that classification of our Board of Directors helps to assure the continuity and stability of our business strategies and policies as determined by our directors. Holders of shares of our stock have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of our stockholders, the holders of a majority of the combined shares of common stock and preferred stock are able to elect all of the successors to the class of directors whose term expires at such meeting (other than the Preferred Directors, who will be elected by the holders of a majority of the preferred stock).

Our classified board could have the effect of making the replacement of incumbent directors more time consuming and difficult. Because our directors may only be removed for cause, at least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of our Board of Directors. Thus, our classified board could increase the likelihood that incumbent directors will retain their positions. The staggered terms of directors may delay, defer or prevent a tender offer or an attempt to change control of us or another transaction that might involve a premium price for our common stock that might be in the best interest of our stockholders.

Removal of Directors

Any director may be removed only for cause by the stockholders upon the affirmative vote of at least two-thirds of all the votes entitled to be cast at a meeting called for the purpose of the proposed removal. The notice of the meeting shall indicate that the purpose, or one of the purposes, of the meeting is to determine if the director shall be removed.

Business Combinations

Section 203 of the Delaware General Corporation Law generally prohibits "business combinations" between us and an "interested stockholder" for three years after the date of the transaction in which the person became an interested stockholder. In general, Delaware law defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling, or controlled by, the entity or person. These business combinations include:

- Any merger or consolidation involving the corporation and the interested stockholder;
- Any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- Subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or

- The receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

Section 203 permits certain exemptions from its provisions for transactions in which:

- Prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- The interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- On or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Merger; Amendment of Certificate of Incorporation

Under Delaware law, we will not be able to amend our certificate of incorporation or merge with another entity unless approved by the affirmative vote of stockholders holding at least a majority of the shares entitled to vote on the matter.

Term and Termination

Our certificate of incorporation provides for us to have a perpetual existence. Pursuant to our certificate of incorporation, and subject to the provisions of any of our classes or series of stock then outstanding and the approval by a majority of the entire Board of Directors, our stockholders, at any meeting thereof, by the affirmative vote of a majority of all of the votes entitled to be cast on the matter, may approve a plan of liquidation and dissolution.

Advance Notice of Director Nominations and New Business

Our bylaws provide that, with respect to an annual meeting of stockholders, nominations of persons for election to our Board of Directors and the proposal of business to be considered by stockholders at the annual meeting may be made only:

- pursuant to our notice of the meeting;
- by our Board of Directors; or
- by a stockholder who was a stockholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting of stockholders and nominations of persons for election to our Board of Directors may be made only:

- pursuant to our notice of the meeting;
- by our Board of Directors; or
- provided that our Board of Directors has determined that directors shall be elected at such meeting, by a stockholder who was a stockholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

Possible Anti-Takeover Effect of Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws

The business combination provisions of Delaware law, the provisions of our bylaws regarding the classification of our Board of Directors, the Board of Directors' ability to issue preferred stock with terms and conditions that could have a priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock, and the restrictions on the transfer of stock and the advance notice provisions of our bylaws could have the effect of delaying, deferring or preventing a transaction or a change in the control that might involve a premium price for holders of common stock or otherwise be in their best interest.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Our certificate of incorporation eliminates the liability of directors to the maximum extent permitted by Delaware law. In addition, our bylaws require us to indemnify our directors and executive officers, and allow us to indemnify other employees and agents, to the fullest extent permitted by law, subject to the requirements of the 1940 Act. Our bylaws obligate us to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The certificate of incorporation and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Delaware law requires a corporation to indemnify a present or former director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service in that capacity. Delaware law permits a corporation to indemnify its present and former directors and officers, or any other person who is or was an employee or agent, or is or was serving at the request of a corporation as a director, officer, employee or agent of another entity, against liability for expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred if such person acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation. In the case of a criminal proceeding, Delaware law further requires that the person to be indemnified have no reasonable cause to believe his or her conduct was unlawful. In the case of an action or suit by or in the right of a corporation to procure a judgment in its favor by reason of such person's service to the corporation, Delaware law provides that no indemnification shall be made with respect to any claim, issue or matter as to which such person has been adjudged liable to the corporation, unless and only to the extent that the court in which such an action or suit is brought determines, in view of all the circumstances of the case, that the person is fairly and reasonably entitled to indemnity. Insofar as certain members of our senior management team may from time to time serve, at the request of our Board of Directors, as directors of one or more of our portfolio companies, we may have indemnification obligations under our bylaws with respect to acts taken by our portfolio companies.

Any payment to an officer or director as indemnification under our governing documents or applicable law or pursuant to any agreement to hold such person harmless is recoverable only out of our assets and not from our stockholders. Indemnification could reduce the legal remedies available to us and our stockholders against the indemnified individuals. This provision for indemnification of our directors and officers does not reduce the exposure of our directors and officers to liability under federal or state securities laws, nor does it limit a stockholder's ability to obtain injunctive relief or other equitable remedies for a violation of a director's or an officer's duties to us or to our stockholders, although these equitable remedies may not be effective in some circumstances.

In addition to any indemnification to which our directors and officers are entitled pursuant to our certificate of incorporation and bylaws and the Delaware General Corporation Law, our certificate of incorporation and bylaws provide that we may indemnify other employees and agents to the fullest extent permitted under Delaware law, whether they are serving us or, at our request, any other entity, including our Adviser and our Administrator.

The general effect to investors of any arrangement under which any person who controls us or any of our directors, officers or agents is insured or indemnified against liability is a potential reduction in distributions to our stockholders resulting from our payment of premiums associated with liability insurance. In addition, indemnification could reduce the legal remedies available to us and to our stockholders against our officers, directors and agents. The SEC takes the position that indemnification against liabilities arising under the Securities Act is against public policy and unenforceable. As a result, indemnification of our directors and officers and of our Adviser or its affiliates may not be allowed for liabilities arising from or out of a violation of state or federal securities laws. Indemnification will be allowed for settlements and related expenses of lawsuits alleging securities laws violations and for expenses incurred in successfully defending any lawsuit, provided that a court either:

- approves the settlement and finds that indemnification of the settlement and related costs should be made; or

- dismisses with prejudice or makes a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee and a court approves the indemnification.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Delaware General Corporation Law or any provision of our certificate of incorporation or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

SHARE REPURCHASES

Shares of closed-end investment companies frequently trade at discounts to NAV. We cannot predict whether our shares will trade above, at or below NAV. The market price of our common stock is determined by, among other things, the supply and demand for our shares, our investment performance and investor perception of our overall attractiveness as an investment as compared with alternative investments. Our Board of Directors has authorized our officers, in their discretion and subject to compliance with the 1940 Act and other applicable law, to purchase on the open market or in privately negotiated transactions, outstanding shares of our common stock in the event that our shares trade at a discount to NAV. We can not assure you that we will ever conduct any open market purchases and if we do conduct open market purchases, we may terminate them at any time.

In addition, if our shares publicly trade for a substantial period of time at a substantial discount to our then current NAV per share, our Board of Directors will consider authorizing periodic repurchases of our shares or other actions designed to eliminate the discount. Our Board of Directors would consider all relevant factors in determining whether to take any such actions, including the effect of such actions on our status as a RIC under the Internal Revenue Code and the availability of cash to finance these repurchases in view of the restrictions on our ability to borrow. We can not assure you that any share repurchases will be made or that if made, they will reduce or eliminate market discount. Should we make any such repurchases in the future, we expect that we would make them at prices at or below the then current NAV per share. Any such repurchase would cause our total assets to decrease, which may have the effect of increasing our expense ratio. We may borrow money to finance the repurchase of shares subject to the limitations described in this prospectus. Any interest on such borrowing for this purpose would reduce our net income.

PLAN OF DISTRIBUTION

We may sell the Securities through underwriters or dealers, directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of any such methods of sale. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the Securities will also be named in the applicable prospectus supplement.

The distribution of the Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, in “at the market offerings” within the meaning of Rule 415(a)(4) of the Securities Act, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that in the case of our common stock, the offering price per share less any underwriting commissions or discounts must equal or exceed the NAV per share of our common stock except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders, or (iii) under such other circumstances as the SEC may permit.

In connection with the sale of the Securities, underwriters or agents may receive compensation from us or from purchasers of the Securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell the Securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of the Securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of the Securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement. The maximum commission or discount to be received by any FINRA member or independent broker-dealer will not exceed 10%.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell Securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment).

Any of our common stock sold pursuant to a prospectus supplement will be listed on NASDAQ, or another exchange on which our common stock is traded.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of the Securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase the Securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the Securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

In order to comply with the securities laws of certain states, if applicable, the Securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, the Securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Our securities are held under a custodian agreement with The Bank of New York Mellon Corp. The address of the custodian is: 500 Ross Street, Suite 625, Pittsburgh, PA 15262. Our assets are held under bank custodianship in compliance with the 1940 Act. Securities held through our wholly-owned subsidiary, Business Investment, are held under a custodian agreement with The Bank of New York Mellon Corp., which acts as collateral custodian pursuant to Business Investment's credit facility with BB&T and certain other parties. The address of the collateral custodian is 500 Ross Street, Suite 625, 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 877-296-3711. Computershare also maintains an internet web site at www.computershare.com and one specifically for shareholders at *www.computershare.com/investor.*

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use securities brokers or dealers in the normal course of our business. Subject to policies established by our Board of Directors, our Adviser will be primarily responsible for the execution of transactions involving publicly traded securities and the allocation of brokerage commissions in respect thereof, if any. In the event that our Adviser executes such transactions, we do not expect our Adviser to execute transactions through any particular broker or dealer, but we would expect our Adviser to seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While we expect that our Adviser generally will seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, our Adviser may select a broker based partly upon brokerage or research services provided to us, our Adviser and any of its other clients. In return for such services, we may pay a higher commission than other brokers would charge if our Adviser determines in good faith that such commission is reasonable in relation to the value of the brokerage and research services provided by such broker or dealer viewed in terms either of the particular transaction or our Adviser's overall responsibilities with respect to all of our Adviser's clients.

PROXY VOTING POLICIES AND PROCEDURES

We have delegated our proxy voting responsibility to our Adviser. The proxy voting policies and procedures of our Adviser are set out below. The guidelines are reviewed periodically by our Adviser and our directors who are not "interested persons," and, accordingly, are subject to change.

Introduction

As an investment adviser registered under the Advisers Act, our Adviser has a fiduciary duty to act solely in our best interests. As part of this duty, our Adviser recognizes that it must vote our securities in a timely manner free of conflicts of interest and in our best interests.

Our Adviser's policies and procedures for voting proxies for its investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy Policies

Our Adviser votes proxies relating to our portfolio securities in what it perceives to be the best interest of our stockholders. Our Adviser reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its effect on the portfolio securities we hold. In most cases our Adviser will vote in favor of proposals that our Adviser believes are likely to increase the value of the portfolio securities we hold. Although our Adviser will generally vote against proposals that may have a negative effect on our portfolio securities, our Adviser may vote for such a proposal if there exist compelling long-term reasons to do so.

Our proxy voting decisions are made by our Adviser's portfolio managers. To ensure that our Adviser's vote is not the product of a conflict of interest, our Adviser requires that (1) anyone involved in the decision-making process disclose to our Adviser's investment committee any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision-making process or vote administration are prohibited from revealing how our Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, our Adviser will disclose such conflicts to us, including our independent directors and may request guidance from us on how to vote such proxies.

Proxy Voting Records

You may obtain information without charge about how the Adviser voted proxies by calling us collect at (703) 287-5893 or by making a written request for proxy voting information to:

Michael LiCalsi, Internal Counsel and Secretary
c/o Gladstone Investment Corporation
1521 Westbranch Dr.
McLean, VA 22102

LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Memphis, Tennessee. Certain legal matters will be passed upon for the underwriters, if any, by the counsel named in the accompanying prospectus supplement.

EXPERTS

The consolidated financial statements as of March 31, 2013 and March 31, 2012 and for each of the three years in the period ended March 31, 2013 and management's assessment of the effectiveness of internal control over financial reporting (which is included in The Report of Management on Internal Controls) as of March 31, 2013 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting. The address of PricewaterhouseCoopers LLP is 1800 Tysons Boulevard, McLean, Virginia 22102.

GLADSTONE INVESTMENT CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements

Report of Management on Internal Controls and Financial Reporting

To the Stockholders and Board of Directors of Gladstone Investment Corporation:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and include those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of March 31, 2013, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2013.

The effectiveness of our internal control over financial reporting as of March 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

May 14, 2013

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Gladstone Investment Corporation:

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, and the related consolidated statements of operations, changes in net assets, cash flows and the financial highlights present fairly, in all material respects, the financial position of Gladstone Investment Corporation (the "Company") and its subsidiaries as of March 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2013 and the financial highlights for each of the five years in the period ended March 31, 2013, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. Our procedures included confirmation of securities as of March 31, 2013, by correspondence with the custodian, and where replies were not received, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, VA
May 14, 2013

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	March 31, 2013	March 31, 2012
ASSETS		
Investments at fair value		
Control investments (Cost of **$263,522** and $186,743 respectively)	**$243,803**	$157,544
Affiliate investments (Cost of **$52,566** and $70,015, respectively)	**36,659**	58,831
Non-Control/Non-Affiliate investments (Cost of **$10,333** and $9,637, respectively)	**6,020**	9,277
Total investments at fair value (Cost of **$326,421** and $266,395, respectively)	**286,482**	225,652
Cash and cash equivalents	**85,904**	91,546
Restricted cash	**626**	1,928
Interest receivable	**1,309**	1,250
Due from custodian	**1,677**	1,527
Deferred financing costs	**2,336**	2,792
Other assets	**1,469**	602
TOTAL ASSETS	**$379,803**	$325,297
LIABILITIES		
Borrowings:		
Short-term loan at fair value (Cost of **$58,016** and $76,005, respectively)	**$ 58,016**	$ 76,005
Line of credit at fair value (Cost of **$31,000** and $0, respectively)	**31,854**	—
Other secured borrowings (Cost of **$5,000** and $0, respectively)	**5,000**	—
Total borrowings (Cost of **$94,016** and $76,005, respectively)	**94,870**	76,005
Mandatorily redeemable preferred stock, $0.001 par value, $25 liquidation preference; 1,610,000 shares authorized, **1,600,000** shares issued and outstanding as of March 31, 2013 and 2012	**40,000**	40,000
Accounts payable and accrued expenses	**1,069**	506
Fees due to Adviser[A]	**2,067**	496
Fee due to Administrator[A]	**221**	218
Other liabilities	**613**	856
TOTAL LIABILITIES	**138,840**	118,081
Commitments and contingencies[B]		
NET ASSETS	**$240,963**	$207,216
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value per share, 100,000,000 shares authorized, **26,475,958** and 22,080,133 shares issued and outstanding as of March 31, 2013 and 2012, respectively	**$ 26**	$ 22
Capital in excess of par value	**287,713**	257,131
Cumulative net unrealized depreciation of investments	**(39,939)**	(40,743)
Cumulative net unrealized depreciation of other	**(883)**	(68)
Net investment income in excess of distributions	**2,691**	321
Accumulated net realized loss	**(8,645)**	(9,447)
TOTAL NET ASSETS	**$240,963**	$207,216
NET ASSET VALUE PER SHARE AT END OF YEAR	**$ 9.10**	$ 9.38

(A) Refer to Note 4—*Related Party Transactions* for additional information.
(B) Refer to Note 12—*Commitments and Contingencies* for additional information.

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Year Ended March 31,		
	2013	**2012**	**2011**
INVESTMENT INCOME			
Interest income:			
Control investments	**$ 17,568**	$ 12,548	$ 10,108
Affiliate investments	**5,897**	5,593	4,003
Non-Control/Non-Affiliate investments	**1,329**	1,440	1,578
Cash and cash equivalents	**4**	7	33
Total interest income	**24,798**	19,588	15,722
Other income:			
Control investments	**5,339**	1,477	10,342
Affiliate investments	**401**	—	—
Non-Control/Non-Affiliate investments	**—**	177	—
Total other income	**5,740**	1,654	10,342
Total investment income	**30,538**	21,242	26,064
EXPENSES			
Base management fee[A]	**5,412**	4,386	3,979
Incentive fee[A]	**2,585**	19	2,949
Administration fee[A]	**785**	684	753
Interest expense on borrowings	**1,127**	768	690
Dividends on mandatorily redeemable preferred stock	**2,850**	198	—
Amortization of deferred financing costs	**791**	459	491
Professional fees	**541**	591	473
Other general and administrative expenses	**1,287**	1,554	1,238
Expenses before credits from Adviser	**15,378**	8,659	10,573
Credits to fees[A]	**(1,328)**	(1,160)	(680)
Total expenses net of credits to fees	**14,050**	7,499	9,893
NET INVESTMENT INCOME	**$ 16,488**	$ 13,743	$ 16,171
REALIZED AND UNREALIZED GAIN			
Net realized gain:			
Control investments	**843**	5,087	23,471
Non-Control/Non-Affiliate investments	**—**	4	18
Other	**(41)**	(40)	—
Total net realized gain	**802**	5,051	23,489
Net unrealized (depreciation) appreciation:			
Control investments	**9,480**	3,045	(28,325)
Affiliate investments	**(4,723)**	(596)	4,473
Non-Control/Non-Affiliate investments	**(3,953)**	714	655
Other	**(815)**	9	(24)
Total net unrealized (depreciation) appreciation	**(11)**	3,172	(23,221)
Net realized and unrealized gain	**791**	8,223	268
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 17,279**	$ 21,966	$ 16,439
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:			
Basic and Diluted	**$ 0.71**	$ 0.99	$ 0.74
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:			
Basic and diluted	**24,189,148**	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 CONSOLIDATED FINANCIAL STATEMENTS.

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(IN THOUSANDS)

	Year Ended March 31,		
	2013	**2012**	**2011**
OPERATIONS:			
Net investment income	**$ 16,488**	$ 13,743	$ 16,171
Net realized gain on investments	**843**	5,091	23,489
Net realized loss on other	**(41)**	(40)	—
Net unrealized appreciation (depreciation) of investments	**804**	3,163	(23,197)
Net unrealized (depreciation) appreciation of other	**(815)**	9	(24)
Net increase in net assets from operations	**17,279**	21,966	16,439
CAPITAL TRANSACTIONS:			
Issuance of common stock	**32,969**	—	—
Shelf offering registration costs, net	**(1,954)**	—	10
Net increase in net assets from capital transactions	**31,015**	—	10
DISTRIBUTIONS TO COMMON STOCKHOLDERS FROM:			
Net investment income	**(14,547)**	(13,579)	(10,598)
Total increase in net assets	**33,747**	8,387	5,851
Net assets at beginning of year	**207,216**	198,829	192,978
Net assets at end of year	**$240,963**	$207,216	$198,829

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended March 31,		
	2013	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase in net assets resulting from operations	**$ 17,279**	$ 21,966	$ 16,439
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:			
Purchase of investments	**(87,607)**	(91,298)	(43,634)
Principal repayments of investments	**25,243**	19,154	62,482
Proceeds from the sale of investments	**3,181**	8,031	35,009
Net realized gain on investments	**(843)**	(5,091)	(23,489)
Net realized loss on other	**41**	40	—
Net unrealized (appreciation) depreciation of investments	**(804)**	(3,163)	23,197
Net unrealized depreciation (appreciation) of other	**815**	(9)	24
Net amortization of premiums and discounts	**—**	—	8
Amortization of deferred financing costs	**791**	459	491
Decrease (increase) in restricted cash	**1,302**	2,571	(4,499)
(Increase) decrease in interest receivable	**(59)**	(513)	497
(Increase) decrease in due from custodian	**(150)**	(668)	76
(Increase) decrease in other assets	**(867)**	162	(438)
Increase (decrease) in accounts payable and accrued expenses	**613**	197	(1)
Increase (decrease) in fees due to Adviser[A]	**1,571**	(3)	(222)
Increase in administration fee payable to Administrator[A]	**3**	47	22
(Decrease) increase in other liabilities	**(243)**	(553)	1,114
Net cash (used in) provided by operating activities	**(39,734)**	(48,671)	67,076
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from the issuance of common stock	**31,015**	—	10
Proceeds from short-term loans	**250,063**	254,507	207,401
Repayments on short-term loans	**(268,052)**	(218,502)	(242,401)
Proceeds from Credit Facility	**144,000**	59,200	24,000
Repayments on Credit Facility	**(113,000)**	(59,200)	(51,800)
Proceeds from secured borrowings	**5,000**	—	—
Proceeds from issuance of mandatorily redeemable preferred stock	**—**	40,000	—
Purchase of derivatives	**—**	(29)	(41)
Deferred financing costs	**(387)**	(2,760)	(784)
Distributions paid to common stockholders	**(14,547)**	(13,579)	(10,598)
Net cash provided by (used in) financing activities	**34,092**	59,637	(74,213)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(5,642)**	10,966	(7,137)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**91,546**	80,580	87,717
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 85,904**	$ 91,546	$ 80,580
CASH PAID DURING YEAR FOR INTEREST	**$ 1,079**	$ 777	$ 762
NON-CASH ACTIVITIES[B]	**$ 4,106**	$ —	$ 527

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

[B] 2013: In February 2013, we recapitalized our investment in Galaxy Tool Holdings Corp. ("Galaxy"), converting $8.2 million of Galaxy preferred stock and its related $4.1 million in accrued dividends into a new $12.3 million senior debt investment in a non-cash transaction. We recognized $4.1 million in dividend income on our *Statements of Operations* during the year ended March 31, 2013 related to this recapitalization.

2011: Non-cash activities represent real property distributed to shareholders of A.Stucki Holding Corp. prior to its sale in June 2010, from which we recorded dividend income of $515 and $12 of paid in-kind income from our syndicated loan to Survey Sampling, LLC. The distributed property is included in our *Condensed Schedule of Investments* under Neville Limited as of March 31, 2012, and its fair value was recognized as other income on our *Statements of Operations* during the year ended March 31, 2012. This property was sold during the three months ended December 31, 2011.

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
MARCH 31, 2013
(DOLLAR AMOUNTS IN THOUSANDS)

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)[F]		6,984	11,292
		Common Stock (418,072 shares)[C][F]		1,045	1,179
		Common Stock Warrants (465,639 shares)[C][F]		25	369
				22,554	27,340
ASH Holdings Corp.	Retail and Service — school buses and parts	Revolving Credit Facility, $288 available (3.0%, Due 3/2015)[G]	7,912	7,856	—
		Senior Subordinated Term Debt (2.0%, Due 3/2015)[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	—
		Guaranty ($500)			
				16,410	—
Country Club Enterprises, LLC	Service — golf cart distribution	Senior Subordinated Term Debt (18.6%, Due 11/2014)	4,000	4,000	4,000
		Preferred Stock (7,304,792 shares)[C][F]		7,725	3,467
		Guaranty ($2,000)			
		Guaranty ($1,370)			
				11,725	7,467
Danco Acquisition Corp.	Manufacturing — machining and sheet metal work	Revolving Credit Facility, $282 available (4.0%, Due 8/2015)[D]	2,868	2,868	717
		Senior Term Debt (4.0%, Due 8/2015)[D]	2,575	2,575	644
		Senior Term Debt (4.0%, Due 8/2015)[D]	8,795	8,795	2,199
		Senior Term Debt (5.0%, Due 8/2015)[D][E]	1,150	1,150	287
		Preferred Stock (25 shares)[C][F]		2,500	—
		Common Stock Warrants (420 shares)[C][F]		3	—
				17,891	3,847
Drew Foam Company, Inc.	Manufacturing — molds and fabricates expanded polystyrene	Senior Term Debt (13.5%, Due 8/2017)	10,913	10,913	10,913
		Preferred Stock (34,045 shares)[F]		3,375	3,511
		Common Stock (5,372 shares)[C][F]		63	676
				14,351	15,100
Frontier Packaging, Inc.	Manufacturing — packaging products	Senior Term Debt (12%, Due 12/2017)		12,500	12,500
		Preferred Stock (1,373 shares)[C][F]		1,373	653
		Common Stock (152 shares)[C][F]		153	—
				14,026	13,153
Galaxy Tool Holding Corp.	Manufacturing — aerospace and Plastics	Senior Subordinated Term Debt (13.5%, Due 8/2017)	15,520	15,520	15,520
		Preferred Stock (5,373,186 shares)[F]		11,464	5,356
		Common Stock (48,093 shares)[C][F]		48	—
				27,032	20,876

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
Ginsey Home Solutions, Inc.	Retail and Service — children and home products	Senior Subordinate Term Debt (13.5%, Due 1/2018)	13,050	13,050	13,050
		Preferred Stock (18,898 shares)[C][F]		9,393	8,783
		Common Stock (63,747 shares)[C][F]		8	—
				22,451	21,833
Mathey Investments, Inc.	Manufacturing — pipe-cutting and pipe-fitting equipment	Senior Term Debt (10.0%, Due 3/2014)	1,375	1,375	1,375
		Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
		Senior Term Debt (12.5%, Due 3/2014)[E]	3,500	3,500	3,500
		Common Stock (29,102 shares)[C][F]		777	5,817
				9,379	14,419
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	3,051
		Common Stock (27,900 shares)[C][F]		28	—
				16,378	16,730
Precision Southeast, Inc.	Manufacturing — injection molding and plastics	Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares)[C][F]		1,909	2,273
		Common Stock (90,909 shares)[C][F]		91	955
				9,775	11,003
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	2,253
		Common Stock (221,500 shares)[C][F]		221	4,635
				13,570	18,243
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	11,423
				28,148	29,822
Tread Corp.	Manufacturing — storage and transport equipment	Revolving Credit Facility, $1,014 available (12.5%, Due 6/2013)[G]	1,736	1,736	—
		Senior Subordinated Term Debt (12.5%, Due 5/2013)[G]	5,000	5,000	—
		Senior Subordinated Term Debt (12.5%, Due 5/2013)[G]	2,750	2,750	—
		Senior Subordinated Term Debt (12.5%, Due 5/2015)[G]	1,000	1,000	—
		Senior Subordinated Term Debt (12.5%, Due on Demand)[D][G]	510	510	—
		Preferred Stock (3,332,765 shares)[C][F]		3,333	—
		Common Stock (7,716,320 shares)[C][F]		501	—
		Common Stock Warrants (2,372,727 shares)[C][F]		3	—
				14,833	—
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	24,970
				25,000	43,970
Total Control Investments (represents 85.1% of total investments at fair value)				**$263,522**	**$243,803**

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp.	Manufacturing — bailing wire	Senior Subordinated Term Debt (11.8%, Due 4/2016)[D]	2,200	2,200	2,258
		Subordinated Term Debt (13.0%, Due 4/2016)[D]	4,671	4,671	4,805
		Preferred Stock (18,446 shares)[C][F]		1,844	2,803
				8,715	9,866
Channel Technologies Group, LLC	Manufacturing — acoustic products	Revolving Credit Facility, $0 available (7.0%, Due 5/2013)[D]	1,250	1,250	1,248
		Senior Term Debt (8.3%, Due 12/2014)[D]	5,596	5,596	5,589
		Senior Term Debt (12.3%, Due 12/2016)[D]	10,750	10,750	10,737
		Preferred Stock (1,599 shares)[C][F]		1,599	275
		Common Stock (1,598,616 shares)[C][F]		—	—
				19,195	17,849
Noble Logistics, Inc.	Service — aftermarket auto parts delivery	Revolving Credit Facility, $0 available (10.5%, Due 1/2015)[D]	800	800	360
		Senior Term Debt (11.0%, Due 1/2015)[D]	7,227	7,227	3,252
		Senior Term Debt (10.5%, Due 1/2015)[D]	3,650	3,650	1,643
		Senior Term Debt (10.5%, Due 1/2015)[D][E]	3,650	3,650	1,643
		Preferred Stock (1,075,000 shares)[C][F]		1,750	—
		Common Stock (1,682,444 shares)[C][F]		1,682	—
				18,759	6,898
Packerland Whey Products, Inc.	Manufacturing — dairy, meat, and protein supplements	Preferred Stock (248 shares)[C][F]		2,479	367
		Common Stock (247 shares)[C][F]		21	—
				2,500	367
Quench Holdings Corp.	Service — sales, installation and service of water coolers	Preferred Stock (388 shares)[C][F]		2,950	1,679
		Common Stock (35,242 shares)[C][F]		447	—
				3,397	1,679
Total Affiliate Investments (represents 12.8% of total investments at fair value)				**$52,566**	**$ 36,659**

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
B-Dry, LLC	Service — basement waterproofer	Revolving Credit Facility, $0 available (6.5%, Due 5/2014)[D]	750	750	450
		Senior Term Debt (14.0%, Due 5/2014)[D]	6,433	6,443	3,866
		Senior Term Debt (14.0%, Due 5/2014)[D]	2,840	2,840	1,704
		Common Stock Warrants (85 shares)[C][F]		300	—
				10,333	6,020
Total Non-Control/Non-Affiliate Investments (represents 2.1% of total investments at fair value)				**$ 10,333**	**$ 6,020**
TOTAL INVESTMENTS[H]				**$326,421**	**$286,482**

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

(B) Percentages represent the weighted average interest rates in effect as of March 31, 2013, 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. as of March 31, 2013.

(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) Aggregate gross unrealized depreciation for federal income tax purposes is $78,959; aggregate gross unrealized appreciation for federal income tax purposes is $38,650. Net unrealized depreciation is $40,309 based on a tax cost of $326,792.

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULES OF INVESTMENTS
MARCH 31, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

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 (465,639 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	—
		Guaranty ($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	—
		Guaranty ($2,000)			
		Guaranty ($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

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	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	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**
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp.[H]	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

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	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**
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[I]				**$266,395**	**$225,652**

(A) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
(B) Percentages represent the weighted average interest rates in effect as of March 31, 2012, and due date represents the contractual maturity date.
(C) Valued based on the indicative bid price on or near March 31, 2012, offered by the respective syndication agent's trading desk or secondary desk.
(D) Security is non-income producing.
(E) Fair value based primarily on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc. as of March 31, 2012.
(F) 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.
(G) 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.
(H) Debt security is on non-accrual status.
(I) Aggregate gross unrealized depreciation for federal income tax purposes is $61,659; aggregate gross unrealized appreciation for federal income tax purposes is $20,545. Net unrealized depreciation is $41,114 based on a tax cost of $266,766.

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

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2013

(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 "the Company," "we," "our" and "us" all refer to Gladstone Investment and its consolidated subsidiaries. We are an externally advised, 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."). Debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. To a much lesser extent, we also invest in senior and subordinated syndicated loans. Our investment objectives are (a) 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 and (b) 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. We aim to maintain a portfolio consisting of approximately 80% debt investment and 20% equity investment, at cost.

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

Basis of Presentation

These *Consolidated Financial Statements* and our accompanying notes are prepared in accordance with accounting principles generally accepted in the U.S. and conform to Regulation S-X under the Securities Exchange Act of 1934, as amended. Management believes it has made all necessary adjustments so that the consolidated financial statements are presented fairly and that all such adjustments are of a normal recurring nature. Our accompanying consolidated financial statements include the accounts of us and our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Consolidation

Under Article 6 of Regulation S-X under the Securities Act of 1933, as amended, and the authoritative accounting guidance provided by the AICPA Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which we have a controlling interest.

Use of Estimates

Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in our *Consolidated Financial Statements* and accompanying notes. Actual results may differ from those estimates.

Cash and Cash Equivalents

We consider all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents. Items classified as cash equivalents include temporary investments in commercial paper, United States Treasury securities and money-market funds. Cash and cash equivalents are carried at cost, which approximates fair value. We place our cash and cash equivalents with financial institutions, and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit. We seek to mitigate this concentration of credit risk by depositing funds with major financial institutions.

Restricted Cash

Restricted cash is cash held in escrow that was received as part of an asset sale.

Classification of Investments

In accordance with the federal securities laws, we classify portfolio investments on our *Consolidated Statements of Assets and Liabilities*, *Consolidated Statements of Operations* and *Consolidated Schedules of Investments* into the following categories:

- **Control Investments**—Control investments are generally those in which we own more than 25% of the equity securities or have greater than 50% representation on the board of directors;
- **Affiliate Investments**—Affiliate investments are generally those in which we own from 5% to 25% of the equity securities and have less than 50% representation on the board of directors, or is otherwise deemed to be an affiliate of us under the 1940 Act; and
- **Non-Control/Non-Affiliate Investments**—Non-Control/Non-Affiliate investments are generally those in which we own less than 5% of the equity securities.

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, the 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 the 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.

The Adviser uses generally accepted valuation techniques to value our portfolio unless it has specific information about the value of an investment to determine otherwise. From time to time, the Adviser 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 the Adviser obtains these specific, third-party appraisals, the Adviser uses estimates of value provided by such appraisals and its 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: The Adviser determines 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, the Adviser will use the market value of that security, adjusted for any decrease in value resulting from the restrictive feature. As of March 31, 2013 and 2012, we did not have any investments in publicly traded securities.

Securities for which a limited market exists: The Adviser values 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, the Adviser assesses trading activity in an asset class and evaluates variances in prices and other market insights to determine if any available quoted prices are reliable. In general, if the Adviser concludes 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, the Adviser bases the value of the security upon 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 the Adviser uses 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 it had ready access to such qualified information.

In the event these limited markets become illiquid such that market prices are no longer readily available, the Adviser 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, the Adviser considers 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, the Adviser develops a modified discount rate approach that incorporates risk premiums

including, among other things, increased probability of default, higher loss given default or increased liquidity risk. The DCF valuations applied to the syndicated loans provide an estimate of what the Adviser believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Adviser applies the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity. As of March 31, 2013 and 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-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"). The Adviser 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 or recapitalization of the portfolio company. We generally exit the debt and equity securities of an issuer together. Applying the liquidity waterfall approach to all of the investments of an issuer, the Adviser first calculates 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, the Adviser generally references industry statistics and may use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Adviser has estimated the TEV of the issuer, it 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:**The Adviser values 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")), the Adviser has defined our "unit of account" at the investment level (either debt or equity) and, as such determines our fair value of these non-control investments assuming the sale of an individual security using the standalone premise of value. As such, the Adviser estimates the fair value of the debt component using estimates of value provided by SPSE and its 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, the Adviser estimates 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 is also given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, the Adviser 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, its own assumptions.

(D) Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds: The Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the value provided by the non-control fund. As of March 31, 2013 and 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 the Adviser might reasonably expect us 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. As of March 31, 2013, ASH Holdings Corp. ("ASH") and Tread Corp. ("Tread") were on non-accrual. These non-accrual loans had an aggregate cost value of $24.9 million, or 10.4% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $0. As of March 31, 2012, ASH and Country Club Enterprises, LLC ("CCE") were on non-accrual. These non-accrual loans had an aggregate cost value 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 as of March 31, 2013. During the year ended March 31, 2012, we recorded PIK income of $7. 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 which had a PIK provision was paid off, at par, in July 2011.

Other Income Recognition

We accrue dividend income on preferred and common 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 or other consideration. We recorded and collected $4.9 million of dividends in the fiscal year ended March 31, 2013. In February 2013, we recapitalized our investment in Galaxy, converting $8.2 million of Galaxy Tool Holdings Corp. ("Galaxy") preferred stock and its related $4.1 million in accrued dividends into a new $12.3 million senior debt investment in a non-cash transaction. We recognized $4.1 million in dividend income related to this recapitalization. The remainder of the dividend income recorded during the year ended March 31, 2013, resulted from the collection of cash for accrued dividends on the preferred shares of Acme Cryogenics, Inc. ("Acme") and Drew Foam Companies, Inc. ("Drew Foam"). During the year ended March 31, 2012, we recorded and collected $0.7 million of dividends on accrued preferred shares in connection with the recapitalization of Cavert II Holding Corp. ("Cavert").

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We recorded $0.8 million of success fees during the year ended March 31, 2013, representing prepayments received from Mathey Investments, Inc. ("Mathey") and Cavert. During the year ended March 31, 2012, we recorded success fees of $0.7 million representing prepayments received from Mathey and Cavert.

Both dividends and success fees are recorded in Other income in our accompanying*Consolidated Statements of Operations*.

Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments

Gains or losses on the sale of investments are calculated by using the specific identification method. A realized gain or loss is recognized at the trade date, typically when an investment is disposed of, and is computed as the difference between our cost basis in the investment at the disposition date and the net proceeds received from such disposition. Unrealized appreciation or depreciation displays the difference between the fair value of the investment and the cost basis of such investment. We must determine the fair value of each individual investment on a quarterly basis and record changes in fair value as unrealized appreciation or depreciation in our *Consolidated Statement of Operations*.

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain financing, including legal fees, origination fees and administration fees. Costs associated with our line of credit and the issuance of the 7.125% Series A Cumulative Term Preferred Stock, par value $0.001 per share ("Term Preferred Stock"), are deferred and amortized using the straight-line method, which approximates the effective interest method, over the terms of the respective financings. See Note 7—*Mandatorily Redeemable Preferred Stock* for further discussion on the Term Preferred Stock.

Related Party Costs

We have entered into an investment advisory and management agreement (the "Advisory Agreement") with the Adviser, which is controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee.

We have entered into an administration agreement (the "Administration Agreement") with Gladstone Administration, LLC (the "Administrator") whereby we pay separately for administrative services. These fees are accrued when the services are performed and generally paid one month in arrears. Refer to Note 4—*Related Party Transactions* for additional information regarding these related party costs and agreements.

Federal Income Taxes

We intend to continue to qualify for treatment as a RIC under subchapter M of the Code, which generally allows us to avoid paying corporate income taxes on any income or gains that we distribute to our stockholders. We have distributed and intend to distribute sufficient dividends to eliminate taxable income. 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 capital gains in excess of capital losses for preceding years that were not distributed during such years.

ASC 740, "Income Taxes" requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authorities. Tax positions not deemed to satisfy the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. We have evaluated the implications of ASC 740 for all open tax years and in all major tax jurisdictions and determined that there is no material impact on our *Consolidated Financial Statements.* Our federal tax returns for fiscal years 2010, 2011 and 2012 remain subject to examination by the Internal Revenue Service.

Distributions

Distributions to stockholders are recorded on the ex-dividend date. We are required to pay out at least 90% of our ordinary income and short-term capital gains for each taxable year as a distribution to our stockholders 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 the Board of Directors each quarter and is based on the annual earnings estimated by our management. Based on that estimate, a distribution is declared each quarter and is paid out monthly over the course of the respective quarter. At year-end, we elected to treat a portion 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. Additionally, at year-end, we may pay a bonus distribution in addition to the monthly distributions to ensure that we have paid out at least 90% of its ordinary income and short-term capital gains for the year. We typically retain long-term capital gains, if any, and do not pay them out as distributions. If we decide to retain long-term capital gains, the portion of the retained capital gains, net of any capital loss carryforward, if applicable, will be subject to a 35% tax.

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.

As of March 31, 2013 and 2012, all of our investments were valued using Level 3 inputs. 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 years ended March 31, 2013 and 2012, there were no transfers in or out of Level 1, 2 and 3.

The following table presents the financial assets carried at fair value as of March 31, 2013, by caption on our accompanying *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 March 31, 2013		
	Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities*		
	Level 1	Level 3	Total
Control Investments			
Senior debt	$ —	$ 73,391	$ 73,391
Senior subordinated debt	—	79,748	79,748
Preferred equity	—	77,032	77,032
Common equity/equivalents	—	13,632	13,632
Total Control investments	**—**	**243,803**	**243,803**
Affiliate Investments			
Senior debt	—	24,471	24,471
Senior subordinated debt	—	7,063	7,063
Preferred equity	—	5,125	5,125
Total Affiliate investments	**—**	**36,659**	**36,659**
Non-Control/Non-Affiliate Investments			
Senior term debt	—	6,020	6,020
Total Non-Control/Non-Affiliate Investments	**—**	**6,020**	**6,020**
Total Investments at fair value	**$ —**	**$ 286,482**	**$ 286,482**
Cash Equivalents	65,000	—	65,000
Total Investments and Cash Equivalents	**$ 65,000**	**$ 286,482**	**$ 351,482**

The following table presents the financial instruments carried at fair value as of March 31, 2012, by caption on our accompanying *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 March 31, 2012		
	Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities*		
	Level 1	Level 3	Total
Control Investments			
Senior term debt	$ —	$ 47,880	$ 47,880
Senior subordinated term debt	—	60,149	60,149
Preferred equity	—	36,269	36,269
Common equity/equivalents	—	13,246	13,246
Total Control investments	**—**	**157,544**	**157,544**
Affiliate Investments			
Senior term debt	—	37,844	37,844
Senior subordinated term debt	—	10,512	10,512
Preferred equity	—	10,400	10,400
Common equity/equivalents	—	75	75
Total Affiliate investments	**—**	**58,831**	**58,831**
Non-Control/Non-Affiliate Investments			
Senior term debt	—	9,162	9,162
Common equity/equivalents	—	115	115
Total Non-Control/Non-Affiliate Investments	**—**	**9,277**	**9,277**
Total Investments at fair value	**$ —**	**$ 225,652**	**$ 225,652**
Cash Equivalents	85,000	—	85,000
Total Investments and Cash Equivalents	**$ 85,000**	**$ 225,652**	**$ 310,652**

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of March 31, 2013 and 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy, the Adviser 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 March 31,		Valuation Technique/ Methodology	Unobservable Input	Range / Weighted Average as March 31, 2013	Range / Weighted Average as March 31, 2012
	2013	2012				
Portfolio investments in controlled companies comprised of a bundle of investments	**$ 227,074**	$ 139,053	TEV	EBITDA multiples[B]	4.5x – 9.7x / 6.0x	5.3x – 8.6x / 6.7x
				EBITDA[B]	($2,866) – $8,695 / $4,083	($185) – $6,697 / $3,473
			SPSE[A]	EBITDA[B]	$289 / $289	—
				Risk Ratings[C]	6.4 – 6.4 / 6.4	—
Portfolio investments in non-controlled companies comprised of a bundle of investments	**57,730**	83,976	TEV	EBITDA multiples[B]	3.75x – 7.8x / 5.9x	4.4x – 9.2x / 7.0x
				EBITDA[B]	$29 - $6,026 / $2,894	$1,110 – $5,662 / $3,585
			SPSE[A]	EBITDA[B]	$29 - $6,026 / $2,928	$1,110 – $5,662 / $3,641
				Risk Ratings[C]	3.7 – 6.9 / 4.7	4.3 – 5.9 / 5.1
Other Investments	**1,678**	2,623				
Total Fair Value for Level 3 Investments	**$ 286,482**	$ 225,652				

(A) SPSE makes an independent assessment of the data the Adviser submits to them (which includes the financial and operational performance, as well as the Adviser's 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 proprietary in nature.

(B) Adjusted 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 the Adviser from the portfolio companies. EBITDA multiples, generally indexed, represent the Adviser's estimate of where market participants might price these investments. For our bundled debt and equity investments, the EBITDA and EBITDA multiple inputs are used in the TEV fair value determination and the issuer's debt, equity, and/or equity-like securities are valued in accordance with the Adviser's liquidity waterfall approach. In limited cases, the revenue from the most recently available trailing twelve month financial statements submitted to the Adviser from the portfolio companies and the related revenue multiples, generally indexed, are used to provide a TEV fair value determination of our bundled debt and equity investments

(C) As part of the Adviser's valuation procedures, it risk rates all of our investments in debt securities. The Adviser uses a proprietary risk rating system for all debt securities. The Adviser's risk rating system uses a scale of 0 to 10, with 10 being 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.

A portfolio company's EBITDA and EBITDA multiples are the significant unobservable inputs generally included in the Adviser's internally assessed TEV models used to value our proprietary debt and equity investments. 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 Policy, the Adviser generally uses an indexed EBITDA multiple in these TEVs. 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, company 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 years ended March 31, 2013 and 2012 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 cases, we categorize the fair value measurement in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. 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)

Fiscal Year 2013:

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Year ended March 31, 2013:					
Fair value as of March 31, 2012	$ 94,886	$ 70,661	$ 46,669	$ 13,436	$ 225,652
Total gains (losses):					
Net realized gains[A]	—	—	—	843	843
Net unrealized (depreciation) appreciation[B]	(16,273)	(6,935)	24,562	(550)	804
New investments, repayments and settlements[C]:					
Issuances / Originations	35,132	33,271	18,925	279	87,607
Settlements / Repayments	(9,863)	(15,380)	—	—	(25,243)
Sales	—	—	(2,305)	(876)	(3,181)
Transfers[D]		5,194	(5,694)	500	—
Fair value as of March 31, 2013	**$ 103,882**	**$ 86,811**	**$ 82,157**	**$ 13,632**	**$ 286,482**

Fiscal Year 2012:

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Year ended March 31, 2012:					
Fair value as of March 31, 2011	$ 58,627	$ 62,806	$ 25,398	$ 6,454	$ 153,285
Total gains (losses):					
Net realized (losses) gains[A]	(1)	5	—	5,087	5,091
Net unrealized (depreciation) appreciation[B]	(9,776)	2,010	4,092	12,858	9,184
Reversal of previously-recorded depreciation (appreciation) upon realization[B]	126	(14)	(686)	(5,447)	(6,021)
New investments, repayments and settlements[C]:					
Issuances / Originations	52,533	22,385	16,131	249	91,298
Settlements / Repayments	(10,239)	(8,915)	—	—	(19,154)
Sales	—	—	(2,266)	(5,765)	(8,031)
Transfers[D]	3,616	(7,616)	4,000	—	—
Fair value as of March 31, 2012	**$ 94,886**	**$ 70,661**	**$ 46,669**	**$ 13,436**	**$ 225,652**

[A] Included in Net realized gain (loss) on investments on our accompanying *Consolidated Statements of Operations* for the years ended March 31, 2013 and 2012.

[B] Included in Net unrealized (depreciation) appreciation of investments on our accompanying *Consolidated Statements of Operations* for the years ended March 31, 2013 and 2012.

[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] 2013: Transfer represents $3.0 million of senior subordinated term debt from Tread, at cost, as of June 30, 2012, that we converted into preferred and common equity during the quarter ended September 30, 2012, and $8.2 million of preferred stock from Galaxy, at cost, as of December 31, 2012, that we converted into senior subordinated term debt as part of a recapitalization in the quarter ended March 31, 2013. 2012: Transfer represents $4.0 million of senior subordinated term debt from CCE, at cost, as of September 30, 2011, that we converted into preferred equity during the quarter ended December 31, 2011, and $3.6 million of senior subordinated term debt from ASH, at cost, as of December 31, 2011, that was transferred into senior debt due to paying off the senior lender.

Investment Activity

During the year ended March 31, 2013, the following significant transactions 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. In December 2012, our $7.0 million debt investment was paid off at par.
- In July 2012, we invested $21.3 million in a new Control investment, Drew Foam, through a combination of debt and equity. Drew Foam, headquartered in Monticello, Arkansas, is an expanded polystyrene foam molder and fabricator for a variety of applications in construction and packaging. In September 2012, $4.0 million of the debt and the line of credit was refinanced with a third-party. In December 2012, $1.8 million of our equity investment was sold to a third-party at cost.
- 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. In August 2012, we participated out $5.0 million of the debt to a third-party.
- In August 2012, we restructured our investment in Tread, converting $3.0 million of senior subordinated debt into preferred and common shares of Tread in a non-cash transaction.
- In November 2012, we invested $16.5 million in a new Control investment, Frontier Packaging, Inc. (“Frontier”), through a combination of debt and equity. Frontier, headquartered in Seattle, Washington, is a supplier of a range of time sensitive packaging materials to the Alaskan seafood market, adding value through its expertise in product consolidation and logistics.
- In February 2013, we recapitalized our investment in Galaxy, converting $8.2 million of Galaxy preferred stock and its related $4.1 million in accrued dividends into a new $12.3 million senior debt investment in a non-cash transaction. We recognized $4.1 million in dividend income related to this recapitalization.

Investment Concentrations

As of March 31, 2013, our investment portfolio consisted of investments in 21 portfolio companies located in 15 states across 13 different industries with an aggregate fair value of $286.5 million, of which SOG Specialty K&T, LLC ("SOG"), Acme Cryogenics, Inc. ("Acme"), and Venyu Solutions, Inc. ("Venyu"), collectively, comprised approximately $101.1 million, or 35.3%, of our total investment portfolio at fair value. The following table outlines our investments by security type as of March 31, 2013 and 2012:

	March 31, 2013				March 31, 2012			
	Cost		Fair Value		Cost		Fair Value	
Senior debt	**$135,745**	**41.6%**	**$103,882**	**36.3%**	$110,475	41.5%	$ 94,886	42.0%
Senior subordinated debt	**103,547**	**31.7**	**86,811**	**30.3**	80,461	30.2	70,661	31.3
Total debt	**239,292**	**73.3**	**190,693**	**66.6**	190,936	71.7	165,547	73.3
Preferred equity	**81,710**	**25.0**	**82,157**	**28.7**	71,084	26.6	46,669	20.7
Common equity/equivalents	**5,419**	**1.7**	**13,632**	**4.7**	4,375	1.7	13,436	6.0
Total equity/equivalents	**87,129**	**26.7**	**95,789**	**33.4**	75,459	28.3	60,105	26.7
Total Investments	**$326,421**	**100.0%**	**$286,482**	**100.0%**	$266,395	100.0%	$225,652	100.0%

Investments at fair value consisted of the following industry classifications as of March 31, 2013 and 2012:

	March 31, 2013		March 31, 2012	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Chemicals, Plastics, and Rubber	**$ 59,170**	**20.7%**	$ 46,793	20.7%
Electronics	**43,970**	**15.3**	23,330	10.3
Diversified/Conglomerate Manufacturing	**32,698**	**11.4**	29,017	12.9
Machinery (Non-agriculture, Non-construction, Non-electronic	**32,662**	**11.4**	30,770	13.6
Leisure, Amusement, Motion Pictures, Entertainment	**29,822**	**10.4**	30,096	13.3
Home and Office Furnishings, Housewares, and Durable Consumer Products	**23,512**	**8.2**	2,623	1.2
Containers, Packaging, and Glass	**23,019**	**8.0**	24,332	10.8
Aerospace and Defense	**20,876**	**7.3**	6,713	3.0
Automobile	**7,467**	**2.6**	—	—
Cargo Transport	**6,897**	**2.4**	13,017	5.8
Buildings and Real Estate	**6,020**	**2.2**	9,277	4.1
Beverage Food and Tobacco	**369**	**0.1**	—	—
Oil and Gas	—	—	9,684	4.3
Total Investments	**$286,482**	**100.0%**	$225,652	100.0%

The investments, at fair value, were included in the following geographic regions of the U.S. as of March 31, 2013 and 2012:

	March 31, 2013		March 31, 2012	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	**$125,518**	**43.8%**	$110,411	48.9%
West	**81,400**	**28.4**	77,604	34.4
Northeast	**58,319**	**20.4**	30,924	13.7
Midwest	**21,245**	**7.4**	6,713	3.0
Total Investments	**$286,482**	**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 for the next five fiscal years and thereafter, assuming no voluntary prepayments, as of March 31, 2013:

		Amount
For the fiscal year ending March 31:	2014	$ 20,118
	2015	64,348
	2016	42,164
	2017	60,935
	2018	51,983
	Thereafter	—
	Total contractual repayments	**$239,548**
	Investments in equity securities	87,129
	Adjustments to cost basis on debt securities	(256)
	Total cost basis of investments held as of March 31, 2013:	**$326,421**

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 *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 March 31, 2013 and 2012, we had gross receivables from portfolio companies of $1.2 million and $0.3 million, respectively. The allowance for uncollectible receivables was $44 and $0 as of March 31, 2013 and 2012, respectively.

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

We entered into an investment advisory and management agreement with the Adviser (the "Advisory Agreement"). The Adviser 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, our Board of Directors approved the renewal of the Advisory Agreement through August 31, 2013.

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

	Year Ended March 31,	
	2013	2012
Average total assets subject to base management fee[A]	**$270,600**	$219,300
Multiplied by prorated annual base management fee of 2%	**2.0%**	2.0%
Base management fee[B]	**5,412**	4,386
Credit for fees received by Adviser from the portfolio companies	**(1,107)**	(1,106)
Net base management fee	**$ 4,305**	$ 3,280
Incentive fee[B]	**2,585**	19
Credit from waiver issued by Adviser's board of directors	**(221)**	(54)
Net Incentive fee	**$ 2,364**	$ (35)
Total credits to fees:		
Credit for fees received by Adviser from the portfolio companies	**(1,107)**	(1,106)
Credit from waiver issued by Adviser's board of directors[C]	**(221)**	(54)
Credit to fees from Adviser[B]	**$ (1,328)**	$ (1,160)

(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 *Consolidated Statement of Operations*.

Base Management Fee

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2.0% computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. Overall, the base management fee cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year. In addition, the following three items are potential adjustments to the base management fee calculation.

- *Loan Servicing Fees*

  Our Adviser also services the loans held by our wholly owned subsidiary, Business Investment, in return for which our Adviser receives a 2.0% annual fee based on the monthly aggregate outstanding balance of loans pledged under our Credit Facility. Since we own these loans, all loan servicing fees paid to our 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 syndicated loan participations, for the years ended March 31, 2013 and 2012.

- *Portfolio Company Fees*

  Under the Advisory Agreement, our 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 others are credited against the base management fee that we would otherwise be required to pay to our 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).

Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the income-based incentive fee to the extent net investment income did not 100% cover distributions to common stockholders for the three months ended March 31, 2013.

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 net 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 net 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 net 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 March 31, 2013, as cumulative net 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 March 31, 2013.

Administration Agreement

We have entered into an administration agreement (the "Administration Agreement") with Gladstone Administration, LLC (the "Administrator"), an affiliate of ours and 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 serviced by the Administrator 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 *Consolidated Statements of Assets and Liabilities* were as follows:

	As of March 31,	
	2013	2012
Base management fee due to Adviser	**$ 625**	$513
Incentive fee to (credit from) Adviser	**1,454**	(54)
Other due (from) to Adviser	**(12)**	37
Total fees due to Adviser	**$2,067**	$496
Fee due to Administrator	**$ 221**	$218
Total related party fees due	**$2,288**	$932

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. ("KEF") also joined the Credit Facility as a 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 could have been expanded up to a total of $175.0 million through the addition of other lenders to the facility. Advances under the Credit Facility generally bore interest at 30-day LIBOR, plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts.

On October 5, 2012, we entered into an amendment to our Credit Facility, which extended the maturity date on our Credit Facility one year. As a result of the amendment, our Credit Facility was scheduled to mature on October 25, 2015, and, if not renewed or extended by the extended maturity date, all principal and interest would have been due and payable on or before October 25, 2016 (one year after the extended maturity date). A one-year extension option to be agreed upon by all parties could have been exercised on or before October 26, 2013.

On April 30, 2013, we entered into a fifth amended and restated credit agreement to, in part, increase the commitment amount and extend the maturity of our Credit Facility. See Note 15—*Subsequent Events* for further discussion of our April 2013 fifth amended and restated credit agreement of our Credit Facility.

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

	As of March 31,	
	2013	2012
Commitment amount	**$ 60,000**	$ 60,000
Borrowings outstanding at cost	**31,000**	—
Availability	**29,000**	58,399

	For the Years Ended March 31,	
	2013	2012
Weighted average borrowings outstanding	**$ 15,533**	$ 7,336
Effective interest rate[(A)]	**5.49%**	10.0%
Commitment (unused) fees incurred	**$ 225**	$ 371

(A) Excludes the impact of deferred financing fees.

Interest is payable monthly during the term of the Credit Facility. Available borrowings are subject to various constraints imposed under the revolving line of credit and 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 was also the trustee of the account and remits the collected funds to us once a month.

Generally, our Credit Facility contains covenants that require Business Investment to, among other things, 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. Our Credit Facility also limits payments on distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2013, 2014, 2015 and 2016. 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 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 mandatory redeemable 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) its status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2013, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $281.0 million, an asset coverage of 272% 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 March 31, 2013, Business Investment had 16 obligors. As of March 31, 2013, we were in compliance with all covenants.

Short-Term Loan

Similar to previous quarter ends, to maintain our status as a RIC, we purchased $65.0 million of short-term U.S. Treasury Bills ("T-Bills") through Jefferies & Company, Inc. ("Jefferies") on March 28, 2013. 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 *Consolidated Statement of Assets and Liabilities* as of March 31, 2013. The T-Bills were purchased on margin using $7.0 million in cash and the proceeds from a $58.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 1.42%. On April 4, 2013, when the T-Bills matured, we repaid the $58.0 million loan from Jefferies and received back the $7.0 million margin payment sent to Jefferies to complete the transaction.

Secured Borrowing

In August 2012, we entered into a participation agreement with a third-party related to $5.0 million of our senior subordinated term debt investment in Ginsey. We evaluated whether the transaction should be accounted for as a sale or a financing-type transaction under the applicable guidance of ASC 860. Based on the terms of the participation agreement, we are required to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our accompanying *Consolidated Statements of Assists and Liabilities* reflects the entire senior subordinated term debt investment in Ginsey and a corresponding $5.0 million secured borrowing liability. The secured borrowing has a stated interest rate of 7% and a maturity date of January 3, 2018.

Fair Value

We elected to apply ASC 825, "Financial Instruments," specifically for our revolving line of credit 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 both March 31, 2013 and 2012, all of our borrowings were valued using Level 3 inputs. The following tables present the short-term loan and Credit Facility and carried at fair value as of March 31, 2013 and 2012, by caption on our accompanying *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 years ended March 31, 2013 and 2012:

	Level 3 – Borrowings Total Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities*	
	March 31, 2013	March 31, 2012
Short-Term Loan	**$ 58,016**	$ 76,005
Credit Facility	**31,854**	—
Total	**$ 89,870**	**$ 76,005**

Fair Value Measurements of Borrowings Using Significant Unobservable Inputs (Level 3)

	Short-Term Loan	Credit Facility	Total Fair Value Reported in *Consolidated Statements of Assets and Liabilities*
Year ended March 31, 2013:			
Fair value as of March 31, 2012	**$ 76,005**	**$ —**	**$ 76,005**
Borrowings	**250,063**	**144,000**	**394,063**
Repayments	**(268,052)**	**(113,000)**	**(381,052)**
Net unrealized appreciation[(a)]	**—**	**854**	**854**
Fair value as of March 31, 2013	**$ 58,016**	**$ 31,854**	**$ 89,870**
Year ended March 31, 2012:			
Fair value as of March 31, 2011	$ 40,000	$ —	$ 40,000
Borrowings	254,507	59,200	313,707
Repayments	(218,502)	(59,200)	(277,702)
Fair value as of March 31, 2012	**$ 76,005**	**$ —**	**$ 76,005**

(A) Included in net unrealized (depreciation) appreciation on our accompanying *Consolidated Statement of Operations* for the year ended March 31, 2013.

The fair value of the collateral under our Credit Facility was approximately $263.7 million and $228.3 million as of March 31, 2013 and 2012, respectively. The fair value of the collateral under the short-term loan was approximately $65.0 million and $85.0 million as of March 31, 2013 and 2012, respectively.

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 our 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 *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 unrealized appreciation (depreciation) of other on our accompanying *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 March 31, 2013 and 2012, our interest rate cap agreement(s) were valued using Level 3 inputs. The following table summarizes the key terms of each interest rate cap agreement:

Interest Rate Cap[A]	Notional Amount	LIBOR Cap	Effective Date	Maturity Date	As of March 31, 2013 Cost	2013 Fair Value	2012 Cost	2012 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	—	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 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. We incurred $2.0 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *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.

Our Board of Directors declared and paid the following monthly distributions to preferred stockholders for the years ended March 31, 2013 and 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**
	July 1 – 31	July 10, 2012	July 20, 2012	July 31, 2012	**0.1484375**
	August 1 – 31	July 10, 2012	August 22, 2012	August 31, 2012	**0.1484375**
	September 1 – 30	July 10, 2012	September 19, 2012	September 28, 2012	**0.1484375**
	October 1 – 31	October 10, 2012	October 22, 2012	October 31, 2012	**0.1484375**
	November 1 – 30	October 10, 2012	November 19, 2012	November 30, 2012	**0.1484375**
	December 1 – 31	October 10, 2012	December 19, 2012	December 31, 2012	**0.1484375**
	January 1 – 31	January 8, 2013	January 18, 2013	January 31, 2013	**0.1484375**
	February 1 – 28	January 8, 2013	February 15, 2013	February 28, 2013	**0.1484375**
	March 1– 31	January 8, 2013	March 15. 2013	March 28, 2013	**0.1484375**
				Year Ended March 31, 2013:	**$ 1.7812500**
2012	March 6 – 31 [A]	March 12, 2012	March 22, 2012	March 30, 2012	**0.12369792**
				Year Ended March 31, 2012:	**$ 0.12369792**

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 statement of operations as of the ex-dividend date. The fair value of the Term Preferred Stock based on the last reported closing price as of March 31, 2013 and 2012, was approximately $42.7 million and $40.0 million, respectively.

Aggregate Term Preferred Stock distributions declared and paid for the year ended March 31, 2013, were approximately $2.8 million. The tax character of distributions paid by us to preferred stockholders is from ordinary income.

NOTE 8. COMMON STOCK

Registration Statement

We filed a universal 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, which the SEC declared effective on July 26, 2012. The registration statement 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 two or more of such securities.

On October 5, 2012, we completed a public offering of 4.0 million shares of our common stock at a public offering price of $7.50 per share, which was below our then current net asset value ("NAV") per share. Gross proceeds totaled $30.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $28.3 million, which we used to repay borrowings under our Credit Facility. In connection with the offering, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3.0 million and net proceeds, after deducting underwriting discounts, of $2.8 million.

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

The following table sets forth the computation of basic and diluted net increase in net assets resulting from operations per common share for the years ended March 31, 2013 and 2012:

	Year Ended March 31,	
	2013	2012
Numerator for basic and diluted net increase in net assets resulting from operations per common share	**$ 17,279**	$ 21,966
Denominator for basic and diluted weighted average common shares	**24,189,148**	22,080,133
Basic and diluted net increase in net assets resulting from operations per common share	**$ 0.71**	$ 0.99

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 be taxed as a RIC under Subtitle A, Chapter 1, Subchapter M of the Code. 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. For calendar years ended December 31, 2012, 2011 and 2010, 100% of our common distributions during these periods were deemed to be paid from ordinary income for 1099 shareholder reporting purposes.

Our Board of Directors declared the following monthly distributions to common stockholders for the years ended March 31, 2013 and 2012:

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**
	July 10, 2012	July 20, 2012	July 31, 2012	**0.050**
	July 10, 2012	August 22, 2012	August 31, 2012	**0.050**
	July 10, 2012	September 19, 2012	September 28, 2012	**0.050**
	October 10, 2012	October 22, 2012	October 31, 2012	**0.050**
	October 10, 2012	November 19, 2012	November 30, 2012	**0.050**
	October 10, 2012	December 19, 2012	December 31, 2012	**0.050**
	January 8, 2013	January 18, 2013	January 31, 2013	**0.050**
	January 8, 2013	February 15, 2013	February 28, 2013	**0.050**
	January 8, 2013	March 15, 2013	March 28, 2013	**0.050**
			Year Ended March 31, 2013:	**$ 0.600**
2012	April 12, 2011	April 22, 2011	April 29, 2011	**$ 0.045**
	April 12, 2011	May 14, 2011	May 31, 2011	**0.045**
	April 12, 2011	June 20, 2011	June 30, 2011	**0.045**
	July 12, 2011	July 22, 2011	July 29, 2011	**0.050**
	July 12, 2011	August 19, 2011	August 31, 2011	**0.050**
	July 12, 2011	September 22, 2011	September 30, 2011	**0.050**
	October 11, 2011	October 21, 2011	October 31, 2011	**0.050**
	October 11, 2011	November 17, 2011	November 30, 2011	**0.050**
	October 11, 2011	December 21, 2011	December 30, 2011	**0.050**
	January 10, 2012	January 12, 2012	January 31, 2012	**0.050**
	January 10, 2012	February 21, 2012	February 29, 2012	**0.050**
	January 10, 2012	March 22, 2012	March 30, 2012	**0.050**
	March 12, 2012	March 22, 2012	March 30,2012	**0.030**[A]
			Year Ended March 31, 2012:	**$ 0.615**

[A] A bonus dividend on our common stock of $0.03 per share was declared by our Board of Directors.

Aggregate common distributions declared quarterly and paid for the years ended March 31, 2013 and 2012 were approximately $14.5 million and $13.6 million, respectively, which were declared based on estimates of net investment income for the respective fiscal years. For the fiscal years ended March 31, 2013 and 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 $3.1 million and $0.7 million, respectively, of the first common distribution paid in fiscal year 2014 and 2013, respectively, as having been paid in the respective prior year.

The components of net assets on a tax basis were as follows:

	Year Ended March 31,	
	2013	2012
Common stock	**$ 26**	$ 22
Paid-in-capital	**287,713**	257,131
Net unrealized depreciation of investments	**(40,310)**	(41,115)
Net unrealized depreciation of other	**(883)**	(68)
Undistributed ordinary income	**3,106**	694
Capital loss carryforward	**(8,663)**	(9,360)
Post October loss deferral	**—**	(105)
Other temporary differences	**(44)**	(1)
Other	**18**	18
Net assets	**$240,963**	$207,216

We intend to retain realized gains first to the extent we have available capital loss carryforwards and second, through a deemed distribution. As of March 31, 2013, we had $8.7 million of capital loss carryforwards that expire in 2018.

For the years ended March 31, 2013 and 2012, we recorded the following adjustments for permanent book-tax differences to reflect tax character. Results of operations and net assets were not affected by this revision.

	Tax Year Ended March 31,	
	2013	2012
Undistributed net investment income	**$ 428**	$ (8)
Accumulated net realized loss	**—**	69
Paid-in-capital	**(428)**	(61)

The tax character of distributions paid by us to common stockholders is summarized as follows:

	Tax Year Ended March 31,	
	2013	2012
Distributions from ordinary income	**$ 14,547**	$ 13,579
Distributions from return of capital	**—**	—
Total common distributions	**$ 14,547**	$ 13,579

NOTE 11. FEDERAL AND STATE INCOME TAXES

We intend to continue to qualify for treatment as a RIC under subchapter M of the Code. As a RIC, we will not be subject to federal income tax on the portion of our taxable income and gains distributed to common stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We intend to distribute a minimum of 90% of our ordinary income, and, as a result, no income tax provisions have been recorded. We may, but do not intend to, pay out a return of capital. 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 capital gains in excess of capital losses for preceding years that were not distributed during such years. For the calendar years ended December 31, 2012 and 2011, we incurred $31 and $30, respectively, in excise taxes.

We must also meet the asset diversification threshold at the end of each quarter of our taxable year under the Code's rules applicable to a RIC, which is referred to herein as the 50% threshold. For each quarter end since June 30, 2009 (the "measurement dates"), we satisfied the 50% threshold through the purchase of short-term qualified securities, which was funded primarily through a short-term loan agreement. Subsequent to 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. As of the date of this filing, we remain below the 50% threshold. Thus, while we currently qualify as a RIC despite our current inability to continuously meet the 50% threshold and potential inability to do so in the future, if we make any additional investments before regaining compliance with the asset diversification test, our RIC status will be threatened. Failure to meet the 50% threshold alone will not result in loss of RIC status in our current situation. In circumstances where the failure to meet the 50% threshold as of a quarterly measurement date is the result of fluctuations in the value of assets, including as a result of the sale of assets, as in our present situation, we are still deemed to have satisfied the asset diversification test and, therefore, maintain our RIC status, as long as 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. If we make an investment and do not regain continuous compliance with the 50% threshold prior to the next quarterly measurement date following the investment, we would have thirty days to "cure" our failure of the asset diversification test to avoid a loss of 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 meet or exceed the 50% threshold.

Additionally, under the RIC Act, we will be 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 be considered all short-term, as permitted under the previous regulation.

NOTE 12. COMMITMENTS AND CONTINGENCIES

As of March 31, 2013, 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 March 31, 2013, 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, 2012 and 2013 and expires in February 2014, unless it is renewed again by us, CCE and Agricredit. In connection with this guarantee and its subsequent renewals, we recorded aggregate premiums of $0.4 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.

The following table summarizes the dollar balance of unused line of credit commitments and guarantees as of March 31, 2013 and 2012:

	As of March 31,	
	2013	2012
Unused line of credit commitments	**$1,584**	$1,671
Guarantees	**3,870**	4,748
Total	**$5,454**	$6,419

Escrow Holdbacks

From time to time, we will enter into arrangements relating to exits of certain investments whereby specific amounts of the proceeds are held in escrow to be used to satisfy potential obligations, as stipulated in the sales agreements. We record escrow amounts in restricted cash on our accompanying *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 recorded against the escrow amounts was $0 and $0.3 million as of March 31, 2013 and 2012, respectively, and is included in other liabilities on our accompanying *Consolidated Statements of Assets and Liabilities*.

NOTE 13. FINANCIAL HIGHLIGHTS

	Year Ended March 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Per Common Share Data:					
Net asset value at beginning of year[A]	**$ 9.38**	$ 9.00	$ 8.74	$ 9.73	$ 12.47
Income from investment operations[B]					
Net investment income	**0.68**	0.62	0.73	0.48	0.62
Net realized gain (loss) on investments and other	**0.03**	0.23	1.06	(1.63)	(0.23)
Net unrealized appreciation (depreciation) on investments and Other	**—**	0.14	(1.05)	0.65	(0.92)
Total from investment operations	**0.71**	0.99	0.74	(0.50)	(0.53)
Distributions to common stockholders from[C]					
Net Investment Income	**(0.60)**	(0.61)	(0.48)	(0.48)	(0.62)
Tax return on capital	**—**	—	—	—	(0.34)
Total distributions	**(0.60)**	(0.61)	(0.48)	(0.48)	(0.96)
Effect of capital share activity					
Shelf registration offering costs	**(0.08)**	—	—	(0.01)	(0.03)
Net dilutive effect of equity offering[D]	**(0.31)**	—	—	—	(1.22)
Total from capital share transactions	**(0.39)**	—	—	(0.01)	(1.25)
Net asset value at end of year[A]	**$ 9.10**	$ 9.38	$ 9.00	$ 8.74	$ 9.73
Per common share market value at beginning of year	**$ 7.57**	$ 7.79	$ 6.01	$ 3.67	$ 9.32
Per common share market value at end of year	**7.31**	7.57	7.76	5.98	3.82
Total return[E]	**4.73%**	5.58%	38.56%	79.80%	(51.65)%
Common stock outstanding at end of year[A]	**26,475,958**	22,080,133	22,080,133	22,080,133	22,080,133
Statement of Assets and Liabilities Data:					
Net assets at end of year	**$ 240,963**	$ 207,216	$ 198,829	$ 192,978	$ 214,802
Average net assets[F]	**216,751**	204,595	192,893	191,112	230,738
Senior Securities Data:					
Total borrowings at cost	**$ 94,016**	$ 76,005	$ 40,000	$ 102812	$ 110,265
Mandatorily redeemable term preferred stock	**40,000**	40,000	—	—	—
Asset coverage ratio[G]	**272%**	268%	534%	281%	293%
Average coverage per unit[H]	**$ 2,725**	$ 2,676	$ 5,344	$ 2,814	$ 2,930
Ratios/Supplemental Data:					
Ratio of expenses to average net assets[I]	**7.09%**	4.23%	5.48%	5.76%	6.46%
Ratio of net expenses to average net assets[J][K]	**6.48**	3.67	5.13	5.33	5.38
Ratio of net investment income to average net assets[L]	**7.61**	6.72	8.38	5.55	5.80

(A) Based on actual shares outstanding at the end of the corresponding year.

(B) Based on weighted average per basic common 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) In fiscal year ended March 31, 2013, the dilution is the result of issuing common shares at a price below then current NAV. In fiscal year ended March 31, 2009, the effect of distributions from the stock rights offering after the record date represents the effect on NAV of issuing additional shares after the record date of a distribution.

(E) Total return equals the change in the market value of our common stock from the beginning of the year, 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 11—*Distributions to Common Stockholders.*

(F) Calculated using the average balance of net assets at the end of each month of the reporting year.

(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) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.

(J) Ratio of net expenses to average net assets is computed using total expenses net of credits to the management fee.

(K) Had we not received any voluntary waivers of fees due to the Adviser, the ratio of net expenses to average net assets would have been 6.58%, 3.69%, 5.14%, 5.54% and 6.08% for the fiscal years ended March 31, 2013, 2012, 2011, 2010 and 2009, respectively.

(L) Had we not received any voluntary waivers of fees due to the Adviser, the ratio of net investment income to average net assets would have been 7.71%, 6.69%, 8.38%, 5.34% and 5.10% for the fiscal years ended March 31, 2013, 2012, 2011, 2010 and 2009, respectively.

NOTE 14. SELECTED QUARTERLY DATA (UNAUDITED)

	Quarter Ended			
Fiscal Year 2013	**June 30, 2012**	**September 30, 2012**	**December 31, 2012**	**March 31, 2013**
Total investment income	$ 5,905	$ 6,974	$ 7,184	$ 10,475
Net investment income	3,238	3,451	3,952	5,847
Net (decrease) increase in net assets resulting from operations	(3,017)	(353)	4,699	15,950
Net (decrease) increase in net assets resulting from operations per weighted average common share – basic & diluted	$ (0.13)	$ (0.02)	$ 0.18	$ 0.60

	Quarter Ended			
Fiscal Year 2012	**June 30, 2011**	**September 30, 2011**	**December 31, 2011**	**March 31, 2012**
Total investment income	$ 5,263	$ 5,034	$ 5,169	$ 5,776
Net investment income	3,501	3,309	3,442	3,491
Net increase (decrease) in net assets resulting from operations	4,188	12,695	5,495	(412)
Net increase (decrease) in net assets resulting from operations per weighted average common share – basic & diluted	$ 0.19	$ 0.57	$ 0.25	$ (0.02)

NOTE 15. SUBSEQUENT EVENTS

New Portfolio Activity

In April 2013, we invested $17.7 million in a new Control investment, Jackrabbit, Inc. (“Jackrabbit”), through a combination of debt and equity. Jackrabbit, headquartered in Ripon, California, is a manufacturer of nut harvesting equipment.

Credit Facility Extension and Expansion

On April 30, 2013, we, through our wholly-owned subsidiary, Business Investment, entered into a fifth amended and restated credit agreement providing for a $70.0 million revolving line of credit (the “Credit Facility”) arranged by KEF as administrative agent. BB&T also joined the Credit Facility as a lender. The fifth amended and restated agreement increased the net commitment amount from $60.0 million to $70.0 million and extended the maturity date approximately six months to April 30, 2016 (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 April 30, 2017 (one year after the Maturity Date). In addition, there are two one-year extension options to be agreed upon by all parties, which may be exercised on or before April 30, 2014 and 2015, respectively. Subject to certain terms and conditions, the Credit Facility may be expanded up to a total of $200.0 million through the addition of other lenders to the facility. We incurred fees of $0.3 million in connection with this fifth amended and restated credit agreement. All other terms generally remained unchanged from the prior revolving line of credit.

Short-Term Loan

On March 28, 2013, we purchased $65.0 million of T-Bills through Jefferies. The T-Bills were purchased on margin using $7.0 million in cash and the proceeds from a $58.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 1.42%. On April 4, 2013, when the T-Bills matured, we repaid the $58.0 million loan from Jefferies and received the $7.0 million margin payment sent to Jefferies to complete the transaction.

Distributions

On April 9, 2013, 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
April 22, 2013	April 30, 2013	$ 0.05	$ 0.1484375
May 14, 2013	May 31, 2013	0.05	0.1484375
June 19, 2013	June 28, 2013	0.05	0.1484375
	Total for the Quarter:	**$ 0.15**	**$ 0.4453125**

Part C — OTHER INFORMATION

Item 25. ***Financial Statements and Exhibits***

1. Financial Statements

The following financial statements of Gladstone Investment Corporation (the "Company" or the "Registrant") are included in the Registration Statement in "Part A: Information Required in a Prospectus:"

GLADSTONE INVESTMENT CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements

2. Exhibits

Exhibit Number	Description
2.a.1	Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit a.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005.
2.a.2	Certificate of Designation of 7.125% Series A Cumulative Term Preferred Stock of Gladstone Investment Corporation, incorporated by reference to Exhibit 2.a.2 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720) filed February 29, 2012.
2.b.1	Amended and Restated Bylaws, incorporated by reference to Exhibit b.2 to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.b.2	First Amendment to Amended and Restated Bylaws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00704), filed July 10, 2007.
2.c	Not applicable.
2.d.1	Specimen Stock Certificate, incorporated by reference to Exhibit 99.d to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.d.2	Form of Senior Indenture, incorporated by reference to Exhibit 2.d.2 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006.

Exhibit Number	Description
2.d.3	Form of Subordinated Indenture, incorporated by reference to Exhibit 2.d.3 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006.
2.d.4	Specimen 7.125% Series A Cumulative Term Preferred Stock Certificate, incorporated by reference to Exhibit 2.d.4 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720), filed February 29, 2012.
2.d.5*	Form of Common Stock Subscription Form and Subscription Certificate.
2.d.6*	Form of Preferred Stock Subscription Form and Subscription Certificate.
2.d.7*	Form of Common Stock Warrant Agreement and Warrant Certificate.
2.d.8*	Form of Preferred Stock Warrant Agreement and Warrant Certificate.
2.e	Dividend Reinvestment Plan, incorporated by reference to Exhibit 99.e to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.f	Not applicable.
2.g	Investment Advisory and Management Agreement between the Registrant and Gladstone Management Corporation, incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012).
2.h	Not applicable.
2.i	Not applicable.
2.j.1	Custody Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit 99.j to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.j.2	Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated October 10, 2006.
2.j.3	Amendment No. 1 to Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated April 14, 2009.
2.k.1	Administration Agreement between the Registrant and Gladstone Administration, LLC, dated June 22, 2005, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012).
2.k.2	Stock Transfer Agency Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit k.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005.
2.k.3	Fifth Amended and Restated Credit Agreement, dated as of April 30, 2013, by and among Gladstone Business Investment, LLC, as Borrower, Gladstone Management Corporation, as servicer, the financial institutions as party thereto, as Lenders and Managing Agents, and Key Equipment Finance, Inc., as Administrative Agent and Lead Arranger, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 2, 2013.
2.l	Opinion of Bass, Berry & Sims PLC.
2.m	Not applicable.
2.n.1	Consent of Bass, Berry & Sims PLC (included in Exhibit 2.l).
2.n.2	Consent of PricewaterhouseCoopers LLP.
2.n.3	Report of Independent Registered Public Accounting Firm on Financial Statement Schedule.
2.o	Not applicable.
2.p	Founder Stock Purchase Agreement between the Registrant and David Gladstone, incorporated by reference to Exhibit p to the Registration Statement on Form N-2 (File No. 333-123699), filed March 31, 2005.
2.q	Not applicable.
2.r	Code of Ethics and Business Conduct, updated January 28, 2013.
2.s.1*	Power of Attorney (included in the signature page to the Registration Statement, filed on June 4, 2012).
2.s.2	Computation of Ratio of Earnings to Fixed Charges.
2.s.3	Statement of Eligibility of trustee on Form T-1 (to be filed pursuant to Section 305(b)(2) of the Trust Indenture Act of 1939).

* Previously filed.

Item 26. ***Marketing Arrangements***

The information contained under the heading “Plan of Distribution” in the prospectus is incorporated herein by reference, and any information concerning any underwriters will be contained in the accompanying prospectus supplement, if any.

Item 27. ***Other Expenses of Issuance and Distribution***

Commission registration fee	$ 34,380
FINRA fee	30,500
Accounting fees and expenses	75,000*
Legal fees and expenses	250,000*
Printing and engraving	100,000*
Miscellaneous fees and expenses	15,000*
Total	$487,240*

* These amounts are estimates.

All of the expenses set forth above shall be borne by the Registrant.

Item 28. ***Persons Controlled by or Under Common Control***

Gladstone Business Investment, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Registrant.

Gladstone Investment Advisers, Inc., a Delaware corporation and wholly-owned subsidiary of the Registrant.

ACME Cryogenics Inc., a Pennsylvania corporation controlled by the Registrant through 70% ownership.

CCE Investment Corp., a Delaware corporation and wholly-owned subsidiary of the Registrant.

Mustang Eagle Partnership, LLC, a Delaware limited liability company and wholly-owned subsidiary of CCE Investment Corp.

Country Club Enterprises, LLC, a Massachusetts limited liability company, controlled by Mustang Eagle Partnership, LLC through 47% ownership.

ASH Holdings Corp., a Delaware corporation and wholly-owned subsidiary of the Registrant.

Auto Safety House, LLC, a Delaware limited liability company, controlled by ASH Holdings, Corp. through 73% ownership.

Galaxy Tool Holding Corporation, a Delaware corporation controlled by the Registrant through 55% ownership.

Mathey Investments, Inc., a Oklahoma corporation controlled by the Registrant through 85% ownership.

Gladstone SOG Investments, Inc., a Delaware corporation and wholly-owned subsidiary of the Registrant.

SOG Investments I LLC, a Delaware limited liability company controlled by Gladstone SOG Investments, Inc. through 100% ownership.

Tread Corporation, a Delaware corporation controlled by the Registrant through 89% ownership.

Neville Limited, a Delaware corporation controlled by the Registrant through 100% stock ownership.

Quench Holdings Corp., a Delaware corporation controlled by the Registrant.

Precision Southeast Holdings, Inc., a Delaware corporation controlled by the Registrant through 77% stock ownership.

SBS Industries Holdings, Inc., a Delaware corporation controlled by the Registrant through 76% ownership.

SBS Industries, LLC, a Delaware limited liability company controlled by SBS Industries Holdings, Inc. through 100% ownership.

Venyu Solutions, Inc, a Louisiana corporation controlled by Venyu Holdings, LLC through 100% ownership.

Venyu Holdings, LLC, a Delaware limited liability company controlled by Venyu Investments, LLC though 54% ownership.

Venyu Investments, LLC, a Delaware limited liability company controlled by the Registrant through 100% ownership.

MRP Holdings Corp., a Delaware corporation controlled by the Registrant through 31% ownership.

GAIN CTG Holdings, Inc., a Delaware corporation controlled by the Registrant through 100% ownership.

Ginsey Holdings Acquisition Corp., a Delaware corporation controlled by the Registrant through 95% ownership.

Drew Foam Holdings, LLC, a Delaware limited liability company, controlled by Gladstone Investment Corporation through 96% ownership.

Drew Foam Companies Inc., a Delaware corporation, controlled by Drew Foam Holdings, LLC through 100% ownership.

Drew Foam of South Carolina Inc., a Delaware corporation, controlled by Drew Foam Companies Inc. through 100% ownership.

Frontier Packaging, Inc., a Delaware corporation controlled by the Registrant through 100% ownership.

Jackrabbit Holdings Inc., a Delaware corporation controlled by the Registrant through 100% ownership.

GAIN Funko Investments Inc., a Delaware corporation controlled by the Registrant.

Star Seed Investments LLC, a Delaware limited liability company controlled by the Registrant through 85% common equity ownership.

Star Seed Holdings Inc., a Delaware corporation controlled by Star Seed Investments LLC through 54% common equity ownership

Star Seed Acquisition Inc., a Delaware corporation controlled by Star Seed Holdings Inc through 100% ownership.

Gladstone Capital Corporation, a Delaware corporation controlled by the Registrant's officers and directors.

Gladstone Capital Advisers, Inc., a Delaware corporation and wholly-owned subsidiary of Gladstone Capital Corporation.

Gladstone Business Loan, LLC, a Delaware limited liability company and wholly-owned subsidiary of Gladstone Capital Corporation.

Gladstone Financial Corporation, a Delaware corporation and wholly-owned subsidiary of Gladstone Capital Corporation.

LYP Holdings Corp., a Delaware corporation controlled by Gladstone Capital Corporation.

LocalTel, LLC, a Delaware limited liability company controlled by LYP Holdings Corp., through 57% ownership.

LYP, LLC, a Delaware limited liability company controlled by LYP Holdings Corp., through 100% ownership.

Lindmark Acquisition, LLC a Delaware limited liability company controlled by Lindmark Holdings Corp., through 50% ownership.

Lindmark Holdings Corp., a Delaware corporation controlled by Gladstone Capital Corporation.

Defiance Integrated Technologies, Inc., a Delaware corporation controlled by Gladstone Capital Corporation, through 59% ownership.

1090 Perry Acquisition Corp., a Delaware corporation controlled by Defiance Integrated Technologies, Inc., through 100% ownership.

JBM Tool & Die, Inc., a Delaware corporation controlled by Defiance Integrated Technologies, Inc., through 100% ownership.

Pro Shear Corporation, a Delaware corporation controlled by Defiance Integrated Technologies, Inc., through 100% ownership.

Midwest Metal Distribution, Inc., a Delaware corporation controlled by Gladstone Metal, LLC through 70% ownership.

Gladstone Metal, LLC, a Delaware limited liability company controlled by Gladstone Capital Corporation.

Kansas Cable Holdings, Inc., a Delaware corporation controlled by Gladstone Capital Corporation through 100% ownership.

Sunshine Media Group, Inc., a Delaware corporation controlled by Gladstone Capital Corporation through 72% ownership.

Publication Holdings, Inc., a Delaware corporation controlled by Gladstone Capital Corporation through 100% ownership.

Georgia Film Holdings, LLC, a Delaware limited liability company controlled by the Registrant through 100% ownership.

GLNC Holdings Corp., a Delaware corporation controlled by the Registrant through 100% ownership.

GLAD AGT Holding Corp., a Delaware corporation controlled by the Registrant through 100% ownership.

Consumer Brands Holdings, Inc., a Delaware corporation controlled by the Registrant through 75% ownership.

GLAD FedCap Holding Corp., a Delaware corporation controlled by the Registrant.

GLAD Funko Investments Inc., a Delaware corporation controlled by the Registrant.

Gladstone Commercial Corporation, a Maryland corporation controlled by Gladstone Investment Corporation’s officers and directors.

GCLP Business Trust I, a Massachusetts business trust controlled by Gladstone Commercial Corporation.

GCLP Business Trust II, a Massachusetts business trust controlled by Gladstone Commercial Partners, LLC.

Gladstone Commercial Partners, LLC, a Delaware limited liability company and wholly-owned subsidiary of Gladstone Commercial Corporation.

Gladstone Commercial Advisers, Inc., a Delaware corporation and wholly-owned subsidiary of Gladstone Commercial Corporation.

First Park Ten COCO San Antonio GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

First Park Ten COCO San Antonio LP, a Delaware limited partnership controlled by its general partner, First Park Ten COCO San Antonio GP LLC.

COCO04 Austin TX GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

COCO04 Austin TX LP, a Delaware limited partnership controlled by its general partner, COCO04 Austin TX GP LLC.

Pocono PA GCC, LP, a Delaware limited partnership controlled by its general partner, Pocono PA GCC GP LLC.

Gladstone Commercial Limited Partnership, a Delaware limited partnership controlled by its general partner GCLP Business Trust II.

GCC Acquisition Holdings LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

SLEE Grand Prairie LP, a Delaware limited partnership controlled by its general partner, GCC Acquisition Holdings, Inc.

EE 208 South Rogers Lane, Raleigh, NC LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Gladstone Commercial Lending LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

260 Springside Drive Akron OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Little Arch04 Charlotte NC Member LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Little Arch Charlotte NC LLC, a Delaware limited liability company controlled by its sole member, Little Arch04 Charlotte NC Member LLC.

CMI04 Canton NC LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

OB Midway NC Gladstone Commercial LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

GCC Granby LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Granby Property Trust, a Delaware statutory trust controlled by its grantor, GCC Granby LLC.

GCC Dorval LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Dorval Property Trust, a Delaware statutory trust controlled by its grantor, GCC Dorval LLC.

3094174 Nova Scotia Company, a Nova Scotia corporation controlled by its sole stockholder, Gladstone Commercial Limited Partnership.

3094175 Nova Scotia Company, a Nova Scotia corporation controlled by its sole stockholder, Gladstone Commercial Limited Partnership.

WMI05 Columbus OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

2525 N Woodlawn Vstrm Wichita KS LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Corning Big Flats LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

OB Crenshaw SPE GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

OB Crenshaw GCC LP, a Delaware limited partnership controlled by its general partner, OB Crenshaw SPE GP LLC.

HMBF05 Newburyport MA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

YorkTC05 Eatontown NJ LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

STI05 Franklin NJ LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

AFL05 Duncan SC Member LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

AFL05 Duncan SC LLC, a Delaware limited liability company controlled by its sole member, AFL05 Duncan SC Member LLC.

MSI05-3 LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

WMI05 Hazelwood MO LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

CI05 Clintonville WI LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

PZ05 Maple Heights OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

YCC06 South Hadley MA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

NW05 Richmond VA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

SVMMC05 Toledo OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

ACI06 Champaign IL LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

UC06 Roseville MN LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

TCI06 Burnsville MN LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

RC06 Menomonee Falls WI LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

SJMH06 Baytown TX GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

SJMH06 Baytown TX LP, a Delaware limited partnership controlled by its general partner, SJMH06 Baytown TX GP LLC.

NJT06 Sterling Heights MI LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

CMS06-3 LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

MPI06 Mason OH LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

GSM LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

AC07 Lawrenceville GA LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

EE07 Raleigh NC GP LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

EE07 Raleigh NC, L.P., a Delaware limited partnership, controlled by its general partner, EE07 Raleigh NC GP LLC.

WPI07 Tulsa OK LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

APML07 Hialeah FL LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

EI07 Tewksbury MA LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

GBI07 Syracuse NY LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

CDLCI07 Mason OH LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

FTCH107 Grand Rapids MI LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

DBP107 Bolingbrook IL LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

Pocono PA GCC GP LLC, a Delaware limited liability company, controlled by its manager, Gladstone Commercial Limited Partnership.

RCOG07 Georgia LLC, a Delaware limited liability company, controlled by its manager Gladstone Commercial Limited Partnership.

C08 Fridley MN LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

SRFF08 Reading PA GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

SRFF08 Reading PA, L.P., a Delaware limited partnership controlled by its general partner, SRFF08 Reading PA GP LLC.

OS08 Winchester VA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

RB08 Concord OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

RPT08 Pineville NC GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

RPT08 Pineville NC L.P., a Delaware limited partnership controlled by its general partner, RPT08 Pineville NC GP LLC.

FMCT08 Chalfont PA GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

FMCT08 Chalfont PA, L.P., a Delaware limited partnership controlled by its general partner, FMCT08 Chalfont PA GP LLC.

D08 Marietta OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

ELF08 Florida LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

SCC10 Orange City IA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

TMC11 Springfield MO LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

FS11 Hickory NC GP LLC, a Delaware limited liability company controlled by its manager Gladstone Commercial Limited Partnership.

FS11 Hickory NC, LP, a Delaware limited partnership controlled by its general partner, FS11 Hickory NC GP LLC.

AFR11 Parsippany NJ LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Hemingway at Boston Heights, LLC, a Ohio limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

WEC11 Dartmouth MA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

WC11 Springfield MO LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

CBP11 Green Tree PA GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

CBP11 Green Tree PA, L.P., a Delaware limited partnership controlled by its general partner, CBP11 Green Tree PA GP LLC.

IPA12 Ashburn VA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

IPA12 Ashburn VA LLC, a Delaware limited liability company controlled by its sole equity member, IPA12 Ashburn VA LLC through 100% ownership.

PNA11 Boston Heights OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

ABC12 Ottumwa IA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

CVG12 New Albany OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

NCH 12 Columbus OH LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

TUP12 Columbus GA LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

GCO12 Jupiter FL LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

NH10 Cumming GA, LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

NARA12 Fort Worth TX GP LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

NARA12 Fort Worth TX, L.P., a Delaware limited partnership controlled by its general partner, NARA12 Fort Worth TX GP LLC.

VW12 Columbia SC LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

GCC1302 Egg Harbor NJ LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

AL13 Brookwood LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

MN13 Blaine, LLC, a Delaware limited liability company controlled by its manager, Gladstone Commercial Limited Partnership.

Gladstone Land Corporation, a Maryland corporation controlled by the Registrant’s officers and directors.

Gladstone Land Partners, LLC, a Delaware limited liability company controlled by its manager, Gladstone Land Corporation.

Gladstone Land Advisers, Inc., a Delaware corporation and wholly-owned subsidiary of Gladstone Land Corporation.

Gladstone Land Limited Partnership, a Delaware limited partnership controlled by its general partner, Gladstone Land Partners, LLC.

San Andreas Road Watsonville LLC, a California limited liability company controlled by its manager, Gladstone Land Limited Partnership.

West Gonzales Road Oxnard LLC, a California limited liability company controlled by its manager, Gladstone Land Limited Partnership.

West Beach Street Watsonville, LLC, a California limited liability company controlled by its manager, Gladstone Land Limited Partnership.

Dalton Lane Watsonville, LLC, a California limited liability company controlled by its manager, Gladstone Land Limited Partnership.

Keysville Road Plant City, LLC, a Florida limited liability company controlled by its manager, Gladstone Land Limited Partnership.

Colding Loop Road Wimauma, LLC, a Florida limited liability company controlled by its manager, Gladstone Land Limited Partnership.

Trapnell Road Plant City, LLC, a Florida limited liability company controlled by its manager, Gladstone Land Limited Partnership.

38th Avenue Covert Michigan, LLC, a Delaware limited liability company controlled by its manager, Gladstone Land Limited Partnership.

Sequoia Street Brooks, LLC, a Delaware limited liability company controlled by its manager, Gladstone Land Limited Partnership.

Gladstone Holding Corporation, a Delaware corporation controlled by David Gladstone through 100% indirect stock ownership.

Gladstone Management Corporation, a Delaware corporation controlled by Gladstone Holding Corporation, through 100% ownership.

Gladstone Administration, LLC, a Delaware limited liability company and wholly-owned subsidiary of Gladstone Holding Corporation.

Gladstone Securities, LLC, a Connecticut limited liability company controlled by its member, Gladstone Holding Corporation.

Gladstone General Partner, LLC, a Delaware limited liability company controlled by its manager, Gladstone Management Corporation.

Gladstone Participation Fund LLC, a Delaware limited liability company controlled by Gladstone General Partner, LLC.

Gladstone Partners Fund, LP, a Delaware limited partnership controlled by its general partner, Gladstone Management Corporation.

Gladstone Lending Corporation, a Maryland corporation controlled by David Gladstone through 100% indirect stock ownership.

Item 29. ***Number of Holders of Securities***

The following table sets forth the approximate number of record holders of our common stock at May 31, 2013.

Title of Class	Number of Record Holders
Common Stock, par value $0.001 per share	25

Item 30. ***Indemnification***

Subject to the Investment Company Act of 1940 as amended, or the 1940 Act, or any valid rule, regulation or order of the Securities and Exchange Commission, or the SEC, thereunder, our amended and restated certificate of incorporation and bylaws provide that we will indemnify any person who was or is a party or is threatened to be made a party to any threatened action, suit or proceeding whether civil, criminal, administrative or investigative, by reason of the fact that he is or was our director or officer, or is or was serving at our request as a director, officer, partner or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise to the maximum extent permitted by Section 145 of the Delaware General Corporation Law. The 1940 Act provides that a company may not indemnify any director or officer against liability to it or its security holders to which he or she might otherwise be subject by reason of his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of the foregoing conduct. In addition to any indemnification to which our directors and officers are entitled pursuant to our certificate of incorporation and bylaws and the Delaware General Corporation Law, our certificate of incorporation and bylaws permit us to indemnify our other employees and agents to the fullest extent permitted by the Delaware General Corporation Law, whether such employees or agents are serving us or, at our request, any other entity.

In addition, the investment advisory and management agreement between us and our Adviser, as well as the administration agreement between us and our Administrator, each provide that, absent willful misfeasance, bad faith, or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, our Adviser and our Administrator, as applicable, and their respective officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with them are entitled to indemnification from us for any damages, liabilities, costs, and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of our Adviser's services under the investment advisory and management agreement or otherwise as our investment adviser, or the rendering of our Administrator's services under the administration agreement, or otherwise as an administrator for us, as applicable.

Item 31. ***Business and Other Connections of Investment Adviser***

A description of any other business, profession, vocation or employment of a substantial nature in which our Adviser, and each director or executive officer of our Adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the section entitled "Management." Additional information regarding our Adviser and its officers and directors is set forth in its Form ADV, as filed with the SEC, and is incorporated herein by reference.

Item 32. ***Location of Accounts and Records***

All accounts, books or other documents required to be maintained by Section 31(a) of the 1940 Act and the rules thereunder are maintained at the offices of:

(1) the Registrant, Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 200, McLean, VA 22102;

(2) the Transfer Agent, Computershare, 480 Washington Boulevard, Jersey City, NJ 07310;

(3) the Adviser, Gladstone Management Corporation, 1521 Westbranch Drive, Suite 200, McLean, VA 22102;

(4) the Custodian, The Bank of New York Mellon Corp., 500 Ross Street, Suite 625, Pittsburgh, PA 15262; and

(5) the Collateral Custodian, The Bank of New York Mellon Corp., 500 Ross Street, Suite 625 Pittsburgh, PA 15262.

Item 33. ***Management Services***

Not applicable.

Item 34. ***Undertakings***

1. We hereby undertake to suspend the offering of shares until the prospectus is amended if, subsequent to the effective date of this registration statement, our net asset value declines more than ten percent from our net asset value as of the effective date of this registration statement.

2. We hereby undertake:

(a) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended, or the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(b) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof;

(c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(d) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use;

(e) that for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities: The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;

(ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser;

(f) To file a post-effective amendment to the registration statement, and to suspend any offers or sales pursuant the registration statement until such post-effective amendment has been declared effective under the Securities Act, in the event the shares of the Registrant are trading below its net asset value and either (i) the Registrant receives, or has been advised by its independent registered accounting firm that it will receive, an audit report reflecting substantial doubt regarding the Registrant's ability to continue as a going concern or (ii) the Registrant has concluded that a material adverse change has occurred in its financial position or results of operations that has caused the financial statements and other disclosures on the basis of which the offering would be made to be materially misleading;

(g) to file a post-effective amendment to the registration statement in respect of any one or more offerings of the Registrant's shares (including warrants and/or rights to purchase the shares) below net asset value that will result in greater than 15% dilution, in the aggregate, to existing net asset value per share;

(h) to file a post-effective amendment to the registration statement in connection with any rights offering; and

(i) to file a post-effective amendment to the registration statement in connection with any combined offering of securities.

3. We hereby undertake that:

(a) for the purpose of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by us under Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(b) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Post-Effective Amendment No. 2 to this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of McLean and the Commonwealth of Virginia, on the 7th day of June, 2013.

GLADSTONE INVESTMENT CORPORATION

By: /s/ DAVID GLADSTONE

David Gladstone
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities indicated on June 7, 2013:

By: /s/ DAVID GLADSTONE

David Gladstone
Chief Executive Officer and Chairman of the
Board of Directors (principal executive officer)

By: /s/ DAVID WATSON

David Watson
Chief Financial Officer and Treasurer
(principal financial and accounting officer)

By: *

Terry L. Brubaker
Vice Chairman, Chief Operating Officer,
and Director

By: *

David A.R. Dullum
President and Director

By: *

Anthony W. Parker
Director

By: *

Michela A. English
Director

By: *

Paul W. Adelgren
Director

By: *

John H. Outland
Director

By: *

Terry Earhart
Director

By: *

John D. Reilly
Director

*By: /s/ David Gladstone
David Gladstone
Attorney-in-fact

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Exhibit List

Exhibit Number	Description
2.a.1	Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit a.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005.
2.a.2	Certificate of Designation of 7.125% Series A Cumulative Term Preferred Stock of Gladstone Investment Corporation , incorporated by reference to Exhibit 2.a.2 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720) filed February 29, 2012.
2.b.1	Amended and Restated Bylaws, incorporated by reference to Exhibit b.2 to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.b.2	First Amendment to Amended and Restated Bylaws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00704), filed July 10, 2007.
2.c	Not applicable.
2.d.1	Specimen Stock Certificate, incorporated by reference to Exhibit 99.d to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.d.2	Form of Senior Indenture, incorporated by reference to Exhibit 2.d.2 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006.
2.d.3	Form of Subordinated Indenture, incorporated by reference to Exhibit 2.d.3 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006.
2.d.4	Specimen 7.125% Series A Cumulative Term Preferred Stock Certificate, incorporated by reference to Exhibit 2.d.4 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720), filed February 29, 2012.
2.d.5*	Form of Common Stock Subscription Form and Subscription Certificate.
2.d.6*	Form of Preferred Stock Subscription Form and Subscription Certificate.
2.d.7*	Form of Common Stock Warrant Agreement and Warrant Certificate.
2.d.8*	Form of Preferred Stock Warrant Agreement and Warrant Certificate.
2.e	Dividend Reinvestment Plan, incorporated by reference to Exhibit 99.e to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.f	Not applicable.
2.g	Investment Advisory and Management Agreement between the Registrant and Gladstone Management Corporation, incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012).
2.h	Not applicable.
2.i	Not applicable.
2.j.1	Custody Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit 99.j to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
2.j.2	Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated October 10, 2006.
2.j.3	Amendment No. 1 to Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated April 14, 2009.
2.k.1	Administration Agreement between the Registrant and Gladstone Administration, LLC, dated June 22, 2005, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012).
2.k.2	Stock Transfer Agency Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit k.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005.
2.k.3	Fifth Amended and Restated Credit Agreement, dated as of April 30, 2013, by and among Gladstone Business Investment, LLC, as Borrower, Gladstone Management Corporation, as servicer, the financial institutions as party thereto, as Lenders and Managing Agents, and Key Equipment Finance, Inc., as Administrative Agent and Lead Arranger, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 2, 2013.
2.l	Opinion of Bass, Berry & Sims PLC.
2.m	Not applicable.
2.n.1	Consent of Bass, Berry & Sims PLC (included in Exhibit 2.l).
2.n.2	Consent of PricewaterhouseCoopers LLP.
2.n.3	Report of Independent Registered Public Accounting Firm on Financial Statement Schedule.
2.o	Not applicable.
2.p	Founder Stock Purchase Agreement between the Registrant and David Gladstone, incorporated by reference to Exhibit p to the Registration Statement on Form N-2 (File No. 333-123699), filed March 31, 2005.
2.q	Not applicable.
2.r	Code of Ethics and Business Conduct, updated January 28, 2013.
2.s.1*	Power of Attorney (included in the signature page to the Registration Statement, filed on June 4, 2012).
2.s.2	Computation of Ratio of Earnings to Fixed Charges.
2.s.3	Statement of Eligibility of trustee on Form T-1 (to be filed pursuant to Section 305(b)(2) of the Trust Indenture Act of 1939).

* Previously filed.

Exhibit 2.j.2

Execution Copy

CUSTODIAL AGREEMENT

CUSTODIAL AGREEMENT, dated as of October 19, 2006 (as amended, supplemented or otherwise modified from time to time, this "Custodial Agreement") among (i) GLADSTONE BUSINESS INVESTMENT LLC, a Delaware limited liability company (the "Borrower"), (ii) GLADSTONE MANAGEMENT CORPORATION, a Delaware corporation (the "Servicer"), (iii) GLADSTONE INVESTMENT CORPORATION, a Delaware corporation (the "Originator"), (iv) THE BANK OF NEW YORK TRUST COMPANY, N.A., not in its individual capacity, but solely as custodian and (v) DEUTSCHE BANK AG, NEW YORK BRANCH, as agent for the Lenders (the "Administrative Agent").

RECITALS

WHEREAS, the Borrower and the Originator are parties to the Purchase and Sale Agreement, dated as of October 19, 2006 (as amended, supplemented, restated or otherwise modified and in effect from time to time, the "Sale Agreement"), pursuant to which the Borrower has agreed to purchase certain Loans made by the Originator.

WHEREAS, the Borrower, the Servicer, the Lenders, the Managing Agents and the Administrative Agent are parties to the Credit Agreement, dated as of October 19, 2006 (as amended, supplemented, restated or otherwise modified and in effect from time to time, the "Credit Agreement"), pursuant to which the Borrower has the benefit, subject to the terms and conditions thereof, of advances from the Lenders to finance the purchase of such Loans under the Sale Agreement.

WHEREAS, pursuant to the Credit Agreement, the Borrower and the Servicer are required, *inter alia*, to take such action as shall be necessary to maintain the Administrative Agent's Lien on the Collateral.

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Definitions.

Unless otherwise defined herein, capitalized terms not otherwise defined herein are used as defined in the Credit Agreement, and the following terms shall have the following meanings:

"Agent" means The Bank of New York.

"Ancillary Document Delivery Letter" shall have the meaning specified in Section 2(a) hereof.

"Custodian" means The Bank of New York Trust Company, N.A., not in its individual capacity, but solely as custodian, and its agents, successors and assigns, as may be appointed by the Agent from time to time.

"Electronic Communication" shall have the meaning specified in Section 17(b) hereof.

"Exception Report" shall have the meaning specified in Section 3 hereof.

"Exceptions" shall have the meaning specified in Section 3 hereof.

"Incumbency Certificate" shall have the meaning specified in Section 19 hereof.

"Loan File" means as to each Loan, those documents listed in Section 2(a) of this Custodial Agreement that are delivered to the Custodian pursuant to Section 2 hereof.

"Loan Schedule" means a list of Loans subject to the Lien of the Credit Agreement, attached as Attachment A to (i) a Primary Document Delivery Letter and (ii) an Ancillary Document Delivery Letter, setting forth, as to each Loan, the applicable information specified on Annex 1 to this Custodial Agreement.

"Primary Document Delivery Letter" shall have the meaning specified in Section 2(a) hereof.

"Primary Document Trust Receipt" shall mean a trust receipt issued by the Custodian pursuant to Section 3 hereof with respect to the promissory note and other primary Loan Documents for any Loan the Loan File of which is held by the Custodian for the benefit of the Administrative Agent, in substantially the form of Annex 2-A hereto.

"Request for Release" shall have the meaning specified in Section 5 hereof.

"Responsible Officer" (i) when used with respect to the Custodian, shall mean any President, Senior Vice President, Vice President, Assistant Vice President, Trust Officer or Assistant Secretary of the Custodian with direct responsibility for the administration of the Custodian's obligations and duties under this Custodial Agreement and with respect to a particular matter, any other officer to whom such matter is referred because of such other officer's knowledge or familiarity with the particular subject, and (ii) with respect to the other parties hereto, shall have the meaning set forth in the Credit Agreement.

"Trust Receipt" shall mean a trust receipt issued by the Custodian pursuant to Section 3 hereof with respect to any Loan held by the Custodian for the benefit of the Administrative Agent, in substantially the form of Annex 2-B hereto.

Section 2. Delivery of Loan File.

(a) (A) At least five (5) Business Days prior to the date any Loan is to be purchased by the Borrower, the Borrower shall deliver or cause the Originator to deliver to the Custodian, as notified to the Custodian in writing, the following documents pertaining to each Loan to be pledged to the Administrative Agent, along with a letter substantially in the form of Annex 3-A hereof (a "Primary Document Delivery Letter") listing each document to be included in the Loan File (whether or not such document is required to be delivered pursuant to this Section 2(a)(A)) for such Loan and to be delivered to the Custodian, which Loan shall be identified in a Loan Schedule delivered in printed and electronic format therewith:

(i) the original executed promissory note issued by the Obligor pursuant to the applicable loan agreement evidencing such Loan;

(ii) an original executed counterpart of the loan agreement or comparable document relating to such Loan;

(iii) an original executed counterpart of each of the Loan Documents granting a Lien on the Collateral for such Loan; and

(iv) a copy of any financing statement filed with respect to any Collateral for such Loan; and

(B) Within two (2) weeks after the original delivery of any Loan Documents with respect to any Loan pursuant to a Primary Document Delivery Letter, the Servicer shall deliver or cause to be delivered to the Custodian an executed original of each additional Loan Document or other document listed on Attachment B to the Primary Document Delivery Letter not previously delivered thereunder and then in the Borrower's or the Servicer's possession, along with a letter substantially in the form of Annex 3-B hereof (an "Ancillary Document Delivery Letter") listing each additional document so delivered for such Loan, which Loan shall be identified in a Loan Schedule delivered therewith. If the Ancillary Document Delivery Letter is not delivered within two (2) weeks, the Custodian shall note an Exception on the monthly report delivered pursuant to Section 11 hereof.

(b) With respect to any documents which have been delivered or are being delivered to recording offices for recording and have not been returned to the Servicer in time to permit their delivery hereunder at the time required, in lieu of delivering such original documents, Servicer shall deliver to the Custodian a true copy (which may be in printed or electronic format) thereof. The Servicer shall deliver such original documents to the Custodian promptly when they are received.

(c) From time to time, the Servicer shall forward to the Custodian additional original documents or additional documents evidencing any assumption, modification, consolidation or extension of any Loan approved by the Servicer, in accordance with the terms of the Credit Agreement or required to be maintained by the Servicer with respect to such Loan pursuant to the Credit Agreement, and upon receipt of any such additional documents, the Custodian shall hold such additional documents in accordance with the terms of this Custodial Agreement.

(d) The Custodian hereby agrees to hold all documents included in a Loan File evidencing or representing ownership in or the Borrower's interest in a Loan which are delivered to the Custodian by the Servicer or by any other third party at the written direction of the Borrower, including without limitation all promissory notes, certificates and other "instruments" within the meaning of the UCC, as agent and bailee of the Administrative Agent on behalf of the Secured Parties, and acknowledges that this Custodial Agreement constitutes notice in accordance with the UCC and other applicable law of the Administrative Agent's security interest in such collateral and does hereby consent thereto.

(e) The Custodian hereby acknowledges that, from the date of receipt of any documents included in a Loan File the Custodian shall hold any and all such documents included in a Loan File for the exclusive use and benefit of the Administrative Agent, and shall make disposition thereof only in accordance with the terms of this Custodial Agreement.

Section 3. Trust Receipt: Collateral Worksheet

(a) Following receipt of a Primary Document Delivery Letter, but in no event later than 1:00 p.m. (New York time) on the date which is (x) if one Loan File is delivered thereunder, one (1) Business Day after receipt of such Loan File and (y) if multiple Loan Files are delivered thereunder, a number of days to be mutually agreed by the Custodian and the Borrower after receipt of such Loan Files, the Custodian will deliver, via facsimile, to the Administrative Agent, with a copy to the Servicer, a Primary Document Trust Receipt to the effect that, as to each Loan listed on the related Loan Schedule, based on the Custodian's examination of the Loan File for such Loan, except for variances from the requirements of Section 2(a) hereof applicable thereto with respect to the Loan Files ("Exceptions") (giving effect to the Borrower's right to deliver certified copies in lieu of original documents in certain circumstances) noted in a report attached to the Primary Document Trust Receipt (an "Exception Report"), (i) the promissory notes and other documents required to be delivered in respect of such Loan pursuant to Section 2(a)(A) (i) through (iv) of this Custodial Agreement, which are listed in such Primary Document Trust Receipt, have been delivered and are in the possession of the Custodian as part of the Loan File for such Loan and (ii) all such promissory notes and other documents required to be delivered in respect of such Loan, which are listed in such Primary Document Trust Receipt, have been reviewed by the Custodian and appear on their face to be regular, to relate to the applicable Loans and to satisfy the applicable requirements set forth in Section 2(a)(A) of this Custodial Agreement. In connection with a Primary Document Trust Receipt, the Custodian shall make no representations as to and shall not be responsible to verify (A) the validity, legality, enforceability, due authorization, recordability, sufficiency, or genuineness of the promissory notes or any other document contained in each Loan File or (B) the collectability, insurability, effectiveness or suitability of any such Loan.

(b) Following receipt of an Ancillary Document Delivery Letter, but in no event later than 1:00 p.m. (New York time) on the date which is three (3) Business Days after receipt of the remaining documents for any Loan File, the Custodian will deliver, via facsimile, to the Administrative Agent, with a copy to the Servicer, a Trust Receipt to the effect that, as to each Loan listed on the related Loan Schedule, based on the Custodian's examination of the Loan File for such Loans, except for Exceptions noted in an Exception Report, (i) all additional documents required to be delivered in respect of such Loan pursuant to Section 2(a)(B) of this Custodial Agreement, which are listed in such Trust Receipt, have been delivered and are in the possession of the Custodian as part of the Loan File for such Loan and (ii) all such additional documents required to be delivered in respect of such Loan, which are listed in such Trust Receipt, have been reviewed by the Custodian and appear on their face to be regular, to relate to the applicable Loans and to satisfy the applicable requirements set forth in Section 2(a)(B) of this Custodial Agreement. In connection with a Trust Receipt, the Custodian shall make no representations as to and shall not be responsible to verify (A) the validity, legality, enforceability, due authorization, recordability, sufficiency, or genuineness of the documents contained in each Loan File or (B) the collectability, insurability, effectiveness or suitability of any such Loan.

(c) If an Exception Report discloses that any of the documents enumerated in Section 2(a) are missing or discloses any Exceptions in such documents, then unless the Administrative Agent has waived the Exceptions noted in the Exception Report, the Borrower shall cure or cause to be cured the Exceptions within two (2) Business Days and such Loan shall not be included in any calculation of the Borrowing Base delivered pursuant to the Credit Agreement unless and until such Exceptions are cured or waived by the Administrative Agent.

Section 4. Obligations of the Custodian.

(a) The Custodian shall maintain continuous custody of all items constituting the Loan Files in secure facilities in accordance with customary standards for such custody and shall reflect in its records the interest of the Administrative Agent therein. Each Loan File shall be maintained in fire-resistant facilities. The Custodian shall not be responsible to verify (i) the validity, legality, recordability, enforceability, sufficiency, due authorization or genuineness of any document in each Loan File or of any of the Loans or (ii) the collectability, insurability, effectiveness or suitability of any Loan.

(b) In the event that (i) the Administrative Agent, the Servicer, the Borrower or the Custodian shall be served by a third party with any type of levy, attachment, writ or court order with respect to any Loan File or any document included within a Loan File or (ii) a third party shall institute any court proceeding by which any Loan File or a document included within a Loan File shall be required to be delivered otherwise than in accordance with the provisions of this Custodial Agreement, the party receiving such service shall promptly deliver or cause to be delivered to the other parties to this Custodial Agreement copies of all court papers, orders, documents and other materials concerning such proceedings. The Custodian shall, to the extent permitted by law and any court order, continue to hold and maintain all Loan Files that are the subject of such proceedings pending an order of a court of competent jurisdiction permitting or directing disposition thereof. Upon final determination of such court, and if permitted by such determination, the Custodian shall release such Loan File or any document included within such Loan File as directed in writing by the Administrative Agent, which shall give a direction consistent with such court determination. The Custodian shall have no obligation to monitor or appear in any such proceeding on behalf of or in the name of the Borrower. Expenses and fees (including without limitation, attorney's fees) of the Custodian incurred as a result of such proceedings shall be borne by the Borrower.

(c) The Administrative Agent hereby acknowledges that the Custodian shall not be responsible for the monitoring of, or the validity and perfection of the Administrative Agent's security interest in the Loans hereunder, other than the Custodian's obligation to take possession of the Loan File for each Loan.

(d) The Custodian shall have no duties or responsibilities except those that are specifically set forth herein, shall not be liable except for the performance of such duties and obligations and no implied covenants or obligations shall be read into this Custodial Agreement against the Custodian.

(e) The Custodian shall have no responsibility or duty with respect to any Loan Files while not in its physical possession, it being understood and agreed that possession by the Custodian of any Loan File shall not be imputed to the Custodian at any time such Loan File is in transit, with a courier, to or from the Custodian, pursuant to Section 14 hereunder or otherwise.

(f) The Custodian shall be under no obligation to make any investigation into the facts or matters stated in any instruction, direction, resolution, certificate, statement, acknowledgement, consent, order, document in any Loan File, or any other document.

(g) The Custodian shall not be liable with respect to any action taken or omitted to be taken in accordance with the written direction, instruction, acknowledgement, consent or any other communication from the Administrative Agent.

(h) The Custodian shall not be required to advance, expend or risk its own funds or otherwise incur or become exposed to financial liability in the performance of its duties hereunder.

(i) Any corporation into which the Custodian may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Custodian shall be a party, or any corporation succeeding to the business of the Custodian shall be a party, or any corporation succeeding to the business of the Custodian shall be the successor of the Custodian hereunder without the execution or filing of any paper with any party hereto or any further act on the part of any of the parties hereto except where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding.

(j) The Custodian may consult with counsel and the advice or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or opinion of counsel.

(k) Neither the Custodian nor any of its officers, directors, employees or agents shall be liable, directly or indirectly, for (i) any damages or expenses arising out of the services performed under this Custodial Agreement other than damages or expenses that result from the gross negligence or willful misconduct of it or them or (ii) any punitive, loss-of-profit consequential or indirect damages.

(l) The Custodian may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or gross negligence on the part of any agent, attorney, custodian or nominee so appointed.

(m) The Custodian shall not incur any liability or be responsible for delays or failures in performance of its obligations under this Custodial Agreement resulting from acts beyond its control. Such acts shall include but not be limited to acts of God, strikes, lockouts, riots, acts of war, epidemics, governmental regulations superimposed after the fact, fire, communication line failures, computer viruses, power failures, earthquakes, acts of terrorism or other disasters.

(n) The provisions of this Section 4 shall survive the resignation or removal of the Custodian and the assignment or termination of this Custodial Agreement.

Section 5. Release of Loan Files.

From time to time and as appropriate for the servicing of any of the Loan, the Custodian is hereby authorized, upon receipt of a written request and receipt of the Servicer in substantially the form annexed as Annex 4 (a "Request for Release"), accompanied by the written consent of the Administrative Agent, to release to the Servicer within three (3) Business Days after receipt of such Request for Release, the related Loan File or the Loan Documents from a Loan File requested in such Request for Release. The Administrative Agent agrees to respond, within eight (8) Business Days of receipt, to any Request for Release properly completed and submitted by the Servicer. All Loan Files and/or Loan Documents so released to the Servicer shall be held by the Servicer in trust for the benefit of the Administrative Agent. The Servicer shall return to the Custodian each Loan File and/or Loan Document released to the Servicer when the Servicer's need therefor (as specified on the applicable Request for Release) no longer exists and the Servicer shall notify the Administrative Agent thereof. Upon the redelivery of any Loan File or any Loan Document therefrom previously delivered to the Servicer in accordance with the terms and provisions of this Custodial Agreement, the Custodian shall promptly accept redelivery of such Loan File or Loan Document from the Servicer, as delivered and specified in the applicable Request for Release. The Custodian will confirm delivery or re-delivery of the Loan Files and/or Loan Documents specified on Attachment A of such Request for Release via facsimile to the Administrative Agent and the Servicer. A release by the Custodian to the Servicer under this Section 5 shall not constitute a release of the Administrative Agent's Lien on any Collateral so delivered to the Servicer by the Custodian.

Section 6. Fees and Expenses of Custodian.

(a) The Custodian shall charge for its services under this Custodial Agreement (i) an acceptance fee of $1,500.00 payable on the date of this Custodial Agreement, (ii) an annual administrative fee for custodial services of $1,500.00 per year, payable on the date of this Custodial Agreement and on each anniversary thereof, and (iii) a review fee of $25.00 per Loan File reviewed by the Custodian, payable no later than thirty (30) days after the date of the Custodian's invoice therefor. The Custodian shall also be reimbursed for out-of-pocket costs which may include, without limitation, telephone, facsimile, courier, copying, postage, supplies, filing charges, and required fees, and fees and expenses, if any, of the Custodian's representatives, counsel, accountants and special agents. Reasonable fees and expenses of the Custodian's representatives, counsel, accountants, special agents and others will be charged at the actual amount of fees and expenses invoiced by those Persons; all other expenses will be charged at cost. The payment of such fees and expenses shall be solely the obligation of the Borrower and the Originator. The Custodian shall not have any claim against the Administrative Agent or the Lenders or any claim against or security interest in the Loan Files, any Collateral or any proceeds therefrom for the payment of its fees and expenses under this Custodial Agreement. The provisions of this Section 6 shall survive the termination of this Custodial Agreement.

(b) All payments to the Custodian hereunder shall be made without set-off or counterclaim and in such amounts as may be necessary in order that all such payments shall not be less than the amounts otherwise specified to be paid under this Custodial Agreement.

Section 7. Removal of Custodian.

(a) The Administrative Agent, upon (i) at least thirty (30) days prior written notice to the Custodian, the Servicer and the Borrower, may remove and discharge the Custodian (or any successor custodian thereafter appointed), with cause and (ii) at least sixty (60) days prior written notice to the Custodian, the Servicer and the Borrower, may remove and discharge the Custodian (or any successor custodian thereafter appointed), without cause, from the performance of its obligations under this Custodial Agreement; provided, that the Administrative Agent shall not remove or discharge the Custodian without cause without the consent of the Borrower, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, upon a merger, conversion, consolidation or other reorganization of the Custodian as described in Section 4(i) above, the Administrative Agent, with the consent of the Borrower, may remove and discharge the Custodian upon fifteen (15) days prior written notice. Promptly after the giving of notice of removal of the Custodian, the Administrative Agent shall appoint, by written instrument, a successor custodian, which appointment shall require the consent of the Borrower, which consent shall not be unreasonably withheld. One original counterpart of such instrument of appointment shall be delivered to each of the Administrative Agent, the Servicer, the Borrower, the Custodian and the successor custodian.

(b) In the event of any such removal, the Custodian shall transfer to the successor custodian, as directed in writing, all the Loan Files being administered under this Custodial Agreement. The cost of the shipment of Loan Files shall be at the expense of the Borrower. The Borrower shall be responsible for the fees and expenses of the successor custodian.

Section 8. Examination of Loan Files.

Upon two (2) Business Days prior notice to the Custodian, the Administrative Agent, the Servicer, the Borrower and each of their respective agents, accountants, attorneys and auditors will be permitted during normal business hours to examine the Loan Files, documents, records and other papers in the possession of or under the control of the Custodian relating to any or all of the Loans.

Section 9. Insurance of Custodian.

At its own expense, the Custodian shall maintain at all times during the existence of this Custodial Agreement and keep in full force and effect fidelity insurance, theft of documents insurance, forgery insurance and errors and omissions insurance. All such insurance shall be in amounts, with standard coverage and subject to deductibles, all as is customary for insurance typically maintained by banks which act as custodian of collateral substantially similar to the Loan Files. Upon written request, the Administrative Agent shall be entitled to receive a certificate from the applicable insurers that such insurance is in full force and effect.

Section 10. Representations and Warranties of Custodian.

The Custodian represents and warrants to the Administrative Agent that:

(a) the Custodian is a Trust Company duly organized and validly existing under the laws of the State of California, has the power to transact the business in which it is presently engaged, has the corporate power and authority and the legal right to execute and deliver, and to perform its obligations under this Custodial Agreement, and has taken all necessary corporate action to authorize its execution, delivery and performance of this Custodial Agreement;

(b) this Custodial Agreement has been duly executed and delivered on behalf of the Custodian and constitutes a legal, valid and binding obligation of the Custodian enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors" rights generally and by general principles of equity (whether enforcement is sought in proceedings in equity or at law); and

(c) to its knowledge, the execution, delivery and performance by the Custodian (without reference to any of its Affiliates) of this Custodial Agreement does not and will not violate any provision of law and does not and will not conflict with or result in a breach of any order, writ, injunction, ordinance, resolution, decree or other similar document or instrument of any court or governmental authority, bureau or agency, domestic or foreign, or the charter or by-laws of the Custodian or create a default under or breach of any agreement, instrument, document, bond, note or indenture to which the Custodian is a party or by which it or any of its properties or assets is bound or affected.

Section 11. Reports.

(a) Within the last two (2) Business Days of each calendar month, and at other times upon the reasonable written request of the Administrative Agent or the Servicer from time to time, the Custodian shall provide the Administrative Agent, and the Servicer if applicable, with a list of all the Loans for which the Custodian holds a Loan File pursuant to this Custodial Agreement, and a list of all Loan Documents included in each such Loan File and each outstanding Exception, if any, to each Loan File. Such list may be in the form of a copy of the Loan Schedules denoting any Loan Documents added, paid off, liquidated, released or redelivered since the date of this Custodial Agreement, and the date such Loan Documents were added, paid off, liquidated, released or redelivered.

(b) At the request of the Administrative Agent on any Business Day, the Custodian shall provide the Administrative Agent, as soon as practicable, with the status of any Loan listed on the most recent statement delivered pursuant to paragraph (a) above.

Section 12. No Adverse Interest of Custodian.

By execution of this Custodial Agreement, the Custodian represents and warrants that it currently holds, and during the existence of this Custodial Agreement shall hold, no adverse interest, by way of security or otherwise, in any Loan, and hereby waives and releases

any such interest which it may have in any Loan as of the date hereof. The Loans shall not be subject to any security interest, lien or right to set-off by the Custodian or any third party claiming through the Custodian, and the Custodian shall not pledge, encumber, hypothecate, transfer, dispose of, or otherwise grant any third party interest in, the Loans.

Section 13. Indemnification of Custodian.

(a) Each of Gladstone Investment Corporation and the Borrower agrees to jointly and severally indemnify and hold the Custodian and its directors, officers, agents and employees harmless against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever, including reasonable attorney's fees and expenses, that may be imposed on, incurred by, or asserted against it or them in any way relating to or arising out of this Custodial Agreement or any action taken or not taken by it or them hereunder unless such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (other than special, indirect, punitive or consequential damages) were imposed on, incurred by or asserted against the Custodian because of the breach by the Custodian of its obligations hereunder, which breach was caused by gross negligence or willful misconduct on the part of the Custodian or any of its directors, officers, agents or employees. The foregoing indemnifications shall survive any resignation or removal of the Custodian or the termination or assignment of this Custodial Agreement.

Section 14. Transmission of the Custodian's Loan Files.

The Custodian shall use United Parcel Service, Federal Express or other nationally recognized overnight courier service for the purpose of transmission of the Custodian's Loan Files in the performance of the Custodian's duties hereunder. The Borrower is responsible for all costs and expenses incurred by the Custodian consistent with such delivery instructions, including, without limitation, the costs of such insurance against loss or damage to Custodian's Loan Files as the Administrative Agent deems appropriate. Without limiting the generality of the provisions of Section 13 above, it is expressly agreed that in no event shall the Custodian have any liability for any losses or damages to any person, including, without limitation, the Borrower and the Administrative Agent, arising out of actions of the Custodian consistent with delivery instructions of the Borrower or the Administrative Agent.

Section 15. Reliance of Custodian.

In the absence of gross negligence or willful misconduct on the part of the Custodian, the Custodian may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any request, instruction, certificate, opinion or other document furnished to the Custodian, reasonably believed by the Custodian to be genuine and to have been signed, presented or sent by the proper party or parties by any of the means contemplated in Section 17 and conforming to the requirements of this Custodial Agreement.

Section 16. Term of Custodial Agreement.

Promptly after written notice from the Administrative Agent of the termination of the Credit Agreement and payment in full of all amounts owing to the Lenders and the Administrative Agent thereunder, the Custodian shall deliver all documents remaining in the Loan Files to the Borrower in accordance with the Borrower's written instructions, and this Custodial Agreement shall thereupon terminate.

Section 17. Notices.

All demands, notices and communications hereunder shall be in writing, shall be delivered by hand, sent by nationally recognized overnight delivery service, transmitted by fascimile or transmitted by electronic communication with evidence of delivery, and shall be deemed to have been duly given when received by the recipient party at the address shown on Schedule I hereto, or at such other addresses as may hereafter be furnished to the other parties by like notice. The Custodian's office is located at the address set forth on its signature page hereto, and the Custodian shall notify the Administrative Agent, the Servicer and the Borrower if such address should change. The Loan Files shall be held at the Custodian's office.

Section 18. Governing Law.

This Custodial Agreement shall be construed in accordance with the laws of the State of New York, and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without regard to conflict of laws applied in such state.

Section 19. Incumbency Certificate.

On or before the date hereof, each of the Borrower, the Servicer, the Originator and the Adimistrative Agent shall deliver to the Custodian a fully completed incumbency certificate, substantially in the form of Annex 6 hereto or such other form as is acceptable to the Custodian (an "Incumbency Certificate"), executed by an officer and a secretary or assistant secretary of the Borrower, the Servicer, the Originator or the Administrative Agent, as applicable, indicating the persons authorized to provide information, directions or instructions to the Custodian in connection with this Custodial Agreement. Each such Incumbency Certificate shall remain in effect until superseded by a new Incumbency Certificate from the Borrower, the Servicer, the Originator or the Administrative Agent, as applicable. The Custodian shall be deemed to have received proper information, directions or instructions in connection with the Transaction Documents upon receipt of such information, directions or instructions from a person listed on an Incumbency Certificate and may conclusively rely thereon.

Section 20. Amendment.

This Custodial Agreement may be amended from time to time by written agreement signed by the Borrower, the Servicer, the Originator, the Administrative Agent and the Custodian.

Section 21. Cumulative Rights.

The rights, powers and remedies of the Custodian and the Administrative Agent under this Custodial Agreement shall be in addition to all rights, powers and remedies given to the Custodian and the Administrative Agent by virtue of any statute or rule of law, the Credit Agreement or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Administrative Agent's security interest in the Collateral.

Section 22. Binding Upon Successors.

All rights of the Custodian and the Administrative Agent under this Custodial Agreement shall inure to the benefit of the Custodian and the Administrative Agent and their respective successors and permitted assigns, and all obligations of the Servicer, the Borrower, the Originator, the Administrative Agent and the Custodian shall bind their respective successors and permitted assigns. The Custodian may not, without the consent of the Administrative Agent, sell, assign, participate or otherwise transfer any of its rights or obligations under this Custodial Agreement except as permitted by Section 4(i) above or Section 26 below. Neither of the Servicer nor the Borrower may sell, assign or otherwise transfer any of its rights or obligations under this Custodial Agreement except in connection with a sale, assignment or transfer of its rights under, and as permitted by, the Credit Agreement. The Administrative Agent may not sell, assign or otherwise transfer any of its rights or obligations under this Custodial Agreement except in connection with a sale, assignment or transfer of its rights under, and as permitted by, the Credit Agreement. Notwithstanding the foregoing, if any assignee of the Servicer, the Borrower or the Administrative Agent fails the Custodian's customer review policies, including but not limited to its USA PATRIOT Act review, the Custodian may immediately resign from its duties hereunder upon written notice to the Servicer, the Borrower or the Administrative Agent, and the Borrower shall be responsible for paying any amounts due and unpaid to Custodian and any expenses of the Custodian related to transferring the Custodian's Loan Files to a new custodian.

Section 23. Entire Agreement; Severability.

This Custodial Agreement and the other Transaction Documents contain the entire agreement with respect to the Collateral and the subject matter hereof among the Custodian, the Administrative Agent, the Servicer, the Originator and the Borrower, and supersedes all prior agreements and understandings, including the letter agreement titled "Fee Schedule" dated as of August 3, 2006 between the Originator, the Custodian and The Bank of New York, which as of the date hereof is of no further effect. If any of the provisions of this Custodial Agreement shall be held invalid or unenforceable, this Custodial Agreement shall be construed as if it did not contain such provisions, and the rights and obligations of the parties hereto shall be construed and enforced accordingly.

Section 24. Execution In Counterparts.

This Custodial Agreement may be executed in counterparts each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

Section 25. Tax Reports.

The Custodian shall not be responsible for the preparation or filing of any reports or returns relating to federal, state or local income taxes with respect to this Custodial Agreement, other than in respect of the Custodian's compensation or for reimbursement of expenses.

Section 26. Successor Custodians.

The Custodian or any successor custodian may resign at any time without cause by giving at least sixty (60) days' prior written notice to the Administrative Agent, the Servicer and the Borrower. Upon such resignation, the Administrative Agent may appoint a successor custodian in accordance with Section 7(a) hereof, and the resigning Custodian shall immediately comply with the provisions of Section 7(b) hereof. If a successor is not appointed within forty-five (45) days, the Custodian may petition a court of competent jurisdiction for a successor. Regardless of the reasons for the removal or resignation of the Custodian, the obligations of a removed or resigning Custodian under this Custodial Agreement and its status as custodian for and bailee of the Administrative Agent with respect to the Collateral covered hereby shall continue until all of the Loan Files being administered under this Custodial Agreement have been transferred to the successor custodian in accordance with Section 7(b).

Section 27. Submission to Jurisdiction; Waivers.

Each of the parties hereby irrevocably and unconditionally:

(i) submits for itself and its property in any legal action or proceeding relating to this Custodial Agreement, or for recognition and enforcement of any judgment in respect thereof to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(ii) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to it at its address set forth herein or at such other address of which the parties hereto shall have been notified;

(iii) waives and hereby acknowledges that it is estopped from raising any objections based on forum non conveniens, any claim that any of the above-referenced courts lack proper venue or any objection that any of such courts lack personal jurisdiction over it so as to prohibit such courts from adjudicating any issues raised in a complaint filed with such courts against it concerning this Custodial Agreement;

(iv) acknowledges and agrees that the choice of forum contained in this paragraph shall not be deemed to preclude the enforcement of any judgment obtained in any forum or the taking of any action under this Custodial Agreement to enforce the same in any appropriate jurisdiction;

(v) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary or punitive or consequential damages; and

(vi) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law.

Section 28. WAIVER OF JURY TRIAL.

EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS CUSTODIAL AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 29. Patriot Act Notice.

To help the United States government fight the funding of terrorism and money laundering activities, United States Federal law requires all financial institutions to obtain, verify and record information that identifies each Person for which a relationship is established. Accordingly, when any of the parties hereto other than the Custodian establishes a relationship with the Custodian, the Custodian will ask such party to provide certain information (and documents) that will help to identify such party. The Custodian will ask for such party's legal name, physical address, tax identification or other government registration number and other information that will help to identify such party. The Custodian may also ask for a certificate of incorporation or similar document or other pertinent identifying documentation for the type of organization of such party.

IN WITNESS WHEREOF, the parties have executed this Custodial Agreement the day and year first above written.

GLADSTONE BUSINESS INVESTMENT LLC

By: /s/ George Stelljes III
Name: George Stelljes III
Title: President

Address for Notices:

Gladstone Business Investment LLC
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
Attention: President
Facsimile No.: (703) 287-5801
Confirmation No.: (703) 286-7000

GLADSTONE MANAGEMENT CORPORATION

By: /s/ David Gladstone
Name: David Gladstone
Title: Chairman

Address for Notices:

Gladstone Management Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
Attention: Chairman
Facsimile No.: (703) 287-5801
Confirmation No.: (703) 286-7000

GLADSTONE INVESTMENT CORPORATION

By: /s/ David Gladstone
Name: David Gladstone
Title: Chairman

Address for Notices:

Gladstone Investment Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
Attention: Chairman
Facsimile No.: (703) 287-5801
Confirmation No.: (703) 286-7000

DEUTSCHE BANK AG, NEW YORK BRANCH

By: /s/ DANIEL PIETRZAK
Name: DANIEL PIETRZAK
Title: DIRECTOR

By: /s/ PETER KIM
Name: PETER KIM
Title: VICE PRESIDENT

Address for Notices:

Deutsche Bank AG, New York Branch
60 Wall Street
18th Floor
New York, New York 10005
Attention: Tina Gu
Facsimile No.: (212) 797-5150
Confirmation No.: (212) 250-0357

THE BANK OF NEW YORK TRUST COMPANY, N.A.
not in its individual capacity, but solely as Custodian

By: /s/ ERIC A. LINDAHL
Name: ERIC A. LINDAHL
Title: VICE PRESIDENT

Address for Notices:

The Bank of New York Trust Company, N.A.
2 North LaSalle, Suite 1020
Chicago, IL 60602
Attention: Cindy Davis
Facsimile No.: (312) 827-8562
Confirmation No.: (312) 827-8553

Address for Document Delivery:

The Bank of New York
30 Broad Street, B Level
New York, NY
Attention: Rolando Salazar
Facsimile: (212) 495-1493
Confirmation No.: (212) 495-2030

SCHEDULE 1
TO CUSTODIAL AGREEMENT

NOTICE ADDRESSES

If to the Borrower:

Gladstone Business Investment LLC
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
Attention: President
Facsimile No.: (703) 287-5801
Confirmation No.: (703) 286-7000
E-mail: chipstelljes@gladstoneinvestment.com

If to the Servicer:

Gladstone Management Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
Attention: Chairman
Facsimile No.: (703) 287-5801
Confirmation No.: (703) 287-5800
E-mail: davidgladstone@gladstoneinvestment.com

If to the Originator:

Gladstone Investment Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
Attention: Chairman
Facsimile No.: (703) 287-5801
Confirmation No.: (703) 287-5800
E-mail: davidgladstone@gladstoneinvestment.com

If to the Administrative Agent:

Deutsche Bank AG, New York Branch
60 Wall Street
18th Floor
New York, New York 10005
Attention: Tina Gu
Facsimile: (212) 797-5150
Confirmation No.: (212) 250-0357
E-mail: Tina.Gu@db.com

If to the Custodian:

Address for Notices:

The Bank of New York Trust Company, N.A.
2 North LaSalle, Suite 1020
Chicago, IL 60602
Attention: Cindy Davis
Facsimile No.: (312) 827-8562
Confirmation No.: (312) 827-8553
E-mail: cyndavis@bankofny.com

Address for Document Delivery:

The Bank of New York
30 Broad Street, B Level
New York, NY 10004
Attention: Rolando Salazar
Facsimile: 212-495-1493
Confirmation No.: 212-495-2030
E-mail: rosalazar@bankofny.com

Annex 1
to Custodial Agreement

Information to be delivered
with respect to Loans

For each Loan, the Borrower shall provide the following information:

(i) the Loan identifying number;

(ii) the Obligor name;

(iii) Obligor address; and

(iv) the Lock-Box, Lock-Box Account or Collection Account information applicable to such Loan.

Annex 2-A
to Custodial Agreement

PRIMARY DOCUMENT TRUST RECEIPT

Deutsche Bank AG, New York Branch
60 Wall Street
18th Floor
New York, New York 10005
Attention: Tina Gu
Facsimile No.: (212) 797-5150
Confirmation No.: (212) 250-0357

_____, 20__

Re: Custodial Agreement, dated as of October 19, 2006 (the "Custodial Agreement") among Gladstone Business Investment LLC, Gladstone Management Corporation, Gladstone Investment Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch (the "Administrative Agent").

Ladies and Gentlemen:

In accordance with the provisions of Section 3 of the above-referenced Custodial Agreement (capitalized terms not otherwise defined herein having the meanings ascribed to them in the Custodial Agreement), the undersigned, as the Custodian, hereby certifies that as to each Loan described in the attached Loan Schedule, it has received the following documents (except as noted on the attached Exception Report):

(i) Original Promissory Note[s];

(ii) Original executed counterpart of [Loan Agreement] or [Securities Purchase Agreement];

(iii) [Security Agreement], [Intellectual Property Security Agreements], [Deed of Trust/Mortgage], [Stock Pledge /Voting Trust], [Supplemental Interests and related endorsements][1]; and

(iv) copies of each of the UCC Financing Statements filed with respect to the Collateral for each Loan; as required to be delivered to it for each Loan pursuant to paragraphs (i) through (iv) of Section 2(a)(A) of the Custodial Agreement; and such documents have been reviewed by it and appear on their face to be regular and to relate to each such Loan and satisfy the applicable requirements set forth in Section 2(a)(A) of the Custodial Agreement.

[1] Gladstone to fill in the list of each Loan Document granting a Lien on the Collateral for such Loan, as described in Section 2(a)(iii).

The Custodian makes no representations as to, and shall not be responsible to verify, (i) the validity, legality, enforceability, due authorization, recordability, sufficiency, or genuineness of any of the documents contained in each Loan File, including, without limitation, such promissory notes or (ii) the collectability, insurability, effectiveness or suitability of any such Loan.

The Custodian hereby confirms that it is holding each promissory note and other document as the agent and bailee of, and custodian for, and for the exclusive use and benefit of, the Administrative Agent.

This Primary Document Trust Receipt shall be supplemented by the issuance of a subsequent Trust Receipt with respect to the Loans referenced on the attached Loan Schedule.

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
not in its individual capacity, but solely as Custodian

By:
Name:
Title:

Annex 2-B
to Custodial Agreement

TRUST RECEIPT

Deutsche Bank AG, New York Branch
60 Wall Street
18th Floor
New York, New York 10005
Attention: Tina Gu
Facsimile No.: (212) 797-5150
Confirmation No.: (212) 250-0357

_____, 20__

Re: Custodial Agreement, dated as of October 19, 2006 (the "Custodial Agreement") among Gladstone Business Investment LLC, Gladstone Management Corporation, Gladstone Investment Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch (the "Administrative Agent").

Ladies and Gentlemen:

In accordance with the provisions of Section 3 of the above-referenced Custodial Agreement (capitalized terms not otherwise defined herein having the meanings ascribed to them in the Custodial Agreement), the undersigned, as the Custodian, hereby certifies that as to each Loan described in the attached Loan Schedule, it has reviewed the related Loan File and has determined that, except for any exceptions indicated on the attached Exception Report with respect to a Loan noted therein:

(1) all additional documents required to be delivered to it for each Loan pursuant to Section 2(a)(B) of the Custodial Agreement which were delivered to the Custodian pursuant to the related Ancillary Document Delivery Letter are in its possession; and

(2) such documents have been reviewed by it and appear on their face to be regular and to relate to each such Loan and satisfy the applicable requirements set forth in Section 2(a)(B) of the Custodial Agreement.

The Custodian makes no representations as to, and shall not be responsible to verify, (i) the validity, legality, enforceability, due authorization, recordability, sufficiency, or genuineness of any of the documents contained in each Loan File or (ii) the collectability, insurability, effectiveness or suitability of any such Loan.

The Custodian hereby confirms that it is holding each such Loan File as the agent and bailee of, and custodian for, and for the exclusive use and benefit of, the Administrative Agent.

This Trust Receipt shall be deemed superseded upon the issuance of a subsequent Trust Receipt applicable to the same Loan.

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
not in its individual capacity, but solely as Custodian

By:
Name:
Title:

Annex 3-A
to Custodial Agreement

The Bank of New York
30 Broad Street, B Level
New York, NY 10004
Attention: Rolando Salazar
Facsimile: 212-495-1493
Confirmation No.: 212-495-2030

Ladies and Gentlemen:

On this _____ day of _____ 20__, Gladstone Investment Corporation (the "Originator"), under that certain Custodial Agreement, dated as of October 19, 2006 (the "Custodial Agreement"), among Gladstone Business Investment LLC, Gladstone Management Corporation, the Originator, The Bank of New York Trust Company, N.A. (the "Custodian"), and Deutsche Bank AG, New York Branch (the "Administrative Agent"), does hereby instruct the Custodian to hold, in its capacity as Custodian, the Loan Files with respect to the Loans listed on Attachment A hereto, which Loans and Loan Documents delivered herewith constituting such Loan Files shall be subject to the terms of the Custodial Agreement as of the date hereof.

In accordance with Section 2(a) of the Custodial Agreement, attached to this Primary Document Delivery Letter as Attachment B is a copy of the contract checklist for each Loan File so delivered to the Custodian. The remaining Loan Documents constituting the Loan Files related to such Loans will follow under separate cover, accompanied by an Ancillary Document Delivery Letter.

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Custodial Agreement.

IN WITNESS WHEREOF, the Originator has caused this Primary Document Delivery Letter to be executed and delivered by its duly authorized officer as of the day and year first above written.

GLADSTONE INVESTMENT CORPORATION

By:
Name:
Title:

Attachment A
to Annex 3-A
to Custodial Agreement

TRANSFERRED LOANS

[List appropriate Loans]

[Custodial Agreement]

[Attach appropriate Loan Checklists]

Primary Documents

(i) Original Promissory Note[s];

(ii) Original executed counterpart of [Loan Agreement] or [Securities Purchase Agreement];

(iii) [Security Agreement], [Intellectual Property Security Agreements], [Deed of Trust/Mortgage], [Stock Pledge /Voting Trust], [Supplemental Interests and related endorsements][2] ; and

(iv) copies of each of the UCC Financing Statements filed with respect to the Collateral for each Loan;

Ancillary Documents – (to follow under separate cover)

(v) UCC Expiry Date;

(vi) Guaranties [where applicable];

(vii) Security Agreement;

(viii) Intellectual Property Security Agreements;

(ix) Deed of Trust/ Mortgage [where applicable];

(x) Stock Pledge / Voting Trust [where applicable];

(xi) Collateral Assignment of Lease or Landlord Waiver [where applicable];

(xii) Collateral Assignment of Life Insurance [where applicable];

(xiii) Collateral Assignment of Purchase Agreement [where applicable];

(xiv) Intercreditor Agreement [where applicable]; and

(xv) Subordination Agreements [where applicable].

[2] Gladstone to fill in the list of each Loan Document granting a Lien on the Collateral for such Loan, as described in Section 2(a)(iii).

Annex 3-B
to Custodial Agreement

The Bank of New York
30 Broad Street, B Level
New York, NY 10004
Attention: Rolando Salazar
Facsimile: 212-495-1493
Confirmation No.: 212-495-2030

Ladies and Gentlemen:

On this _____ day of _____ 20__, Gladstone Management Corporation (the "Servicer"), under that certain Custodial Agreement, dated as of October 19, 2006 (the "Custodial Agreement"), among Gladstone Business Investment LLC, the Servicer, Gladstone Investment Corporation, The Bank of New York Trust Company, N.A. (the "Custodian"), and Deutsche Bank AG, New York Branch (the "Administrative Agent"), does hereby instruct the Custodian to hold, in its capacity as Custodian, the Loan Files with respect to the Loans listed on Attachment A hereto, which Loans and Loan Documents delivered herewith constituting such Loan Files shall be subject to the terms of the Custodial Agreement as of the date hereof.

In accordance with Section 2(a) of the Custodial Agreement, attached to this Ancillary Document Delivery Letter asAttachment B is a copy of the contract checklist for each Loan File so delivered to the Custodian, which checklist includes the original promissory note and primary Loan Documents delivered previously pursuant to the applicable Primary Document Delivery Letter.

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Custodial Agreement.

IN WITNESS WHEREOF, the Servicer has caused this Ancillary Document Delivery Letter to be executed and delivered by its duly authorized officer as of the day and year first above written.

GLADSTONE MANAGEMENT CORPORATION

By:
Name:
Title:

Attachment A
to Annex 3-B
to Custodial Agreement

TRANSFERRED LOANS

[List appropriate Loans]

[Custodial Agreement]

[Attach appropriate Loan Checklists]

(i) Original Promissory Note[s] (*previously delivered*);

(ii) Original executed counterpart of [Loan Agreement] or [Securities Purchase Agreement] (*previously delivered*);

(iii) [Security Agreement], [Intellectual Property Security Agreements], [Deed of Trust/Mortgage], [Stock Pledge /Voting Trust], [Supplemental Interests and related endorsements][3] (*previously delivered*); and

(iv) copies of each of the UCC Financing Statements filed with respect to the Collateral for each Loan*(previously delivered)*;

(v) UCC Expiry Date;

(vi) Guaranties [where applicable];

(vii) Security Agreement;

(viii) Intellectual Property Security Agreements;

(ix) Deed of Trust/ Mortgage [where applicable];

(x) Stock Pledge / Voting Trust [where applicable];

(xi) Collateral Assignment of Lease or Landlord Waiver [where applicable];

(xii) Collateral Assignment of Life Insurance [where applicable];

(xiii) Collateral Assignment of Purchase Agreement [where applicable];

(xiv) Intercreditor Agreement [where applicable]; and

(xv) Subordination Agreements [where applicable].

[3] Gladstone to fill in the list of each Loan Document granting a Lien on the Collateral for such Loan, as described in Section 2(a)(iii).

Annex 4
to Custodial Agreement

REQUEST FOR RELEASE

The Bank of New York
30 Broad Street, B Level
New York, NY 10004
Attention: Rolando Salazar
Facsimile: 212-495-1493
Confirmation No.: 212-495-2030

_____, 20__

Re: Custodial Agreement, dated as of October 19, 2006 (the "Custodial Agreement") among Gladstone Business Investment LLC (the "Borrower"), Gladstone Management Corporation, Gladstone Investment Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch (the "Administrative Agent").

In connection with the administration of the Loans held by you as the Custodian for the Administrative Agent, we request, the release of the documents held in the Loan File (as noted on the Loan Checklist attached hereto as Attachment A) for the Loan described below, for the reason indicated:

Loan Identifying Number

Obligor's Name:

Obligor Address:

Lock-Box or Lock-Box Account Information:

Reason for Requesting Loan File/Loan Document(s) (check one)

____ l. Loan Required for Servicing.

____ 2. Loan Paid in Full or Repurchased.

____ 3. Other (Explain).

GLADSTONE MANAGEMENT CORPORATION Servicer

By:
Name:
Title:

Date: _____

CONSENTED TO:

DEUTSCHE BANK AG, NEW YORK BRANCH
Administrative Agent

By: _____
Name:
Title:

Date: _____

DOCUMENTS RETURNED TO THE CUSTODIAN:

THE BANK OF NEW YORK TRUST COMPANY, N.A.
Custodian

By: _____
Name:
Title:

Date: _____

[Attach appropriate Loan Checklists]

(i) Original Promissory Note[s];

(ii) Original executed counterpart of [Loan Agreement] or [Securities Purchase Agreement];

(iii) [Security Agreement], [Intellectual Property Security Agreements], [Deed of Trust/Mortgage], [Stock Pledge /Voting Trust], [Supplemental Interests and related endorsements][4] ; and

(iv) copies of each of the UCC Financing Statements filed with respect to the Collateral for each Loan;

(v) UCC Expiry Date;

(vi) Guaranties [where applicable];

(vii) Security Agreement;

(viii) Intellectual Property Security Agreements;

(ix) Deed of Trust/ Mortgage [where applicable];

(x) Stock Pledge / Voting Trust [where applicable];

(xi) Collateral Assignment of Lease or Landlord Waiver [where applicable];

(xii) Collateral Assignment of Life Insurance [where applicable];

(xiii) Collateral Assignment of Purchase Agreement [where applicable];

(xiv) Intercreditor Agreement [where applicable]; and

(xv) Subordination Agreements [where applicable].

[4] Gladstone to fill in the list of each Loan Document granting a Lien on the Collateral for such Loan, as described in Section 2(a)(iii).

Annex 5
to Custodial Agreement

FORM OF INCUMBENCY CERTIFICATE

[Gladstone Business Investment LLC][Gladstone Management Corporation][Gladstone Investment Corporation][Deutsche Bank AG, New York Branch]

As of _____, 200__

This Incumbency Certificate is being delivered pursuant to the Custodial Agreement dated as of October 19, 2006 (the "Custodial Agreement"), among Gladstone Business Investment LLC (the "Borrower"), Gladstone Management Corporation (the "Servicer"), Gladstone Investment Corporation (the "Originator"), The Bank of New York Trust Company, N.A., as Custodian (the "Custodian"), and Deutsche Bank AG, New York Branch (the "Administrative Agent"). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Custodial Agreement.

The undersigned, _____ being the _____ of the [Borrower] [Servicer] [Originator] [Administrative Agent] does hereby certify that he/she is an officer of the [Borrower] [Servicer] [Originator] [Administrative Agent] and that the individuals listed below are the only persons authorized to provide directions or instructions to the Custodian on behalf of the [Borrower] [Servicer] [Originator] [Administrative Agent] in connection with the Custodial Agreement. Opposite the name of each such person listed below, are the title and the genuine signature of such person. This certificate and the information contained herein shall remain in effect until superseded by another similar certificate, executed by an officer of the [Borrower] [Servicer] [Originator] [Administrative Agent], delivered to the Custodian, as contemplated in the Custodial Agreement.

Name	**Title**	**Signature**

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Incumbency Certificate as of the date first above written.

By: _____
Name:
Title:

I, the undersigned [Secretary] [Assistant Secretary] of the [Borrower] [Servicer] [Originator] [Administrative Agent], DO HEREBY CERTIFY that_____ has been duly executed, and as of this day is, the _____ of the [Borrower] [Servicer] [Originator] [Administrative Agent], and that the signature immediately above is his/her genuine signature.

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Incumbency Certificate as of the date first above written.

By:
Name:
Title: [Secretary][Assistant Secretary]

Exhibit 2.j.3

Gladstone Business Investment, LLC
1521 Westbranch Drive, Suite 200
McLean, VA 22102

April 14, 2009

The Bank of New York Mellon Trust Company, N.A.
600 E. Las Colinas Blvd., Suite 1300
Irving, Texas 75039

Deutsche Bank AG, New York Branch
60 Wall Street, NYC60-1915
New York, NY 10005-2858

Branch Banking and Trust Company
200 West Second Street, 16th Floor
Winston-Salem, NC 27101

Re: Amendment No. 1 to Custodial Agreement dated as of October 19, 2006 (together with all exhibits, schedules, annexes and supplements thereto, the "Custodial Agreement"), by and among Gladstone Business Investment, LLC (the "Borrower"), Gladstone Management Corporation ("Servicer"), Gladstone Investment Corporation (the "Originator"), The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. ("Custodian"), and Deutsche Bank AG, New York Branch ("Former Administrative Agent")

Ladies and Gentlemen:

Reference is made to the Second Amended and Restated Credit Agreement of even date herewith and as amended, restated, supplemented or otherwise modified from time to time (the "Second Amended and Restated Credit Agreement"), among the Borrower, the Servicer, the Committed Lenders, CP Lenders and Managing Agents identified therein, and Branch Banking and Trust Company, as Administrative Agent (the "Successor Administrative Agent"), which Second Amended and Restated Credit Agreement, among other things, amends and restates the Credit Agreement originally identified in the Custodial Agreement in its entirety and provides for the Successor Administrative Agent to succeed and replace the Former Administrative Agent. In connection with the Second Amended and Restated Credit Agreement and in accordance with the provisions of Section 20 of the Custodial Agreement, this letter amends the Custodial Agreement as follows:

(i) From and after the date hereof, each reference in the Custodial Agreement to the Administrative Agent shall be deemed to be a reference to Branch Banking and Trust Company, as Successor Administrative Agent to Deutsche Bank AG, New York Branch;

(ii) From and after the date hereof, each reference in the Custodial Agreement to the Credit Agreement shall be deemed to be a reference to the Second Amended and Restated Credit Agreement;

(iii) From and after the date hereof any notice or document (including any Trust Receipt) to be delivered to the Administrative Agent under the Custodial Agreement shall be addressed to the Administrative Agent as follows:

Branch Banking and Trust Company
200 West Second Street, 16th Floor
Winston-Salem, North Carolina 27101
Attention: Greg Drabik
Facsimile No.: (336) 733-2740
Confirmation No.: (336) 733-2730
E-mail: gdrabik@bbandt.com;

and

From and after the date hereof any notice or document to be delivered to the Custodian under the Custodial Agreement shall be addressed to the Custodian as follows:

Address for Notices:
The Bank of New York Mellon Trust Company, N.A.
2 North LaSalle, Suite 1020
Chicago, IL 60602
Attention: Maricella Marquez
Facsimile No.: (312) 827-8562
Confirmation No.: (312) 827-8571
E-mail: maricela.marquez@bnymellon.com

Address for Document Delivery:
The Bank of New York Mellon Corp
2 Hanson Place, 6th Floor
Brooklyn, NY 11217
Attention: Corporate Trust NY Doc Service
Facsimile: 212-495-1493

Dennis G. Rosen - Manager
Phone: 718-315-4317
Marcia A. Williams - Daily Activity
Phone: 718-315-4314

(iv) Pursuant to Section 19 and Annex 6 of the Custodial Agreement, the Incumbency Certificate of the Administrative Agent shall be replaced by the Incumbency Certificate of the Successor Administrative Agent delivered in connection with this amendment letter.

In all other respects the Custodial Agreement is hereby ratified and confirmed.

Please indicate your approval of the foregoing by arranging to have this letter countersigned by your authorized officer in the space provided below and returning the same to the Borrower as soon as possible. Upon receipt of all countersigned pages, the amendment set forth herein shall be deemed effective as of the date hereof.

Sincerely,

GLADSTONE BUSINESS INVESTMENT, LLC

By: /s/ David Dullum
Name: David Dullum
Title: President

GLADSTONE MANAGEMENT
CORPORATION, as Servicer

By: /s/ George Stelljes, III
Name: George Stelljes, III
Title: President

GLADSTONE INVESTMENT
CORPORATION, as Originator

By: /s/ David Gladstone
Name: David Gladstone
Title: Chairman

Agreed and Accepted as of the date hereof:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., not in its individual capacity, but solely as Custodian

By: /s/ SHANTELLE JONES-HARRIS
Name: SHANTELLE JONES-HARRIS
Title: ASSISTANT VICE PRESIDENT

DEUTSCHE BANK AG, NEW YORK BRANCH, as former Administrative Agent

By: _____
Name: _____
Title: _____

BRANCH BANKING AND TRUST COMPANY, as successor Administrative Agent

By: _____
Name: _____
Title: _____

Agreed and Accepted as of the date hereof:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., not in its individual capacity, but solely as Custodian

By: _____
Name: _____
Title: _____

DEUTSCHE BANK AG, NEW YORK BRANCH, as former Administrative Agent

By: /s/ MICHAEL CHENG
Name: MICHAEL CHENG
Title: DIRECTOR

/s/ PETER CHUANG
PETER CHUANG
VICE PRESIDENT

BRANCH BANKING AND TRUST COMPANY, as successor Administrative Agent

By: _____
Name: _____
Title: _____

[Signature Page to Amendment No. 1 to Custodial Agreement]

Agreed and Accepted as of the date hereof:

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N A., not in its individual capacity, but solely as Custodian

By: _____
Name: _____
Title: _____

DEUTSCHE BANK AG, NEW YORK BRANCH, as former Administrative Agent

By: _____
Name: _____
Title: _____

BRANCH BANKING AND TRUST
COMPANY, as successor Administrative Agent

By: /s/ Greg Drabik
Name: Greg Drabik
Title: Vice President

[Signature Page to Amendment No. 1 to Custodial Agreement]

Exhibit 2.l

BASS
BERRY • SIMS PLC

The Tower at Peabody Place
100 Peabody Place, Suite 900
Memphis, TN 38103-3672
(901) 543-5900

June 7, 2013

Gladstone Investment Corporation
1521 Westbranch Drive
Suite 200
McLean, VA 22102

Re: Post-Effective Amendment No. 2 to Registration Statement on Form N-2

Ladies and Gentlemen:

We are acting as counsel to Gladstone Investment Corporation, a Delaware corporation (the "***Company***"), in connection with Post-Effective Amendment No. 2 (the "***Post-Effective Amendment***") to the Company's registration statement on Form N-2 (File No. 333-181879) (as amended by the Post-Effective Amendment, the "***Registration Statement***"), filed with the Securities and Exchange Commission (the "***Commission***") under the Securities Act of 1933, as amended (the "***Act***"), relating to the registration and proposed public offering of up to $300,000,000 in aggregate amount of one or more series of the following securities (collectively, the "***Securities***"): (i) shares of common stock, $0.001 par value per share, of the Company (the "***Common Stock***"); (ii) shares of preferred stock, $0.001 par value per share, of the Company (the "***Preferred Stock***"); (iii) senior debt securities, in one or more series (the "***Senior Debt Securities***"), which may be issued pursuant to an indenture to be dated on or about the date of first issuance of Senior Debt Securities thereunder, by and between a trustee to be selected by the Company (the "***Trustee***") and the Company in the form filed as Exhibit 2.d.2 to the Registration Statement, as such indenture may be supplemented from time to time (the "***Senior Indenture***"); (iv) subordinated debt securities, in one or more series (the "***Subordinated Debt Securities***" and, together with the Senior Debt Securities, the "***Debt Securities***"), which may be issued pursuant to an indenture to be dated on or about the date of the first issuance of Subordinated Debt Securities thereunder, by and between the Trustee and the Company, in the form filed as Exhibit 2.d.3 to the Registration Statement, as such indenture may be supplemented from time to time (the "***Subordinated Indenture***" and, collectively with the Senior Indenture, an "***Indenture***"); (v) subscription rights to purchase Common Stock or Preferred Stock (the "***Subscription Rights***"), which may be evidenced by subscription certificates and administered by a subscription agent to be selected by the Company (the "***Subscription Agent***"), such certificates in the forms filed as Exhibits 2.d.5 and 2.d.6 to the Registration Statement (each, a "***Subscription Certificate***"); and (vi) warrants to purchase Common Stock or Preferred Stock (the "***Warrants***") which may be issued under warrant agreements, to be dated on or about the date of the first issuance of the applicable Warrants thereunder, by and between a warrant agent to be selected by the Company (the "***Warrant Agent***") and the Company in the forms filed as Exhibits 2.d.7 and 2.d.8 to the Registration Statement (each, a "***Warrant Agreement***"). The Securities may be sold from time to time and on a delayed or continuous basis as set forth in the prospectus that forms a part of the Registration Statement, and as to be set forth in one or more supplements to such prospectus. In connection with the Registration Statement, you have requested our opinion with respect to the matters set forth below.

For purposes of this opinion letter, we have examined copies of such agreements, instruments and documents as we have deemed relevant and necessary to form a basis on which to render the opinions hereinafter expressed. In such examination, we have assumed the legal capacity of all natural persons, the legal power and authority of all persons signing on behalf of other parties, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, facsimile, conformed, digitally scanned or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of documents executed or to be executed, we have assumed that the parties thereto other than the Company had or will have the power, corporate or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, corporate or other, and execution and delivery by such parties of such documents and the validity and binding effect of such

documents on such parties. As to facts material to the opinions, statements and assumptions expressed herein, we have, with your consent, relied upon oral or written statements and representations of officers and other representatives of the Company, public officials and others. We have not independently verified such factual matters.

In expressing the opinions set forth below, we have assumed that:

1. the issuance, sale, amount and terms of any Securities of the Company to be offered from time to time will have been duly authorized and established by proper action of the Board of Directors of the Company or a duly authorized committee thereof ("***Board Action***") consistent with the procedures and terms described in the Registration Statement and in accordance with the Company's Amended and Restated Certificate of Incorporation ("***Certificate of Incorporation***") and bylaws and applicable provisions of Delaware law, in a manner that does not violate any law, government or court-imposed order or restriction or agreement or instrument then binding on the Company or otherwise impair the legal or binding nature of the obligations represented by the applicable Securities and such Board Action shall remain in effect and unchanged at all times during which such Securities are offered by the Company;

2. at the time of offer, issuance and sale of any Securities, the Registration Statement will be effective under the Act, a prospectus supplement with respect to such Securities will have been filed with the Commission and no stop order suspending its effectiveness will have been issued and remain in effect;

3. upon the issuance of Common Stock, including Common Stock that may be issued upon conversion or exercise of any other Securities convertible into or exercisable for Common Stock, the total number of shares of Common Stock issued and outstanding will not exceed the total number of shares of Common Stock that the Company is then authorized to issue under the Company's Certificate of Incorporation;

4. upon the issuance of Preferred Stock, including Preferred Stock that may be issued upon conversion or exercise of any other Securities convertible into or exercisable for Preferred Stock, the total number of shares of Preferred Stock issued and outstanding, and the total number of issued and outstanding shares of the applicable class or series of Preferred Stock designated pursuant to the Company's Certificate of Incorporation, will not exceed the total number of shares of Preferred Stock or the number of shares of such class or series of Preferred Stock that the Company is then authorized to issue under the Company's Certificate of Incorporation.

5. prior to any issuance of Preferred Stock, an appropriate certificate of designation shall be filed for recordation with the Delaware Secretary of State;

6. any Warrants will be issued under a Warrant Agreement between the Company and a Warrant Agent;

7. any Subscription Rights will be issued under a Subscription Certificate between the Company and a Subscription Agent;

8. any Debt Securities will be issued under an Indenture between the Company and a Trustee and such Trustee is qualified to act as Trustee under the Indenture, the Company has filed respective Forms T-1 for the Trustee with the Commission and the Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended;

9. the interest rate on the Debt Securities will not be greater than the maximum rate permitted from time to time by applicable law;

10. any Securities convertible into or exercisable for any other Securities will be duly converted or exercised in accordance with their terms;

11. if being sold by the issuer thereof, the Securities will be delivered against payment of valid consideration therefor and in accordance with the terms of the applicable Board Action authorizing such sale and any applicable underwriting agreement, purchase agreement, distribution agreement or similar agreement and as contemplated by the Registration Statement and/or the applicable prospectus supplement;

12. the laws of the State of New York will be the governing law under any Indenture, Warrant Agreement or Subscription Certificate; and

13. the Company will remain a Delaware corporation.

To the extent that the obligations of the Company with respect to the Securities may be dependent upon such matters, we assume for purposes of this opinion letter that any Trustee, Warrant Agent or Subscription Agent is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization; that such Trustee, Warrant Agent or Subscription Agent will be duly qualified to engage in the activities contemplated by

such Indenture, Warrant Agreement or Subscription Certificate, as applicable; that such Indenture, Warrant Agreement or Subscription Certificate, as applicable, will have been duly authorized, executed and delivered by such Trustee, Warrant Agent or Subscription Agent, as applicable, and will constitute the legal, valid and binding obligation of such party enforceable against such party in accordance with its terms; that such Trustee, Warrant Agent or Subscription Agent will be in compliance with respect to performance of its obligations under such Indenture, Warrant Agreement or Subscription Certificate, as applicable, with all applicable laws and regulations; and that such Trustee, Warrant Agent or Subscription Agent will have the requisite organizational and legal power and authority to perform its obligations under such Indenture, Warrant Agreement or Subscription Certificate, as applicable.

This opinion letter is based as to matters of law solely on the applicable provisions of the federal laws of the United States, the Delaware General Corporation Law and, as to the Debt Securities, the Warrants and the Subscription Rights constituting valid and legally binding obligations of the Company, the laws of the State of New York (but not including any laws, statutes, ordinances, administrative decisions, rules or regulations of any political subdivision of the State of New York). We express no opinion herein as to any other laws, statutes, ordinances, rules, or regulations (and in particular, we express no opinion as to any effect that such laws, statutes, ordinances, rules, or regulations may have on the opinions expressed herein).

Based upon the foregoing, and subject to the assumptions, limitations and qualifications stated herein, it is our opinion that:

(a) The Common Stock and associated Subscription Rights (including any shares of Common Stock and associated Subscription Rights duly issued upon the exchange or conversion of convertible Debt Securities or shares of Preferred Stock that are exchangeable for or convertible into Common Stock, or upon the exercise of Warrants for the purchase of shares of Common Stock and receipt by the Company of any additional consideration payable upon such conversion, exchange or exercise), upon due execution and delivery of a Subscription Certificate relating to the Subscription Rights associated with the Common Stock on behalf of the Company and the Subscription Agent named therein, will be validly issued, and the Common Stock will be fully paid and nonassessable.

(b) The Preferred Stock and associated Subscription Rights (including any shares of Preferred Stock and associated Subscription Rights duly issued upon the exercise of Warrants for the purchase of shares of Preferred Stock and receipt by the Company of any additional consideration payable upon such exercise), upon due execution and delivery of a Subscription Certificate relating to the Subscription Rights associated with the Preferred Stock on behalf of the Company and the Subscription Agent named therein, will be validly issued, and the Preferred Stock will be fully paid and nonassessable.

(c) The Warrants, upon due execution and delivery of a Warrant Agreement relating thereto on behalf of the Company and the Warrant Agent named therein and due authentication of the Warrants by such Warrant Agent, and upon due execution and delivery of the Warrants on behalf of the Company, will constitute valid and binding obligations of the Company.

(d) The Debt Securities, upon due execution and delivery of an Indenture relating thereto on behalf of the Company and the Trustee named therein and due authentication of the Debt Securities by such Trustee, and upon due execution and delivery of the Debt Securities on behalf of the Company, will constitute valid and binding obligations of the Company.

The opinions expressed in paragraphs (c) and (d) above with respect to the valid and binding nature of obligations may be limited by the following exceptions, limitations and qualifications: (i) the effect of bankruptcy, insolvency, reorganization, receivership, moratorium or other laws affecting creditors' rights (including, without limitation, the effect of statutory and other law regarding fraudulent conveyances, fraudulent transfers and preferential transfers); (ii) the exercise of judicial discretion and the application of principles of equity, good faith, fair dealing, reasonableness, conscionability and materiality (regardless of whether the Securities are considered in a proceeding in equity or at law); and (iii) the unenforceability under certain circumstances under law or court decisions of provisions providing for the indemnification of or contribution to a party with respect to a liability where such indemnification or contribution is contrary to public policy.

It should be understood that the opinions in paragraphs (a) and (b) above concerning the Subscription Rights does not address the determination a court of competent jurisdiction may make regarding whether the Board of Directors of the Company would be required to redeem or terminate, or take other action with respect to, the Subscription Rights at some future time based on the facts and circumstances existing at that time and that our opinions in paragraphs (a) and (b) above address the Subscription Rights and the Subscription Certificate in their entirety and not any particular provision of the Subscription Rights or the Subscription Certificate and that it is not settled whether the invalidity of any particular provision of a Subscription Certificate or of Subscription Rights issued thereunder would result in invalidating in their entirety such Subscription Rights.

This opinion is furnished to you in connection with the Post-Effective Amendment and may not be relied upon for any other purpose without our express written consent. No opinion may be implied or inferred beyond the opinion expressly stated. This opinion is given as of the date hereof, and we assume no obligation to advise you of any changes in applicable law or any facts or circumstances that come to our attention after the date hereof that may affect the opinions contained herein.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm contained under the heading “Legal Matters.” In giving this consent, we do not admit that we are in the category of persons whose consent is required by Section 7 of the Act, or the rules and regulations promulgated thereunder by the Commission.

Very truly yours,

/s/ Bass, Berry & Sims PLC

Exhibit 2.n.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Post Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-181879) of Gladstone Investment Corporation of our report dated May 14, 2013 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting of Gladstone Investment Corporation, which appears in such Registration Statement. We also consent to the reference to us under the headings "Senior Securities" and "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
McLean, Virginia
June 7, 2013

Exhibit 2.n.3

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders
of Gladstone Investment Corporation:

Our audit of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated May 14, 2013 appearing in the accompanying Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 File No. 333-181879 of Gladstone Investment Corporation also included an audit of the senior securities table. In our opinion, the senior securities table presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
McLean, Virginia
May 14, 2013

Code of Ethics and Business Conduct
For
Gladstone Capital Corporation
Gladstone Commercial Corporation
Gladstone Investment Corporation
Gladstone Land Corporation
Gladstone Management Corporation
Gladstone Administration LLC
Gladstone Securities, LLC
and their subsidiaries

I. Core Values:

This Code of Ethics and Business Conduct (hereafter referred to as the "Code") reflects our commitment to our Core Values, our Valued Relationships and to the Standards of Ethics and Business Conduct that support these values and relationships. We expect every employee, officer and director to read and understand this Code and its application to the performance of his or her business responsibilities.

We are committed to the highest standards of ethical and professional conduct in all of our business operations, as well as in our interactions with customers, business partners and employees. The following are the values we hold in highest esteem…the values that we propose to use as our guide in our quest for excellence and success. To assist and encourage you to apply our Core Values in your day-to-day activities, each Core Value includes amplifying and implementing guidance.

A. Golden Rule and Respect

a. Following the Golden Rule means we will strive to always do the right thing…the thing we would want others to do to us.

b. Treating others the way we would like to be treated is our foundational value and the golden rule is a good summary of our other core values.

c. Respect means we respect the rights, opinions and beliefs of others so long as they are consistent with our other core values.

Amplifying and implementing guidance:

- Be a good listener, encourage diverse opinions and be willing to accept them.
- Recognize the achievement of others.
- Don't prejudge another person's qualities or intentions.
- Respect confidences.
- Recognize each individual's human dignity and value.

B. Honesty and Openness

a. Honesty means we refuse to lie, cheat, steal or deceive in any way.

b. We will never deliberately mislead, or misrepresent the truth.

c. We will always to do the legal and fair thing, fulfilling the intent of our commitments and the law.

d. Openness means we will be free, forthright and sincere in our discussions, as candid as possible, and will openly share appropriate information in each relationship.

Amplifying and implementing guidance:

- Be forthright and never use information as a source of power.
- Strive for clarity: avoid “slippery” words.
- Focus on issues, not personalities.
- Carry no hidden agendas.
- Be willing to admit your own mistakes and be tolerant of other’s mistakes.

C. Integrity

a. Integrity means we will refuse to be corrupted or unfaithful to our values.

b. We will do what we say we will do, and we will conduct ourselves in accordance with our values and our code of ethics.

c. We will always try to do the right thing.

d. We will operate within both the letter and the spirit of the law.

Amplifying and implementing guidance:

- Act and speak ethically.
- What you do when no one is looking should agree with your professed ethics.

D. Teamwork and Innovation

a. Teamwork means working together to achieve our goals and values as a group and not working at cross purposes.

b. Innovation means encouraging each other to seek new ways of doing our business to improve our quality and efficiency.

Amplifying and implementing guidance:

- Acknowledge all co-workers as valuable team members.
- Show confidence in the character and truthfulness of others.
- Practice solidarity by respecting and supporting team decisions.
- Encourage initiative and participation.
- Be accountable to the team.
- Lead by example.
- Recognize that taking and accepting reasonable risks is necessary business conduct.

E. Responsibility

a. Responsibility means we are morally and legally accountable for our actions.

b. We are determined to do the right thing, and to be good stewards of the things that have been entrusted into our care.

Amplifying and implementing guidance:

- Accept responsibility for your own mistakes, and give credit to others for their accomplishments.
- Keep commitments.

F. Loyalty and Hard work

a. We will be loyal to our Company and protect its assets and trade secrets. We will be faithful in carrying out our duties.

b. We will always work hard and do our best.

Amplifying and implementing guidance:

- Demand excellence from yourself, and seek and encourage it from others.
- Demonstrate a sense of urgency in all that you do.
- Our success is directly related to our loyalty to each other and to our company.

Always remember that at our companies, **your ethical behavior is the ultimate "bottom line"**. We are committed to do what is right even when it does not seem to be profitable, expedient or conventional. We are committed to following the above core values in everything we do… that means we will be truthful, ethical, law-abiding, and respectful in all of our dealings with others.

II. Our Valued Relationships

We will deal fairly and honestly in all of our relationships, treating all our business associates as long-term valued partners. We will operate our business based on the practical application of the Golden Rule, our other values, and all other provisions of our Code of Ethics and Business Conduct, for the mutual benefit of all our valued relationships. We will strive to be dependable and respectable in all our dealings with our business associates and our employees, value each shareholder and lender to our company, and we will be faithful stewards of their funds. We are committed to providing a work environment where there is no conflict between work and moral or ethical values, or family responsibilities, and where everyone is treated justly and with respect.

We have certain relationships that we hold dear and they are:

- Customers and clients are the reason we are in business. We seek to help our customers and clients to achieve their goals. We know that if we help them reach their goals, they will help us reach our goals too.
- Employees are the full extent of our company. We are no greater than our employees. Each employee is an integral part of our team. We seek to have the best employees and the best organization to support the growth of each employee.
- Shareholders have entrusted us with their assets. We seek to increase the value of those assets. As trustees we will do our best to protect and grow the assets that have been entrusted to us.

- Suppliers provide us with the things we need to achieve our goals. They have the goods and services we need to grow our business. We will treat each supplier as a valued partner in the growth of our business.
- Our government is part of our operations. We seek to fulfill the regulatory aspects of our business operations in a timely and accurate manner.
- Our relationship with God is one that is valued highest. We will do our best to perform in a way that will be pleasing to God.

III. Code of Ethics Implementing Guidance and Procedures

As with any written guidance, this Code of Ethics may not clearly address every situation you may encounter. If concerns or questions that you have about a course of action are not addressed specifically by this Code, you should ask yourself the following six questions to begin your evaluation process:

Ethics "Quick Test"

1. Is it legal?
2. Would doing it make me feel bad or ashamed in any way?
3. Is it consistent with our Core Values?
4. Would I want my family or friends to read about it in the newspaper?
5. Would failing to act make the situation worse or allow a "wrong" to continue?
6. Does it follow the Golden Rule set out above?

If you still have questions or concerns, do not act until your questions and concerns have been raised and resolved. Our employee handbook, your supervisor, our Chief Compliance Officer ("CCO") and staff (the "Compliance Officers") or the Ethics Committee are all available to help you. Additionally, if you are not comfortable addressing potential violations of this Code with any of these persons directly, you may also raise your concerns by anonymously contacting Global Compliance Services (See Part V, Section 15 of this Code for contact and other information regarding the compliance resources available to you).

If you are aware of a suspected or actual violation of Code standards by others, you have a responsibility to report it. You are expected to promptly notify a Compliance Officer or contact another compliance reporting resource to provide a specific description of the violation that you believe has occurred, including any information you have about the persons involved and the time of the violation. Whether you choose to speak with your supervisor or one of the Compliance Officers, you should do so without fear of any form of retaliation. We will take prompt disciplinary action against any employee who retaliates against you.

Supervisors must promptly report any complaints or observations of Code violations to the CCO. If you believe your supervisor has not taken appropriate action, you should contact one of our Compliance Officers directly. The Compliance Officers will investigate all reported

possible Code violations promptly and with the highest degree of confidentiality that is possible under the specific circumstances. Neither you nor your supervisor may conduct any preliminary investigation, unless authorized to do so by the CCO. Your cooperation in the investigation will be expected. As needed, the CCO will consult with the Ethics Committee and the Audit Committee of the Board of Directors. It is our policy to employ a fair process by which to determine violations of this Code.

With respect to any complaints or observations of Code violations that may involve accounting, internal accounting controls and auditing concerns, the CCO shall promptly inform the chair of the Ethics Committee, who will then turn over such information to the Audit Committee or such other persons as the Audit Committee of the Board of Directors determines to be appropriate under the circumstances shall be responsible for supervising and overseeing the inquiry and any investigation that is undertaken.

If any investigation indicates that a potential violation of this Code has occurred, we will take such action as we believe to be appropriate under the circumstances. Violations of this Code will not be tolerated. Any employee who violates this Code may be subject to disciplinary action, which, depending on the nature of the violation and the history of the employee, may range from a warning or reprimand to and including termination of employment and, in appropriate cases, civil legal action or referral for regulatory enforcement action. Appropriate action may also be taken to deter any future Code violations.

IV. Code of Ethics

References in this Code to employees are intended to cover all employees including officers and, as applicable, directors. References to "our companies" mean all the affiliated companies in the Gladstone group of companies, including Gladstone Capital Corporation ("Gladstone Capital"), Gladstone Commercial Corporation ("Gladstone Commercial"), Gladstone Investment Corporation ("Gladstone Investment"), Gladstone Land Corporation ("Gladstone Land"), Gladstone Management Corporation (the "Adviser"), Gladstone Administration LLC (the "Administrator"), Gladstone Securities, LLC ("Gladstone Securities") and their subsidiaries. References to Gladstone Capital, Gladstone Commercial, Gladstone Investment, Gladstone Land, the Adviser, and the Administrator shall include all subsidiaries of those companies. References to the Board of Directors mean the Boards of Directors of all of the affiliated companies in the Gladstone group of companies, as applicable. References to the Ethics Committee mean the Ethics, Nominating and Corporate Governance Committees of Gladstone Capital, Gladstone Commercial, Gladstone Land or Gladstone Investment, as applicable.

Officers, managers and other supervisors are expected to develop in employees a sense of commitment not only to the letter, but to the spirit of this Code. Supervisors are also expected to ensure that all agents and contractors conform to this Code's standards when working for or on behalf of our companies. The environment regarding compliance with this Code within each supervisor's assigned area of responsibility will be a significant factor in evaluating the quality of that individual's performance. In addition, any employee who makes an exemplary effort to implement and uphold our Core Values, Valued Relationships and Standards of Business Conduct and Ethics will be recognized for that effort in his or her performance review. Nothing in this Code alters the at-will employment policy of our companies.

The Code addresses conduct that is particularly important to proper dealings with the people and entities with which we interact, but may not address every aspect of our commitment to honest and ethical conduct. From time to time we may adopt additional policies and procedures with which our employees, officers and directors are expected to comply, if applicable to them. However, it is the responsibility of each employee to apply common sense, together with his or her own highest personal ethical standards, in making business decisions where there is no stated guideline in this Code.

Action by members of your immediate family or other persons who live in your household also may potentially result in ethical issues to the extent that they involve our companies' business. For example, acceptance of inappropriate gifts by a family member from one of our suppliers or portfolio companies could create a conflict of interest and result in a Code violation attributable to you. Consequently, in complying with this Code, you should consider not only your own conduct, but also that of your immediate family members and other persons who live in your household.

PLEASE NOTE THAT YOU WILL BE ASKED TO CERTIFY COMPLIANCE WITH THIS CODE ON AN ANNUAL BASIS. THUS, YOU SHOULD NOT HESITATE TO ASK QUESTIONS, VOICE CONCERNS OR CLARIFY GRAY AREAS ABOUT WHETHER ANY CONDUCT MAY VIOLATE THIS CODE. THE APPENDICES CONTAIN RESOURCES AVAILABLE TO YOU TO DETERMINE COMPLIANCE WITH THIS CODE. IN ADDITION, YOU ARE RESPONSIBLE FOR REPORTING SUSPECTED OR ACTUAL VIOLATIONS OF THIS CODE BY OTHERS. YOU SHOULD BE ALERT TO POSSIBLE VIOLATIONS OF THIS CODE BY OTHERS, AND MUST REPORT SUSPECTED VIOLATIONS, WITHOUT FEAR OF ANY FORM OF RETALIATION, AS FURTHER DESCRIBED IN PART V, SECTION 15 OF THIS CODE.

V. Standards of Ethics and Business Conduct

Underlying our Core Values, described in Part I above, is our commitment to maintain the highest standards of ethics and business conduct.

1. Honest and Ethical Conduct

It is the policy of our companies to promote high standards of integrity by conducting our affairs in an honest and ethical manner. The integrity and reputation of our companies depends on the honesty, fairness and integrity brought to the job by each person associated with us. Unyielding personal integrity is the foundation of corporate integrity.

2. Legal Compliance

Obeying the law, both in letter and in spirit, is the foundation of this Code. Our success depends upon each employee's operating within legal guidelines and cooperating with local, national and international authorities. We expect employees to understand the legal and

regulatory requirements applicable to their business units and areas of responsibility. We hold periodic training sessions to ensure that all employees comply with this Code, the compliance policies and procedures of our companies, and other relevant laws, rules and regulations associated with their employment. While we do not expect you to know every detail of these laws, rules and regulations, we expect you to be familiar with this Code and our compliance policies and procedures, so that you are able to determine when to seek advice from others. If you do have a question in the area of legal compliance, it is important that you not hesitate to seek answers from your supervisor or one of the Compliance Officers (see Section 15 of this Part IV below for more information about the Compliance Officers).

Disregard of the law will not be tolerated. Violation of domestic or foreign laws, rules and regulations may subject an individual, as well as our companies, to civil or criminal penalties. You should be aware that conduct and records, including emails, are subject to internal and external audits and to discovery by third parties in the event of a government investigation or civil litigation. It is in everyone's best interest to know and comply with our legal obligations.

3. Insider Trading

Employees who have access to confidential (or "inside") information are not permitted to use or share that information for stock trading purposes or for any other purpose except to conduct our business. All non-public information about our companies or about companies with which we do business is considered confidential information. To use material non-public information in connection with buying or selling securities, including "tipping" others who might make an investment decision on the basis of this information, is not only unethical, it is illegal. You must exercise the utmost care when handling material inside information.

The Company's Insider Trading Policy (the "Trading Policy"), which is attached to this Code as Appendix A and is incorporated by reference into this Code, has been instituted to help you avoid prohibited insider trading, and to ensure that our companies comply with the separate requirements of Rules 17j-1 of the Investment Company Act of 1940 and 204A of the Investment Advisers' Act of 1940. All employees are expected to understand and comply with all Trading Policy provisions applicable to them.

The Trading Policy addresses detailed legal provisions of the Act and imposes requirements, and in some cases, restrictions, on certain securities trades that you may wish to make. The Trading Policy contains provisions that require you to obtain pre-clearance for all investments in any initial public offering, and for securities trades for which you may have insider information, especially the Gladstone Funds. To request pre-clearance of a securities transaction, you should complete Schedule A (for limited offering transactions) or schedule B (for transactions involving Gladstone Funds) of the attached Appendix A and forward it to our CCO. The Trading Policy also requires all employees to provide certain reports of their holdings or transactions in certain securities. The particular reports you will be required to provide are described more fully in the Trading Policy.

If you have questions regarding the requirements or compliance procedures under the Trading Policy, or if you don't know whether your situation requires pre-clearance or reporting, you should contact one of our Compliance Officers.

4. International Business Laws

You are expected to comply with the applicable laws in all countries to which you travel, in which we operate and where we otherwise do business, including laws prohibiting bribery, corruption or the conduct of business with specified individuals, companies or countries. The fact that, in some countries, certain laws are not enforced or that violation of those laws is not subject to public criticism will not be accepted as an excuse for noncompliance. In addition, we expect you to comply with U.S. laws, rules and regulations governing the conduct of business by its citizens and corporations outside the U.S. If you have a question as to whether an activity is restricted or prohibited, seek assistance before taking any action, including giving any verbal assurances that might be regulated by international laws.

5. Environmental Compliance

It is our policy to conduct our business in an environmentally responsible way that minimizes environmental impacts. We are committed to minimizing and, if practicable, eliminating the use of any substance or material that may cause environmental damage, reducing waste generation and disposing of all waste through safe and responsible methods, minimizing environmental risks by employing safe technologies and operating procedures, and being prepared to respond appropriately to accidents and emergencies.

6. Conflicts of Interest

We respect the rights of our employees to manage their personal affairs and investments and do not wish to impinge on their personal lives. At the same time, you should avoid conflicts of interest that occur when your personal interests may interfere in any way with the performance of your duties or the best interests of our companies. A conflicting personal interest could result from an expectation of personal gain now or in the future or from a need to satisfy a prior or concurrent personal obligation. We expect you to be free from influences that conflict with the best interests of our companies, or might deprive our companies of your undivided loyalty in business dealings. Even the appearance of a conflict of interest where none actually exists can be damaging and should be avoided. Whether or not a conflict of interest exists or will exist can be unclear.

If you have any questions about a potential conflict or if you become aware of an actual or potential conflict, and you are not an officer or director of one of our companies, you should discuss the matter with your supervisor or with one of our Compliance Officers. Supervisors may not authorize conflict of interest matters or make determinations as to whether a problematic conflict of interest exists without first seeking the approval of the CCO and providing the CCO with a written description of the activity. If the supervisor is involved in the potential or actual conflict, you should discuss the matter directly with the CCO. Officers and directors may seek authorizations and determinations from the Ethics Committee of the Board of Directors. Factors that may be considered in evaluating a potential conflict of interest are, among others:

- whether it may interfere with the employee's job performance, responsibilities or morale;
- whether the employee has access to confidential information;
- whether it may interfere with the job performance, responsibilities or morale of others within the organization;
- any potential adverse or beneficial impact on our business;
- any potential adverse or beneficial impact on our relationships with our customers or suppliers or other service providers;
- whether it would enhance or support a competitor's position;
- the extent to which it would result in financial or other benefit (direct or indirect) to the employee;
- the extent to which it would result in financial or other benefit (direct or indirect) to one of our customers, suppliers or other service providers; and
- the extent to which it would appear improper to an outside observer.

Although no list can include every possible situation in which a conflict of interest could arise, the following are examples of situations that may, depending on the facts and circumstances, involve problematic conflicts of interests:

- **Employment by (including consulting for) or service on the board of a competitor, customer or supplier or other service provider.** Activity that enhances or supports the position of a competitor to the detriment of one or more of our companies is prohibited, including employment by or service on the board of a competitor. Employment by or service on the board of a customer or supplier or other service provider is generally discouraged and you must seek authorization in advance if you plan to take such a position.
- **Owning, directly or indirectly, a significant financial interest in any entity that does business, seeks to do business or competes with us.** In addition to the factors described above, persons evaluating ownership in other entities for conflicts of interest will consider the size and nature of the investment; the nature of the relationship between the other entity and any one of our companies; the employee's access to confidential information and the employee's ability to influence one of our companies decisions. If you would like to acquire a financial interest of any kind, you must seek written approval in advance from the CCO.
- **Soliciting or accepting gifts, favors, loans or preferential treatment from any person or entity that does business or seeks to do business with us.** See Section 10 for further discussion of the issues involved in this type of conflict.
- **Soliciting contributions to any charity or for any political candidate from any person or entity that does business or seeks to do business with us.**
- **Taking personal advantage of corporate opportunities.** See Section 7 for further discussion of the issues involved in this type of conflict.
- **Working at a second job without permission.**
- **Conducting business transactions between any one of our companies and your family member or a business in which you or a family member has a significant financial interest.** Material related-party transactions must be approved by the Audit Committee and the Ethics Committee and, if that activity involves any executive officer or director, that activity will be required to be publicly disclosed as required by applicable laws and regulations.

Loans to, or guarantees of obligations of, employees or their family members by our companies could constitute an improper personal benefit to the recipients of these loans or guarantees, depending on the facts and circumstances. Some loans are expressly prohibited by law and applicable law requires that our Board of Directors approve all loans and guarantees to employees. As a result, all loans and guarantees by our companies must be approved in advance by the Board of Directors.

7. Corporate Opportunities.

You may not take personal advantage of the opportunities of our companies that are presented to you or discovered by you as a result of your position with us or through your use of corporate property or information, unless authorized by the Board of Directors. Even opportunities that are acquired privately by you may be questionable if they are related to our existing or proposed lines of business. Significant participation in an investment or outside business opportunity that is directly related to our lines of business must be pre-approved by the board of directors of our company that is affected. You may not use your position with us or corporate property or information for improper personal gain, nor should you compete with us in any way.

8. Maintenance of Corporate Books, Records, Documents and Accounts; Financial Integrity; Public Reporting

The integrity of our records and public disclosure depends upon the validity, accuracy and completeness of the information supporting the entries to our books of account. Therefore, our corporate and business records should be completed accurately and honestly. The making of false or misleading entries, whether they relate to financial results or test results, is strictly prohibited. Our records serve as a basis for managing our business and are important in meeting our obligations to customers, suppliers, creditors, employees and others with whom we do business. As a result, it is important that our books, records and accounts accurately and fairly reflect, in reasonable detail, our assets, liabilities, revenues, costs and expenses, as well as all transactions and changes in assets and liabilities. We require that:

- no entry be made in our books and records that intentionally hides or disguises the nature of any transaction or of any of our liabilities or misclassifies any transactions as to accounts or accounting periods;
- transactions be supported by appropriate documentation;
- the terms of sales and other commercial transactions be reflected accurately in the documentation for those transactions and all such documentation be reflected accurately in our books and records;
- employees comply with our system of internal controls; and
- no cash or other assets be maintained for any purpose in any unrecorded or “off-the-books” fund.

Our accounting records are also relied upon to produce reports for our management, stockholders and creditors, as well as for governmental agencies. In particular, we rely upon our accounting and other business and corporate records in preparing the periodic and current reports that we file with the Securities and Exchange Commission (SEC). Securities laws require that these reports provide full, fair, accurate, timely and understandable disclosure and fairly present our financial condition and results of operations. Employees who collect, provide or analyze information for or otherwise contribute in any way in preparing or verifying these reports should strive to ensure that our financial disclosure is accurate and transparent and that our reports

contain all of the information about the Gladstone group of companies that would be important to enable stockholders and potential investors to assess the soundness and risks of our business and finances and the quality and integrity of our accounting and disclosures. In addition:

- no employee may take or authorize any action that would intentionally cause our financial records or financial disclosure to fail to comply with generally accepted accounting principles, the rules and regulations of the SEC or other applicable laws, rules and regulations;
- all employees must cooperate fully with our Accounting Department and, when one is established, Internal Auditing Departments, as well as our independent public accountants and counsel, respond to their questions with candor and provide them with complete and accurate information to help ensure that our books and records, as well as our reports filed with the SEC, are accurate and complete; and
- no employee should knowingly make (or cause or encourage any other person to make) any false or misleading statement in any of our reports filed with the SEC or knowingly omit (or cause or encourage any other person to omit) any information necessary to make the disclosure in any of our reports accurate in all material respects.

Any employee who becomes aware of any departure from these standards has a responsibility to report his or her knowledge promptly to a supervisor, a Compliance Officer, the Audit Committee or one of the other compliance resources described in Section 15.

9. Fair Dealing

We strive to outperform our competition fairly and honestly. Advantages over our competitors are to be obtained through superior performance of our products and services, not through unethical or illegal business practices. Acquiring proprietary information from others through improper means, possessing trade secret information that was improperly obtained, or inducing improper disclosure of confidential information from past or present employees of other companies is prohibited, even if motivated by an intention to advance our interests. If information is obtained by mistake that may constitute a trade secret or other confidential information of another business, or if you have any questions about the legality of proposed information gathering, you must consult your supervisor or one of our Compliance Officers, as further described in Section 15.

You are expected to deal fairly with our customers, suppliers, employees and anyone else with whom you have contact in the course of performing your job. Be aware that the Federal Trade Commission Act provides that “unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are declared unlawful.” It is a violation of this Act to engage in deceptive, unfair or unethical practices and to make misrepresentations in connection with sales activities.

Employees involved in procurement have a special responsibility to adhere to principles of fair competition in the purchase of products and services by selecting suppliers based exclusively on normal commercial considerations, such as quality, cost, availability, service and reputation, and not on the receipt of special favors.

10. Gifts and Entertainment

Business gifts and entertainment are meant to create goodwill and sound working relationships and not to gain improper advantage with customers or facilitate approvals from government officials. The exchange, as a normal business courtesy, of meals or entertainment (such as tickets to a game or the theatre or a round of golf) is a common and acceptable practice as long as it is not extravagant. Unless express written permission is received from a supervisor, the CCO or the Ethics Committee, gifts and entertainment cannot be offered, provided or accepted by any employee unless consistent with customary business practices and not (a) of more than token or nominal monetary value, (b) in cash, (c) susceptible of being construed as a bribe or kickback, (d) made or received on a regular or frequent basis or (e) in violation of any laws. This principle applies to our transactions everywhere in the world, even where the practice is widely considered "a way of doing business." Employees should not accept gifts or entertainment that may reasonably be deemed to affect their judgment or actions in the performance of their duties. Our customers, suppliers and the public at large should know that our employees' judgment is not for sale.

11. Protection and Proper Use of Company Assets

All employees are expected to protect our assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on our profitability. Our property, such as office supplies, computer equipment, buildings and products, are expected to be used only for legitimate business purposes, although incidental personal use may be permitted. You may not, however, use our corporate name, any brand name or trademark owned or associated with our companies or any letterhead stationery for any personal purpose.

You may not, while acting on behalf of our companies or while using our computing or communications equipment or facilities, either:

- access the internal computer system (also known as "hacking") or other resource of another entity without express written authorization from the entity responsible for operating that resource; or
- commit any unlawful or illegal act, including harassment, libel, fraud, sending of unsolicited bulk email (also known as "spam") in violation of applicable law, trafficking in contraband of any kind or espionage.
- If you receive authorization to access another entity's internal computer system or other resource, you must make a permanent record of that authorization so that it may be retrieved for future reference, and you may not exceed the scope of that authorization.

Unsolicited bulk email is regulated by law in a number of jurisdictions. If you intend to send unsolicited bulk email to persons outside of our companies, either while acting on our behalf or using our computing or communications equipment or facilities, you should contact your supervisor or the CCO for approval.

All data residing on or transmitted through our computing and communications facilities, including email and word processing documents, is the property of our companies and subject to inspection, retention and review by us, with or without an employee's or third party's knowledge, consent or approval, in accordance with applicable law. Any misuse or suspected misuse of our assets must be immediately reported to your supervisor or a Compliance Officer.

12. Confidentiality

One of our most important assets is our confidential information. As an employee of our companies, you may learn of information about our business that is confidential and proprietary. You also may learn of information before that information is released to the general public. Employees who have received or have access to confidential information should take care to keep this information confidential. Confidential information includes non-public information that might be of use to competitors or harmful to our companies or its customers if disclosed, such as business, marketing and service plans, financial information, product architecture, source codes, designs, databases, customer lists, pricing strategies, personnel data, personally identifiable information pertaining to our employees, customers or other individuals, and similar types of information provided to us by our customers, suppliers and partners. This information may be protected by patent, trademark, copyright and trade secret laws.

In addition, because we interact with other companies and organizations, there may be times when you learn confidential information about other companies before that information has been made available to the public. You must treat this information in the same manner as you are required to treat our confidential and proprietary information. There may even be times when you must treat as confidential the fact that we have an interest in, or are involved with, another company.

You are expected to keep confidential and proprietary information confidential unless and until that information is released to the public through approved channels (usually through a press release, an SEC filing or a formal communication from a member of senior management, as further described in Section 13). Every employee has a duty to refrain from disclosing to any person confidential or proprietary information about us or any other company learned in the course of employment here, until that information is disclosed to the public through approved channels. This policy requires you to refrain from discussing confidential or proprietary information with outsiders and even with other of our companies' employees, unless those fellow employees have a legitimate need to know the information in order to perform their job duties. Unauthorized use or distribution of this information could also be illegal and result in civil liability or criminal penalties.

You should also take care not to inadvertently disclose confidential information. Materials that contain confidential information, such as memos, notebooks, computer disks and laptop computers, should be stored securely. Unauthorized posting or discussion of any information concerning our business, information or prospects on the Internet is prohibited. You may not discuss our business, information or prospects in any "chat room," regardless of whether

you use your own name or a pseudonym. Be cautious when discussing sensitive information in public places like elevators, airports, restaurants and "quasi-public" areas within the Gladstone group of companies. All our companies emails, voicemails and other communications are presumed confidential and should not be forwarded or otherwise disseminated outside of our companies, except where required for legitimate business purposes.

In addition to the above responsibilities, if you are handling information protected by any privacy policy published by us, such as our website privacy policy, then you must handle that information in accordance with the applicable policy.

13. Media and Public Discussions

It is our policy to disclose material information concerning our companies to the public only through specific limited channels to avoid inappropriate publicity and to ensure that all those with an interest in the company will have equal access to information. All inquiries or calls from the press and financial analysts should be referred to the Chief Executive Officer ("CEO") or our Investor Relations Manager. We have designated our CEO as our official spokesperson for financial matters. We have designated the President of one of our companies or our Chief Investment Officer ("CIO") as our official spokesperson for marketing, and other related information. Unless a specific exception has been made by the CEO, these designees are the only people who may communicate with the press on behalf of our companies. In addition, our compliance policies and procedures require that communications of this nature, including advertisements, presentations or speeches and website content, be reviewed by the CCO. You also may not provide any information to the media about us off the record, for background, confidentially or secretly.

14. Waivers

Any waiver of this Code for executive officers (including our principal executive officer, principal financial officer, principal accounting officer or controller (or persons performing similar functions) or directors may be authorized only by the Board of Directors of our companies, and will be disclosed to stockholders as required by applicable laws, rules and regulations.

15. Compliance Standards and Procedures

Compliance Resources; Compliance Officers

To facilitate compliance with this Code, we have implemented a program of Code awareness, training and review. We have designated our CCO to oversee this program. The CCO will have staff to assist in oversight of the program. The Compliance Officers are persons to whom you can address any questions or concerns. Please contact your manager or the head of Human Resources to determine who has been appointed as a Compliance Officer. In addition to fielding questions or concerns with respect to potential violations of this Code, the CCO is responsible for:

- investigating possible violations of this Code;

- training new employees in Code policies;
- conducting annual training sessions to refresh employees' familiarity with this Code;
- reviewing all personal securities transactions and holdings reports required by Appendix A to this Code;
- distributing this Code by hard copy or by email to each employee upon initial hire and annually thereafter, and upon any amendment of this Code, and requiring written acknowledgement of the receipt of this Code and any such amendments as a reminder that each employee is responsible for reading, understanding and complying with this Code;
- updating this Code as needed and alerting employees to any updates, with appropriate approval of the Ethics Committee, to reflect changes in the law, our companies operations and in recognized best practices, and to reflect our companies experience; and
- otherwise promoting an atmosphere of responsible and ethical conduct.
- Your most immediate resource for any matter related to this Code is your supervisor. He or she may have the information you need or may be able to refer the question to another appropriate source.

There may, however, be times when you prefer not to go to your supervisor. In these instances, you should feel free to discuss your concern with a Compliance Officer. If you are uncomfortable speaking with a Compliance Officer because he or she works in your department or is one of your supervisors, please contact a member of the Ethics Committee. You may also report violations directly to members of the Ethics Committee by either sending a letter to Global Compliance Services, 13950 Ballantyne Corporate Place, Suite 300, Charlotte, NC 28277 or by calling our companies' toll-free hotline run by Global Compliance Services at 1-888-475-4914 and speaking with a representative who will transmit the information to the Ethics Committee. The Ethics Committee will pass on to the Audit Committee of the Board of Directors all information related to complaints or observations that involve accounting, internal accounting controls and auditing concerns.

You may call the toll-free number anonymously if you prefer as it is not equipped with caller identification, although Global Compliance Services will be unable to obtain follow-up details from you that may be necessary to investigate the matter. Whether you identify yourself or remain anonymous, your telephonic contact with Global Compliance Services through the toll-free number will be kept strictly confidential to the extent reasonably possible within the objectives of this Code.

16. Amendments and Modifications

This Code of Ethics and Business Conduct may not be amended or modified except in a written form which is specifically approved by majority vote of the independent directors of the applicable entities.

This Code of Ethics and Business Conduct was adopted by the Board of Directors of Gladstone Capital, Gladstone Investment, Gladstone Land, and Gladstone Commercial, including the independent directors, on January 28, 2013.

17. Pay to Play Policy

In light of recent scandals involving public pension plans and the practice of making campaign contributions to elected officials in order to influence the awarding of lucrative contracts for the management of public pension plan assets and similar government investment accounts, so-called "pay to play," the Securities and Exchange Commission adopted Rule 206(4)-5 amending the Investment Advisers Act of 1940 (hereinafter "Rule 206(4)-5" or the "Rule") prohibiting investment advisors from receiving compensation for advisory services rendered to a public pension plan or other government investment account if certain political contributions are made by the adviser, or certain of its executives and employees. The Rule covers, among other things, all direct contributions made to incumbent state or local officials, or candidates for state or local office, direct contributions to state or local political party committees, and indirect contributions such as in-kind contributions, and soliciting or coordinating contributions.

Rule 206(4)-5 applies to the Adviser because it is a registered investment adviser under the Investment Advisers Act of 1940 and to Gladstone Securities, LLC ("GSC") because it is a registered broker dealer soliciting Government Entities on behalf of the Adviser.[1] Although the Adviser may not currently be providing advisory services to a public pension plan or other government investment account, the Rule has a two year look back provision which could impact the ability of the Adviser to provide such services in the coming years. This policy is being adopted to avoid inadvertent violations of the Rule which would result in loss of business for the Adviser. Any questions regarding this policy or activities discussed herein should be directed to the CCO or his designee. Please refer to Appendix B for further information.

[1] The Rule makes it unlawful for any investment adviser subject to the Rule or any of the adviser's covered associates to make direct or indirect payment to any person to solicit government clients for investment advisory services on the investment adviser's behalf unless the "solicitor" is subject to prohibitions against participating in pay to play practices and subject to oversight by the Securities and Exchange Commission or a registered national securities association such as FINRA. The SEC adopted this Rule to prevent a third party placement agent from being used as an indirect means of making political contributions on the investment's advisers behalf. Under the Rule, FINRA's rules must be at least as restrictive as Rule 206(4)-5 for a broker dealer to be able to solicit government clients on the investment adviser's behalf. While GSC is not a registered investment adviser under the Investment Advisers Act of 1940, any contributions made by a Covered Associate of GSC could be deemed to have been made by the Adviser, thus prohibiting the Adviser from providing investment advisory services to the applicable Government Entity. Likewise, contributions made by a newly hired employee prior to his or her employment at the Adviser or GSC could be deemed to have been made by the Adviser, triggering the prohibitions on the Adviser providing advisory services to a Government Entity.

Appendix A

Insider Trading Policy
For
Gladstone Capital Corporation
Gladstone Commercial Corporation
Gladstone Investment Corporation
Gladstone Land Corporation
Gladstone Management Corporation
Gladstone Administration LLC
Gladstone Securities, LLC
and their subsidiaries

This Insider Trading Policy (the "Policy") has been adopted to comply with Rules 17j-l under the Investment Company Act of 1940 (the "Investment Company Act") and 204A under the Investment Advisers' Act of 1940 (the "Advisers' Act") (the "Rules"). The Policy establishes standards and procedures designed to address conflicts of interest and detect and prevent abuse of fiduciary duty by persons with knowledge of the investments and investment intentions of Gladstone Management Corporation (the "Adviser"), Gladstone Administration LLC (the "Administrator"), Gladstone Securities, LLC, Gladstone Capital Corporation, Gladstone Commercial Corporation, Gladstone Investment Corporation, Gladstone Land Corporation, their subsidiaries, and other funds managed and administered by the Adviser and the Administrator (collectively, the "Funds").

THIS POLICY WAS ORIGINALLY INCORPORATED BY REFERENCE INTO AND MADE A PART OF THE CODE OF ETHICS AND BUSINESS CONDUCT ADOPTED BY THE BOARDS OF DIRECTORS OF THE ADVISER AND THE FUNDS ON OCTOBER 11, 2005 (THE "CODE OF ETHICS"). ANY VIOLATION OF THIS POLICY IS SUBJECT TO SANCTIONS DESCRIBED IN THE CODE OF ETHICS.

(a) General Policy

(i) It is the policy of the Adviser, the Administrator and the Funds to oppose the unauthorized disclosure of any non-public information acquired in the workplace and the misuse of Material Non-public Information in securities trading. It is also the policy of the Adviser, the Administrator and the Funds to restrict trading of the Fund's securities in a manner that minimizes the possibility of any unintentional violation of the securities laws. We have adopted several specific restrictions, outlined in this Policy, to effect the Company's general policy.

(ii) This Policy acknowledges the general principles that officers, directors and employees of the Adviser, the Administrator, the Funds or any other company in a Control relationship to the Adviser, the Administrator or the Funds, referred to in this Policy as "Covered

Persons," (A) owe a fiduciary obligation to the Funds, the Administrator and the Adviser; (B) have the duty at all times to protect the interests of stockholders; (C) must conduct all personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or abuse of an individual's position of trust and responsibility; and (D) should not take inappropriate advantage of their positions in relation to the Funds, the Administrator or the Adviser. In recognition of the relationship between Covered Persons and members of their immediate family sharing a household with the Covered Person and entities whose investment decisions are influenced or controlled by such individuals, this Policy also applies to such persons, who are referred to in this Policy as "Insiders."

(iii) The Rules make it unlawful for Covered Persons to engage in conduct which is deceitful, fraudulent or manipulative, or which involves false or misleading statements, in connection with the purchase or sale of securities by an investment company. Accordingly, under the Rules and this Policy no Covered Person shall use any information concerning the investments or investment intentions of the Funds, or his or her ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of the Funds. In addition, the Rules and this Policy also contain additional restrictions for Covered Persons who are involved in or have access to information regarding securities recommendations made to the Funds, referred to in this Policy as Access Persons.

(iv) Generally speaking, the restrictions in this Policy are time-based, to take account of events we know will occur on a regular basis, such as quarterly earnings releases, and circumstance-based, to address situations where information such as anticipated significant investment transactions, securities offerings, or any other such information that would likely affect the price of the Funds' securities, is not yet known to the general public.

(b) Definitions.

For purposes of this Policy,

(i) "**Access Person**" means any officer, employee director or managing director of the Adviser, the Administrator or the Funds, or any other company in a Control relationship to the Adviser, the Administrator or the Funds who is involved in or has access to information regarding securities recommendations made to the Funds.

(ii) "**Administrative Officer**" means the CCO of the Relevant Fund, or, if the CCO of the Relevant Fund is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel of the Relevant Fund are not available, then the Chief Financial Officer of the Relevant Fund. Notwithstanding the foregoing, in the case of the pre-clearance of a Covered Transaction within the meaning of Section (b)(viii)(2) below, "**Administrative Officer**" means the CCO of the Adviser, or, if the CCO of the Adviser is not available, then the Internal Counsel of the Adviser, or if the CCO and Internal Counsel of the Adviser are not available, then the Chief Financial Officer of the Adviser.

(iii) "**Beneficial Interest**" means any interest by which a Covered Person or any member of his or her Immediate Family, can directly or indirectly derive a monetary benefit from the purchase, sale (or other acquisition or disposition) or ownership of a Security, except

such interests as Clearing Officers (defined below) shall determine to be too remote for the purpose of this Policy. (A transaction in which a Covered Person acquires or disposes of a Security in which he or she has or thereby acquires a direct or indirect Beneficial Interest is sometimes referred to in this Code of Ethics as a "personal securities" transaction or as a transaction for the person's "own account").

(iv) "**CCO**" means Chief Compliance Officer, as duly appointed.

(v) "**Control**" means the power to exercise a controlling influence over the management or policies of a company (unless such power is solely the result of an official position with such company). Any person who owns beneficially, directly or through one or more controlled companies, more than 25% of the voting securities of a company shall be presumed to control such company. For purposes of this Policy, natural persons and portfolio companies of the Funds shall be presumed not to be controlled persons.

(vi) "**Covered Person**" means any officer, director or employee of the Adviser, the Administrator, the Funds or any other company in a Control relationship to the Adviser, the Administrator or the Funds, but does not include portfolio companies of the Funds.

(vii) "**Covered Security**" includes any Fund Securities and all debt obligations, stock and other instruments comprising the investments of the Funds, including any warrant or option to acquire or sell a security and financial futures contracts, but excludes securities issued by the U.S. government or its agencies, bankers' acceptances, bank certificates of deposit, commercial paper and shares of a mutual Company. References to a "Covered Security" in this Policy shall include any warrant for, option in, or security convertible into that "Covered Security."

(viii) "**Covered Transaction**" means any of the following transactions:

(1) A transaction in which such Covered Person knows or should know at the time of entering into the transaction that: (i) any of the Funds has engaged in a transaction in the same Security within the last 180 days, or is engaging in a transaction or is going to engage in a transaction in the same Security in the next 180 days; or (ii) the Adviser has within the last 180 days considered a transaction in the same Security for any of the Funds or is considering such a transaction in the Security or within the next 180 days is going to consider such a transaction in the Security;

(2) a transaction that involves the direct or indirect acquisition of Securities in an initial public offering or Limited Offering of any issuer; or

(3) a transaction in any Fund Security.

(ix) "**Fund Security**" means any security issued by any of the Funds. References to a "Fund Security" in this Policy shall include any warrant for, option in, or security convertible into that "Fund Security."

(x) "**Immediate Family**" includes any children, stepchildren, grandchildren, parents, stepparents, grandparents, spouses, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, or sisters-in-law, including adoptive relationships, who live in the same household.

(xi) "**Independent Officer**" means an officer of the Relevant Fund other than the Administrative Officer who is not a party to the transaction or a relative of a party to the transaction. Notwithstanding the foregoing, in the case of the pre-clearance of a Covered Transaction within the meaning of Section (b)(viii)(2) below, "**Independent Officer**" means an officer of the Adviser other than the Administrative Officer who is not a party to the transaction or a relative of a party to the transaction.

(xii) "**Insiders**" means Covered Persons, their Immediate Family and entities whose investment decisions are influenced or controlled by such individuals.

(xiii) "**Limited Offering**" means an offering that is exempt from registration under Sections 4(2) or 4(6) of, or Regulation D under, the Securities Act of 1933. Limited Offerings may include, among other things, limited partnership or limited liability company interests, or other Securities purchased through private placements.

(xiv) "**Loan Officer**" means an Access Person who is responsible for making decisions as to Securities to be bought or sold for the Funds' portfolio.

(xv) "**Non-Access Person**" means any employee of the Adviser, the Administrator, the Funds, or any other company in a Control relationship to the Adviser or the Funds, which employee is not an "Access Person."

(xvi) "**Relevant Fund**" means the Fund to which the relevant Covered Securities relate.

(xvii) A "**Security held or to be acquired**" by the Funds means any Security which, within the most recent 180 days is or has been held by the Funds or is being or has been considered for purchase by the Funds.

(xviii) A Security is "**being considered for purchase or sale**" from the time an amendment letter is signed by or on behalf of the Funds until the closing with respect to that Security is completed or aborted.

(xix) "**Security**" means any note, stock, treasury stock, security future, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security (including a certificate of deposit) or on any group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

(xx) "**Trading Day**" means a day on which the Nasdaq Global Market is open for trading. A Trading Day begins at the time trading begins on such day following the date of public disclosure of the financial results for that quarter.

(c) Material Non-public Information. Material Non-public Information means any information that a reasonable investor would likely consider important in a decision to buy, hold or sell Covered Securities that has not already been disclosed generally to the public. Either positive or negative information may be material.

(i) Materiality. While it may be difficult to determine whether particular information is material, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information include, but are not limited to: (1) a Fund's financial results, (2) known but unannounced large deviations in planned future earnings or losses, (3) execution or termination of significant investment transactions, (4) news of a pending or proposed merger or other acquisition, (5) changes in a Fund's dividend rate or dividend policy, (6) news of the disposition, construction or acquisition of significant assets, (7) impending bankruptcy or financial liquidity problems, (8) significant developments involving corporate relationships, (9) new equity or debt offerings, (10) security buyback programs, (11) positive or negative developments in significant outstanding litigation, (12) significant litigation exposure due to actual or threatened litigation, (13) significant changes to existing debt facilities and (14) major changes in senior management.

(ii) Non-public. Information about the Adviser, the Administrator and the Funds that is not yet in general circulation should be considered non-public. It is important to note that information is not necessarily public merely because it has been discussed in the press, which will sometimes report rumors. All information that a Covered Person learns about the Adviser, the Administrator or the Funds or their business plans in connection with his or her employment is non-public information unless you can point to its official release by the Adviser, the Administrator or the Funds in a press release, a filing with the Securities and Exchange Commission (the "**SEC**") or a publicly available webcast or similar broadcast sponsored by the Adviser, the Administrator or the Funds. If you are considering engaging in a Covered Transaction and have any question as to whether information of which you are aware has been made public, contact the CCO of the Relevant Fund.

(d) Specific Requirements for Trading in Fund Securities

(i) Trading Window. Except as permitted in Section (e)(iii) of this Policy, Insiders may only conduct transactions involving the purchase or sale of a Fund Security during the period commencing at the open of the market on the third Trading Day following the date of the Relevant Fund's filing of its Form 10-Q or 10-K for the most recently completed fiscal period and continuing until the close of the market on the fifteenth (15th) calendar day prior to the last day of the fiscal quarter (the "**Trading Window**"), after which time the Trading Window will be closed until it re-opens on the third Trading Day following the date of filing of the Form 10-Q or 10-K for the subsequent period.

In special circumstances, when insiders may have Material Non-public information, the CCO, Internal Counsel or the Chief Financial Officer of the Relevant Fund may, upon the concurrence of any two of such persons, close or open Trading Window or prevent a scheduled Trading Window from opening as originally scheduled. Upon determination that any such information no longer constitutes Material Non-public Information, the CCO, Internal Counsel or Chief Financial Officer of the Relevant Fund may, upon the concurrence of any two of such persons, re-open a Trading Window.

(ii) Reserved.

(iii) No Safe Harbor for Possession of Material Non-Public Information. Regardless of whether the Trading Window is open, Insiders may not trade in Fund Securities while in possession of any Material Non-public Information (with the exception of trades pursuant to Rule 10b5-1 Trading Plans established in accordance with this Policy). Trading in Fund Securities during the Trading Window should not be considered a "safe harbor" from liability, and all Insiders should use good judgment at all times.

(iv) Limit Orders. The prohibition against trading during the closed Trading Windows encompasses the fulfillment of "limit orders" (often referred to as "good until canceled orders") by any broker with whom any such limit order is placed. Any unfilled limit orders in Fund Securities must be immediately canceled whenever (A) a Trading Window closes, including upon the imposition of a special circumstances closed Trading Window, or (B) the Insider comes into possession of Material Non-public Information.

(v) Short Sales and Derivative Securities. No Insiders shall engage in a short sale of any Fund Security. A short sale is a sale of securities not owned by the seller or, if owned, not delivered against such sale within 20 days thereafter. In addition, trading in options to buy or sell Fund Securities (including put or call options), warrants, convertible securities, stock appreciation rights, or other similar rights with an exercise or conversion privilege at a price related to an equity security or with a value derived from the value of an equity security relating to a Fund Security (collectively, "**Derivative Securities**"), whether or not issued by the Funds, such as exchange-traded options, are prohibited. Short sales and Derivative Security trading are prohibited by this Policy even when the Trading Window is open.

(vi) Other Prohibited Activities. In addition, no Covered Person shall, directly or indirectly in connection with the purchase or sale of a "security held or to be acquired" (as defined in Section (b)(xvii) of this Policy) by the Funds: (a) employ any device, scheme or artifice to defraud the Funds; or (b) make to the Funds or the Adviser any untrue statement of a material fact or omit to state to any of the foregoing a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading; or (c) engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the Funds; or (d) engage in any manipulative practice with respect to the Funds.

(e) Pre-Clearance of Covered Transactions

(i) Pre-Clearance of Transactions in Fund Securities. Except for transactions that are exempted under Section (e)(iii) below, all Covered Persons must obtain pre-clearance for any transactions in Fund Securities using the following procedures:

(1) From Whom Obtained. Before any Insider engages in any transaction in Fund Securities, the relevant Covered Person must pre-clear the proposed transaction with the Administrative Officer (the CCO of the Relevant Fund, or, if the CCO of the Relevant Fund is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel of the Relevant Fund are not available, then the Chief Financial Officer of the Relevant Fund). Until the Administrative Officer provides pre-clearance for the proposed transaction, such Insider shall not execute the proposed transaction. The Administrative Officer may consult management and counsel in reviewing and pre-clearing transactions, although the primary responsibility to assess whether a proposed transaction complies with this Policy and applicable law will lie with the Covered Person.

(2) Pre-clearance Period. The Covered Person will have until the end of fourteen (14) calendar days following the day pre-clearance is received, or until such earlier time that the Trading Window closes or the Insider comes into possession of Material Non-Public Information, **to execute** the transaction. If for any reason the transaction is not completed within this period of time, pre-clearance must be re-obtained from the Administrative Officer. Execution of a trade shall include the actual sale or purchase, rather than simply placing of an order to do so.

(3) Form. To initiate pre-clearance, you must contact the Administrative Officer in person, by phone, or email. After discussing the proposed trade, pre-clearance can be obtained by (i) completing and signing Schedule B, and obtaining the approval and signature of the Administrative Officer; or (ii) responding affirmatively to an email sent by the Administrative Officer containing all the required information of Schedule B and receiving a reply email from the Administrative Officer indicating such approval. Schedule B may be amended from time to time by the CCO of the Relevant Fund, with the permission of the Chairman of the Ethics Committee of the Relevant Fund. The Administrative Officer is the CCO of the Relevant FUND, or, if the CCO is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel are not available, then the CFO of the Relevant Fund.

(4) Filing. A copy of all completed pre-clearance forms, with all required signatures (or, as applicable, email correspondence), shall be retained by the CCO of the Relevant Fund.

(5) Insider's Responsibility. Notwithstanding the foregoing, even if a proposed trade is pre-cleared, the Insider is prohibited from trading any Fund Securities while in possession of Material Non-public Information.

(ii) Pre-Clearance of Non-Fund Securities Covered Transactions. With the exception of transactions in Fund Securities (covered in Section (e)(i) above) and transactions that are exempted under Section (e)(iii) below, Insiders proposing to engage in Covered Transactions must obtain pre-clearance of such Covered Transaction using the following procedures:

(1) From Whom Obtained. Pre-clearance must be obtained from the Administrative Officer and one Independent Officer.

(2) Pre-clearance Period. In the case of a proposed Covered Transaction, if the relevant Covered Person receives pre-clearance, the Insider will have until the end of fourteen (14) calendar days following the day pre-clearance is received to execute the transaction. If for any reason the transaction is not completed within this period of time, pre-clearance must be re-obtained before the transaction can be executed.

(3) Form. Pre-clearance must be obtained in writing by completing and signing the "Request for Permission to Engage in a Non-Fund Securities Covered Transaction" form attached hereto as ***Schedule A***, which form shall set forth the details of the proposed transaction, and obtaining the signatures of the Administrative Officer and one Independent Officer. Schedule A may be amended from time to time by the CCO of the Relevant Fund, with the permission of the Chairman of the Ethics Committee of the Relevant Fund.

(4) Filing. A copy of all completed pre-clearance forms, with all required signatures, shall be retained by the CCO of the Relevant Fund.

(5) Factors to be Considered in Pre-clearance of Non-Fund Securities Covered Transactions. The persons responsible for pre-clearance may refuse to grant pre-clearance of a Covered Transaction in their absolute discretion. Generally, such persons will consider the following factors in determining whether or not to clear a Covered Transaction: (1) whether the Insider is in possession of Material Non-Public Information, (2) whether the amount or nature of the transaction or person making it is likely to affect the price or market for the Security; (3) whether the individual making the proposed purchase or sale is likely to benefit from purchases or sales being made or being considered by the Funds; (4) whether the Security proposed to be purchased or sold is one that would qualify for purchase or sale by the Funds; (5) whether the transaction is non-volitional on the part of the individual, such as receipt of a stock dividend, bequest or inheritance; (6) whether potential harm to the Funds from the transaction is remote; (7) whether the transaction would be likely to affect a highly institutional market; and (8) whether the transaction is related economically to Securities being considered for purchase or sale (as defined in Section (b)(xviii) of this Policy) by the Funds.

(iii) Exemptions From Pre-Clearance Requirements

The following transactions are exempt from the pre-clearance provisions of this Policy:

(1) Not Controlled Securities. Purchases, sales or other acquisitions or dispositions of Securities for an account over which the Insider has no direct influence or Control and does not exercise indirect influence or Control;

(2) Involuntary Transactions. Involuntary purchases or sales made by an Insider;

(3) DRPs. Purchases which are part of an automatic dividend reinvestment plan;

(4) Rights Offerings. Purchases or other acquisitions or dispositions resulting from the exercise of rights acquired from an issuer as part of a pro rata distribution to all holders of a class of Securities of such issuer and the sale of such rights; and

(5) Rule 10b5-1 Plans.

a. Trades Pursuant to Trading Plan Exempted from Compliance with Trading Windows and Pre-clearance Requirements.A transaction in Fund Securities in accordance with a trading plan adopted in accordance with the SEC's Rule 10b5-1(c) and this Section (e)(iii)(5) (the "**Trading Plan**") shall not be required to be effected during an open Trading Window nor shall it require pre-clearance, even though such transaction takes place during a closed Trading Window or while the Insider was aware of Material Non-public Information.

b. Adoption and Approval of Trading Plan. The Trading Plan must be adopted during (i) an open Trading Windowand (ii) at a time when such Insider is not in possession of Material Non-public Information. Each Trading Plan must be pre-approved by the Administrative Officer to confirm compliance with this Policy and applicable securities laws, and such approval is subject to the sole discretion of the Administrative Officer. Approval of a Trading Plan shall not be deemed a representation by the Adviser, Administrator or the applicable Fund that such plan complies with Rule 10b5-1, nor an assumption by the Adviser, Administrator or the applicable Fund of any liability or responsibility to the individual or any other party if the plan does not comply with Rule 10b5-1. The initial trades under such Trading Plan shall not be permitted until at least thirty calendar days have passed following the establishment of the Trading Plan.

c. Amendment of Trading Plan. An Insider may amend or replace his or her Trading Plan only during periods when trading is permitted in accordance with this Policy, and the relevant Covered Person must submit any proposed amendment or replacement of a Trading Plan to the Administrative Officer for approval prior to adoption. The relevant Covered Person must provide notice to the Administrative Officer prior to an Insider terminating a Trading Plan.

d. Form. Pre-clearance of a Trading Plan must be obtained in writing by (i) completing and signing the "Request for Permission to Establish Rule 10b5-1 Trading Plan" form attached hereto as ***Schedule C***, and (ii) obtaining the signature of the Administrative Officer. Schedule C may be amended from time to time by the CCO of the Relevant Fund, with the permission of the Chairman of the Ethics Committee of the Relevant Fund.

e. Filing. A copy of all completed pre-clearance forms, with all required signatures, shall be retained by the CCO of the Relevant Fund.

(f) Reporting Requirements.

(i) Access Persons.

(1) Holdings Reports.

a. Initial Holdings Report. Within ten (10) days of becoming an Access Person, each Access Person shall make a written report to the CCO of the Relevant Fund of all Securities in which such Access Person holds a direct or indirect Beneficial Interest. Access Persons need not report any such Securities that are exempt under subsection (i)(1)(d) of this Section (f). The initial holdings report shall be made on the form provided for such purpose by the CCO of the Relevant Fund. Each initial holdings report must be current as of a date no more than forty-five (45) days prior to the date that the reporting person became an Access Person.

b. Annual Holdings Reports. No later than February 13th of each year, each Access Person shall make a written report to the CCO of the Relevant Fund of all Securities in which such Access Person holds a direct or indirect Beneficial Interest. Access Persons need not report any such Securities that are exempt under subsection (i)(1)(d) of this Section (f). The annual holdings report shall be made on the form provided for such purpose by the CCO of the Relevant Fund. Each annual holdings report must be current as of a date no later than December 31st of the prior year.

c. Contents of Holdings Reports. Holdings reports must contain, at a minimum, the following information with respect to each Security: (i) the title and type of each Security for which an Access Person holds a direct or indirect Beneficial Interest; (ii) for publicly traded Securities, the ticker symbol or CUSIP number for each such Security; (iii) the principal amount of each Security; (iv) the name of any broker, dealer or bank with whom you, or any members of your Immediate Family, maintain an account in which any Securities are held for your direct or indirect benefit; and (v) the date of submission of the report.

d. Exemptions from Holdings Reports. The following Securities are not required to be included in holdings reports made by Access Persons:

i. Securities held in accounts over which an Access Person has no direct or indirect influence or control;

ii. Direct obligations of the Government of the United States;

iii. Bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements; and

iv. Shares issued by open-end funds.

(2) Transaction Reports.

a. Quarterly Report. Within thirty (30) days of the end of each calendar quarter, each Access Person must submit a quarterly report to the CCO of the Relevant Fund, on the form provided for such purpose by the CCO of the Relevant Fund, of all transactions during the calendar quarter in any Securities in which such Access Person has any direct or indirect Beneficial Interest.

b. Contents of Transaction Reports. Quarterly Transaction Reports must contain, at a minimum, the following information with respect to each transaction in a Security: (i) the title and type of each Security involved; (ii) for publicly traded Securities, the ticker symbol or CUSIP number for each such Security; (iii) the number of shares, interest rate, and maturity date and principal amount, as applicable, of each Security involved; (iv) the price of the Security at which the transaction was effected; (v) the name of any broker, dealer or bank through which the transaction was effected; and (vi) the date of submission of the report.

c. Exemptions from Transaction Reports. The following transactions are not required to be included in Quarterly transactions reports of Access Persons:

- **i.** Transactions in Securities over which an Access Person has no direct or indirect influence or control;
- **ii.** Transactions in Direct obligations of the Government of the United States;
- **iii.** Transactions in Bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements;
- **iv.** Transactions in shares issued by open-end funds; and
- **v.** Transactions which are part of an automatic dividend reinvestment plan.

(ii) Non-Access Persons.

(1) Annual Transactions Report. Within 10 days of the end of each calendar year, each Non-Access Person shall make a written report to the CCO of the Relevant Fund of all transactions by which they acquired or disposed of a direct or indirect Beneficial Interest in any Covered Security.

(2) Form. Each annual report shall be provided on the form "Annual Securities Transactions Confidential Report of Non-Access Persons" form attached hereto as ***Schedule D***, which form shall set forth the information regarding each transaction requested in the form. Schedule D may be amended from time to time by the CCO of the Relevant Fund, who shall promptly provide any form so amended to all Non-Access Persons.

(3) Filing. A copy of all reports submitted pursuant to this Section (f), with all required signatures, shall be retained by the CCO of the Relevant Fund.

(iii) Disclaimer. Any report made by an Access Person or Non-Access Person under this Section (e) may contain a statement that the report is not to be construed as an admission that the person making it has or had any direct or indirect Beneficial Interest in any Security or Covered Security to which the report relates.

(iv) Responsibility to Report. It is the responsibility of all Covered Persons to take the initiative to provide each report required to be made by them under this Policy. Any effort by the Adviser, the Administrator or the Funds to facilitate the reporting process does not change or alter that responsibility.

(g) Confidentiality of Transactions

Until disclosed in a public report to stockholders or to the SEC in the normal course, all information concerning Securities being considered for purchase or sale (as defined in Section (b)(xv) of this Policy) by the Funds shall be kept confidential by all Access Persons and disclosed by them only on a "need to know" basis. It shall be the responsibility of the CCO to report any inadequacy found by him or her to the Board of Directors of the Company or any committee appointed by the Board of Directors to deal with such information.

(h) Sanctions

Any violation of this Policy shall be subject to the imposition of such sanctions by the Funds or the Adviser as may be deemed appropriate under the circumstances to achieve the purposes of the Rules and this Policy, which may include suspension or termination of employment, a letter of censure or restitution of an amount equal to the difference between the price paid or received by the Funds and the more advantageous price paid or received by the offending person. Sanctions for violation of this Policy by a director of the Funds will be determined by a majority vote of the independent directors of the applicable Fund.

(i) Administration and Construction

(i) Administration. The administration of this Policy shall be the responsibility of the CCO of the Adviser and the Funds.

(ii) Duties. The duties of the CCO under this Policy include: (1) continuous maintenance of a current list of the names of all Access and Non-Access Persons, with an appropriate description of their title or employment; (2) providing each Covered Person a copy of this Policy and informing them of their duties and obligations hereunder, and assuring that Covered Persons are familiar with applicable requirements of this Appendix; (3) supervising the implementation of this Policy and its enforcement by the Adviser, the Administrator and the Funds; (4) maintaining or supervising the maintenance of all records and reports required by this Policy; (5) preparing listings of all transactions effected by any Access Person within thirty (30) days of the date on which the same security was held, purchased or sold by any of the Funds; (6) issuing either personally or with the assistance of counsel, as may be appropriate, any interpretation of this Policy which may appear consistent with the objectives of the Rules and this Policy; (7) conducting of such inspections or investigations, including scrutiny of the listings referred to in the preceding subparagraph, as shall reasonably be required to detect and report,

with recommendations, any apparent violations of this Policy to the Board of Directors of the Funds or any Committee appointed by them to deal with such information; and (8) submitting a quarterly report to the directors of the Funds containing a description of any (i) violation and the sanction imposed; (ii) transactions which suggest the possibility of a violation of interpretations issued by the CCO of the Relevant Fund; and (iii) any other significant information concerning the appropriateness of this Policy.

(j) Required Records.

The CCO shall maintain and cause to be maintained in an easily accessible place, the following records:

(i) Code of Ethics and Policies. Copies of the Code of Ethics into which this Policy has been incorporated, this Policy, and any other codes of ethics or insider trading policies adopted pursuant to the Rules ("Rule 17 and Rule 204A Codes") which have been in effect during the past five (5) years;

(ii) Violations. A record of any violation of any such Rule 17 and Rule 204A Codes and of any action taken as a result of such violation;

(iii) Reports. A copy of each report made by the CCO within two (2) years from the end of the fiscal year of the Funds in which such report or interpretation is made or issued, and for an additional three (3) years in a place which need not be easily accessible; and

(iv) List. A list of all persons who are, or within the past five (5) years have been, required to make reports pursuant to the Rules and any Rule 17 Code.

(k) Amendments and Modifications

This Policy may not be amended or modified except in a written form which is specifically approved by majority vote of the independent directors of the applicable Funds.

This Policy was adopted by the Funds' Boards of Directors, including the independent directors, on**January 28, 2013**.

SCHEDULE A
REQUEST FOR PERMISSION TO ENGAGE IN A NON-FUND SECURITIES COVERED TRANSACTION

I hereby request permission to effect a transaction in securities as indicated below for my own account or other account in which I have a beneficial interest or legal title. I acknowledge that if I am granted pre-clearance for my Transaction Request, I will have until the end of fourteen (14) calendar days following the day pre-clearance is received to execute the transaction. I also acknowledge that, if for any reason the transaction is not completed within this period of time, pre-clearance must be re-obtained before the transaction can be executed.

(Use approximate dates and amounts of proposed transactions.)

PURCHASES AND ACQUISITIONS

Date	IPO or Limited Offering?	No. of Shares or Principal Amount	Name and Trading Symbol of Security	Unit Price	Total Price	Brokerage Firm

SALES AND OTHER DISPOSITIONS

Name: _____ **Request Date:** _____ **Signature:** _____

Permission Granted ☐
Permission Denied ☐

Signature: _____ Date: _____
(Administrative Officer)

Signature: _____ Date: _____
(Independent Officer)

SCHEDULE B

REQUEST FOR PRE-CLEARANCE AND CERTIFICATION IN CONNECTION WITH A TRANSACTION IN FUND SECURITIES

*Instructions: To initiate pre-clearance, you must contact the Administrative Officer in person, by phone, or email. After discussing the proposed trade, pre-clearance can be obtained by (1) completing and signing this Schedule B, and obtaining the approval and signature of the Administrative Officer; or (2) responding affirmatively to an email sent by the Administrative Officer containing all the required information of this Schedule B and receiving a reply email from the Administrative Officer indicating such approval. The Administrative Officer is the CCO of the Relevant Fund, or, if the CCO is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel are not available, then the CFO of the Relevant Fund. Capitalized terms used in this Schedule B have the meanings given them in the Insider Trading Policy as adopted by the Boards of Directors of the Funds on January 28, 2013 (the "**Policy**").*

REQUEST FOR PRE-CLEARANCE

I hereby request permission to effect a transaction in Fund Securities as indicated below for my own account or other account in which I have a beneficial interest or legal title.

Requestor's name: _____

Transaction type (Buy or Sell): _____ Proposed order date: _____

Approximate number of shares (if debt securities, principal dollar amount) of trade: _____

Name and trading symbol of Fund Security: _____

CERTIFICATION

Pursuant to the Policy, and in connection with the above request for pre-clearance (the "**Transaction Request**"), I, _____, hereby certify that I am not in possession of any Material Non-public Information, as defined in the Policy. I further certify I have read and understand the Insider Trading Policy as adopted by the Boards of Directors of the Funds and am personally responsible for abiding by all the policies and procedures contained within the Policy and aware of the consequences of failing to do so.

Signature: _____ Date: _____

PRE-CLEARANCE DECISION

Pre-clearance Granted ☐ Administrative Officer Signature: _____
Pre-clearance Denied ☐ Pre-clearance Granted/Denied Date: _____

SCHEDULE C
CERTIFICATION/REQUEST FOR PRE-APPROVAL OF RULE 10B5-1 TRADING PLAN

*Instructions: Contact the Administrative Officer to discuss your eligibility for a Rule 10b5-1 Trading Plan. The Administrative Officer is the CCO of the Relevant Fund, or, if the CCO is not available, then the Internal Counsel of the Relevant Fund, or if the CCO and Internal Counsel are not available, then the CFO of the Relevant Fund. Capitalized terms used in this Schedule C have the meanings given them in the Insider Trading Policy as adopted by the Boards of Directors of the Funds on January 28, 2013 (the "**Policy**").*

REQUEST FOR PRE-CLEARANCE

Pursuant to the Policy, I hereby request permission to enter into a Trading Plan pursuant to Rule 10b5-1 under the Exchange Act. In connection with this request, I, _____, hereby certify that:

1. I have delivered herewith the form of Trading Plan to the Administrative Officer.
2. I am not in possession of any Material Non-public Information, as defined in the Policy.
3. I further certify I have read and understand the Insider Trading Policy as adopted by the Boards of Directors of the Funds and am personally responsible for abiding by all the policies and procedures contained within the Policy and aware of the consequences of failing to do so.

Signature: _____ Date: _____

PRE-CLEARANCE DECISION

Pre-approval Granted ☐ Administrative Officer Signature: _____
Pre-approval Denied ☐ Pre-approval Granted/Denied Date: _____

SCHEDULE D
ANNUAL SECURITIES TRANSACTIONS
CONFIDENTIAL REPORT OF NON-ACCESS PERSONS

The following schedule lists all transactions during the year ending December 31,____ in which I had any direct or indirect Beneficial Interest in any Covered Security. Capitalized terms used in this schedule have the meanings given them in the Insider Trading Policy as adopted by the Boards of Directors of the Funds on January 28, 2013. (*If no transactions took place you may write "None"*)

PURCHASES AND ACQUISITIONS

Date	No. of Shares or Principal Amount	Name of Security	Unit Price	Total Price	Brokerage Firm

SALES AND OTHER DISPOSITIONS

If you wish to disclaim Beneficial Ownership of any of the Covered Securities listed above, please check the statement below and describe the Securities for which you disclaim Beneficial Ownership.

— *This report is not to be construed as an admission that the person making it has or had any direct or indirect Beneficial Interest in the following Securities to which this report relates:*

For the year ending _____ Name: _____

Date: _____ Signature: _____

Appendix B

Pay to Play Policy
For
Gladstone Capital Corporation
Gladstone Commercial Corporation
Gladstone Investment Corporation
Gladstone Land Corporation
Gladstone Management Corporation
Gladstone Securities, LLC
and their subsidiaries

A. Prohibited Conduct

1. Covered Associates (as defined in Section C. and explained further in the accompanying footnote) may not make any Political Contribution (defined Section C.) to any Official of a Government Entity (defined in Section C.), unless such Political Contribution has first been approved in writing by the CCO or his designee.

This prohibition includes "in-kind" contributions, *e.g.*, contributions of GMC or GSC property, services or other assets including employee work time spent on political activities and the solicitation of contributions by an employee. Failure to comply with this requirement may result in GMC's being barred from receiving compensation for supplying advisory services to such Government Entity or to a Covered Investment Pool (defined below) in which such Government Entity invests for a two-year period. This prohibition applies to fundraising activities, including soliciting or making Political Contributions, either monetary or in-kind.

Please note, nothing in this Policy is meant to discourage Covered Associates from participating in the political process by expressing support for political candidates[2] or voting. Covered Associates may support candidates in other ways, such as volunteering their time, so long as such volunteering occurs during non-work hours or on vacation time. Additionally, to avoid potentially problematic in-kind contributions, Covered Associates are prohibited from using GMC or GSC resources, including telephones, copiers, personnel, or other facilities to conduct political activities.

Individuals who are Covered Associates may make a*de minimis* Political Contribution to an Official of a Government Entity for whom the Covered Associate is entitled to vote at the time of the contribution, provided that the Political Contribution does not exceed $350 in the aggregate to any one Official, per election. Individuals who are Covered Associates may also make a *de minimis* Political Contribution to an Official of a Government Entity for whom the Covered Associate is<u>not</u>

[2] Please note, not all political candidates or incumbent politicians are included within the definition of Official of a Government Entity. Incumbent federal officeholders and candidates for federal office who do not hold a state or local office while running for federal office are not Officials of a Government Entity.

entitled to vote, provided that the Political Contribution does not exceed $150 in the aggregate to any one Official, per election. Under both exceptions, primary and general elections would be considered separate elections. All *de minimis* contributions must also be disclosed to the CCO. Please note that broker dealers and individuals who are municipal finance professionals are subject to a lower *de minimis* contribution limit of $250 under MSRB Rule G-37.

2. A Covered Associate may not, without the prior written consent of the CCO or his designee, solicit or co-ordinate: (i) Political Contributions to Officials of a Government Entity, or (ii) payments to a state or local political party. For purposes of this Policy, solicitation or coordination of a Political Contribution or payment includes communicating, directly or indirectly, for the purpose of obtaining or arranging a Political Contribution or payment and would include asking, directing, or suggesting that a Political Contribution be made. For example, use of an individual's name on fundraising literature for a candidate would be soliciting Political Contributions for that candidate. Similarly, even forwarding a solicitation to friends or family on behalf of a candidate or political party would be coordinating Political Contributions for that candidate or political party.

3. A Covered Associate may not compensate a third party placement agent or "finder" to solicit advisory business[3] from a Government Entity on behalf of the Covered Associate, unless the third party is a registered broker-dealer or SEC-registered investment adviser subject to Rule 206(4)-5.

4. Covered Associates may not circumvent these prohibitions by requesting, directing or causing contributions or payments to be made through other parties, including, but not limited to, spouses, family members or friends, or in any other way.

B. Quarterly Reports

Within 30 days after the end of each calendar quarter, each Covered Associate must submit a Political Contribution Report to the CCO in such form as he shall prescribe. As part of the hiring process, each newly-hired Covered Associate will be required to report information on any Political Contribution or other activity covered by this Policy.

C. Definitions

A ***Covered Associate***[4] includes: (i) GMC, (ii) GSC, (ii) GMC's or GSC's President; (iii) any Vice-President or similar executive officer of GMC or GSC in charge of a business unit, division or function (such as sales, administration or finance); (iv) any other person who performs a policy-making function; (v) an employee who solicits a government entity for GMC; (vi) any person who directly or indirectly supervises an employee described in (v); or (vii) any political action committee controlled by GMC, GSC or any of their covered associates.

[3] "Soliciting advisory business" means engaging in a communication that is reasonably calculated to obtain or retain a Government Entity as an advisory client.

[4] Although GSC employees are not employees of the investment adviser GMC, for purposes of this policy and Rule 206(4)-5's restrictions regarding third party placement agents discussed in footnote 1, GSC and certain of its employees will be deemed to be Covered Associates.

In addition to the positions listed above, as of the date of this Policy, the following shall be considered Covered Associates:

- Individuals holding Series 7 or 79 License
- Individuals designated or acting in the position of Managing Director or higher;
- Individuals designated as the head of a department;
- Individuals having marketing responsibilities/Individuals designated as part of the Marketing Department; and
- Individuals who solicit business from government entities or who supervise those who do.

For internal reference only, on a quarterly basis, the CCO or his designee shall update Exhibit A hereto (delineating each individual he believes to be included within the definition of Covered Associate).

A ***Covered Investment Pool*** includes an investment company registered under the Investment Company Act of 1940 that is an investment option of a plan or program of a Government Entity or any company that would be an investment company under section 3(a) of the Investment Company Act of 1940 but for the exclusion provided from that definition by 3(c)(1), 3(c)(7) or 3(c)(11) of the Investment Company Act of 1940.[5]

A ***Government Entity*** means any state or political subdivision thereof, including public pension funds and retirement systems. This includes such an entity's agency, authority or instrumentality; a pool of assets sponsored or established by the state or political subdivision, agency, authority or instrumentality thereof; a plan or program of a government entity; and officers, agents or employees of the government entity acting in their official capacity.

An ***Official of a Government Entity*** is someone who can influence the hiring of an investment adviser for a government entity. This term includes someone who has the sole authority to select investment advisers for the government entity; someone who serves on a governing board that selects investment advisers; or someone who appoints those who select the investment advisers. It includes an incumbent, a candidate, or a successful candidate for state or local elective office. Note that it can also include a candidate for federal office, if that person is a covered state or local official at the time the Political Contribution is made. In certain circumstances, a national political party committee may be considered an Official of a Government Entity after the party's nominating convention has concluded if at least one of the party's nominees for president or vice president is a covered state or local official.[6]

[5] Please note, at the time of writing this Policy, a Covered Investment Pool would include any private fund that GMC may wish to manage and raise capital from any state or political subdivision thereof, including public pension funds and retirement systems. It would also include a pooled investment vehicle sponsored or advised by an investment adviser as a funding vehicle or investment option in a government sponsored plan, such as a 529 plan (qualified tuition plan), 403(b) plan (tax-deferred employee benefit retirement plan), or a 457 plan (tax-deferred employee benefit retirement plan) that typically allow participants to select among pre-established investment options or particular investment pools (often invested in registered investment companies or funds of funds, such as target date funds).

[6] The national political party committees are the RNC, DNC, NRSC, DSCC, NRCC, and DCCC. Contributions or solicitations for contributions to a national political party committee may violate Rule 206(4)-5 if one or more of the party's nominees for president or vice president is a covered state or local official. For example, in 2008, contributions to the RNC after the nominating convention which chose Sarah Palin, then incumbent Governor of Alaska, as vice presidential nominee were subject to then in effect pay to play restrictions of $250. Similarly, contributions to McCain-Palin were also subject to the $250 limit.

On August 13, 2011, Governor Rick Perry of Texas announced his candidacy for president of the United States. As an Official of a Government Entity, individuals who are Covered Associates may only contribute $350 per election to Governor Perry's campaign and may not solicit contributions on Perry's behalf. Depending on the outcome of the republican nominating convention in 2012, if Governor Perry or another incumbent state or local official becomes the republican party nominee for president or vice president, contributions to the RNC after the convention would be subject to the *de minimis* limits, as would contributions to the campaign committee for the presidential/vice presidential nominees.

A ***Political Contribution*** means a gift, subscription, loan, advance, deposit of money or anything of value made for the purpose of influencing an election. Political Contributions include not only monetary donations but also the provision of goods and services provided to a campaign, or on behalf of a campaign, without charge. This includes payments for debts incurred in such an election, as well as transition or inaugural expenses.

Quarterly Political Contribution Report

GMC, as a registered investment adviser under the Investment Advisers Act of 1940, is required by law to maintain books and records regarding certain political contributions made by its ***Covered Associates***. Pursuant to our Pay to Pay Policy, please provide information regarding your Political Contributions. If you are unsure whether to report a ***Political Contribution***, please contact the CCO or Internal Counsel for assistance.

All terms in bold/italics used on this report have the same definitions as they appear in the Pay to Pay Policy included as Appendix B to our Code of Ethics. For more guidance regarding this report specifically, or our Pay to Play Policy generally, please contact our CCO or Internal Counsel.

Period Covered by the Report - 20

☐ First Quarter ☐ Second Quarter ☐ Third Quarter ☐ Fourth Quarter
☐ Other Period

Covered Activity

Except as otherwise described below, during the period covered by this report, I have not, directly or indirectly (including, but not limited to, through a family member or political action committee):

a. Made or caused to be made a ***Political Contribution*** to any ***Official of a Government Entity***;

b. Solicited or coordinated:

(i) ***Political Contributions*** to any ***Official of a Government Entity***; or

(ii) payments to a state or local political party; or

c. Compensated any third parties for "**soliciting advisory business**" from a ***Government Entity***.

Describe each Political Contribution, including those *de minimis contributions* made to candidates for whom you are eligible to vote. Include name, title and city/county/state or other political subdivision of each recipient and the amounts and dates of each Political Contribution:

Name Date

Initial Political Contribution Report

GMC, as a registered investment adviser under the Investment Advisers Act of 1940, is required by law to maintain books and records regarding certain political contributions made by its executives and employees. Please provide information regarding ***Political Contributions*** made after March 14, 2011 until now. If you are unsure whether to report a ***Political Contribution***, please contact the CCO or Internal Counsel for assistance.

All terms in bold/italics used on this report have the same definitions as they appear in the Pay to Pay Policy included as Appendix B to our Code of Ethics. For more guidance regarding this report specifically, or our Pay to Play Policy generally, please contact our CCO or Internal Counsel.

Except as otherwise described below, during the period from March 14, 2011 until the date of this report, I have not, directly or indirectly (including through a family member or political action committee):

a. Made a ***Political Contribution*** to any ***Official of a Government Entity***;

b. Solicited or coordinated:

(i) Political Contributions to an ***Official of a Government Entity***; or

(ii) payments to a political party of a state or locality; or

c. Compensated any third parties for ***"soliciting advisory business"*** from ***Government Entities***.

Describe any exceptions. Include name, title and city/county/state or other political subdivision of each recipient and the amounts and dates of each contribution or payment:

Name _____ Date _____

Political Contribution Pre-Clearance Form

Name and Title of Contributor:

Recipient Information

Name:

Title:

City/County/State/Other Political Subdivision:

Amount of Contribution:

Proposed Date of Contribution: _____
Contribution is for: ☐ Primary Election ☐ General Election

Is this Contributor able to vote for this Recipient? ☐ Yes ☐ No

Has this Contributor made other contributions to this recipient during this election cycle?

☐ Yes ☐ No

If yes, describe:

Has this Contributor ever had a contribution returned because the Contributor was not eligible to vote for the recipient candidate and it was more than the $150 *de minimis* allowed?

☐ Yes ☐ No

If yes, describe:

☐ **Contribution Approved** ☐ **Contribution Denied**

Name Date

Exhibit 2.s.2

Statements re: computation of ratios

(Dollars in Thousands, Except Ratios)

	For the years ended March 31, (Dollars in Thousands, Except Per Share Amounts)				
	2013	2012	2011	2010	2009
Net investment income	$16,488	$13,743	$16,171	$10,598	$13,388
Add: fixed charges and preferred distributions	4,800	1,435	1,191	3,612	5,681
Less: preferred distributions	2,850	198	—	—	—
Earnings	$24,138	$15,376	$17,362	$14,210	$19,069
Fixed charges and preferred distributions:					
Interest expense	1,127	768	690	1,984	5,349
Amortization of deferred financing fees	791	459	491	1,618	323
Estimated interest component of rent	32	10	10	10	9
Preferred distributions	2,850	198	—	—	—
Total fixed charges and preferred distributions	4,800	1,435	1,191	3,612	5,681
Ratio of earnings to combined fixed charges and preferred distributions	5.0x	10.7x	14.6x	3.9x	3.4x

The calculation of the ratio of earnings to combined fixed charges and preferred distributions is above. “Earnings” consist of net income from continuing operations before fixed charges. “Fixed charges” consist of interest expense, amortization of deferred financing fees and the portion of operating lease expense that represents interest. The portion of operating lease expense that represents interest is calculated by dividing the amount of rent expense, allocated to us by our Adviser as part of the administration fee payable under the Advisory Agreement, by three.

June 7, 2013

VIA EDGAR

U.S. Securities and Exchange Commission
Edward P. Bartz, Esq.
Division of Investment Management
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Gladstone Investment Corporation
Registration Statement on Form N-2, as amended
File No. 333-181879

Dear Mr. Bartz:

Gladstone Investment Corporation (the "Company") filed Post-Effective Amendment No. 2 to the Registration Statement ("Post-Effective Amendment No. 2") under the Securities Act of 1933 (the "Securities Act") via EDGAR as a POS 8C filing on June 7, 2013. The Registration Statement relates to the shelf offering from time to time, in one or more offerings or series, together or separately, of up to $300,000,000 worth of the Company's common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock, or debt securities under Rule 415 of the Securities Act.

The Company respectfully requests that the staff of the Securities and Exchange Commission afford Post-Effective Amendment No. 2 selective review in accordance with Securities Act Release No. 33-6510 (February 15, 1984). The disclosure contained in Post-Effective Amendment No. 2 is substantially similar to the disclosure contained in the Company's Pre-Effective Amendment No. 1 to the Registration Statement filed on July 17, 2012 that was declared effective on July 26, 2012 (the "2012 Registration Statement"). Post-Effective Amendment No. 2 has been updated primarily to include the audited financial statements for the year ended March 31, 2013, and related financial information and data for the year ended March 31, 2013, including updated information on the Company's portfolio investments. Additionally, Post-Effective Amendment No. 2 also updates the Company's limited revisions to its investment objectives and strategies, as previously disclosed in the Company's Annual Report on Form 10-K for the year ended March 31 2013, and as much other information as was practicable to a more recent date. All of the updated information and disclosures included in this Post-Effective Amendment No. 2 has already been included in filings made pursuant to the Securities Exchange Act of 1934 filed since the 2012 Registration Statement.

If you have any questions or comments regarding the foregoing, please feel free to contact me via phone at (703) 287-5860 or contact our outside counsel, Helen W. Brown with Bass, Berry & Sims PLC at (901) 543-5918 or via email at hwbrown@bassberry.com.

Sincerely,

GLADSTONE INVESTMENT CORPORATION

/s/ David Watson

David Watson
Chief Financial Officer and Treasurer