GLADSTONE INVESTMENT CORPORATION\DE
Form 497
February 27, 2012
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Filed Pursuant to Rule 497
File No. 333-160720

SUBJECT TO COMPLETION, DATED FEBRUARY 27, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated September 9, 2011)

1,000,000 Shares

Gladstone Investment Corporation

% Series A Cumulative Term Preferred Stock

(Liquidation Preference $25 Per Share)

We are offering 1,000,000 shares of our % Series A Cumulative Term Preferred Stock, or the Series A Term Preferred Stock. We will pay monthly dividends on the Series A Term Preferred Stock at an annual rate of % of the $25 liquidation preference per share, or $ per share of Series A Term Preferred Stock per year, on the last business day of each month, commencing on March 30, 2012.

We are required to redeem all of the outstanding Series A Term Preferred Stock on , 2017, at a redemption price equal to $25 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. We will also be required to redeem all of the outstanding Series A Term Preferred Stock at a redemption price equal to $25 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption in the event of certain events that constitute a change of control of the company. If we fail to maintain an Asset Coverage ratio of at least 200% (as described in this prospectus supplement), we will redeem a portion of the outstanding Series A Term Preferred Stock in an amount at least equal to the lesser of (1) the minimum number of shares of Series A Term Preferred Stock necessary to cause us to meet our required Asset Coverage ratio and (2) the maximum number of Series A Term Preferred Stock that we can redeem out of cash legally available for such redemption. At any time on or after , 2016, at our sole option, we may redeem the Series A Term Preferred Stock at a redemption price of $25 per share of Series A Term Preferred Stock, plus any accumulated but unpaid dividends, if any, on the Series A Term Preferred Stock to but excluding the date of redemption.

The Series A Term Preferred Stock will rank equally in right of payment with all other shares of preferred stock that we may issue and will rank senior in right of payment to all of our common stock.

We have applied to have the Series A Term Preferred Stock listed on the NASDAQ Global Select Market, or NASDAQ, under the symbol GAINP. Our common stock is traded on the NASDAQ under the symbol GAIN. On February 24, 2012, the last sale price of our common stock as reported on NASDAQ was $7.66 per share. The Series A Term Preferred Stock will not be convertible into our common stock or any other security of our company.

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

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

	PER SHARE	TOTAL
Public Offering Price	$ 25.00	$ 25,000,000
Underwriting discounts and commissions	$ 1.00	$ 1,000,000
Proceeds to Gladstone Investment Corporation, before expenses	$ 24.00	$ 24,000,000

Delivery of the Series A Term Preferred Stock is expected to be made on or about , 2012. We have granted the underwriters an option for a period of 25 days to purchase an additional 150,000 shares of Series A Term Preferred Stock solely to cover any over-allotments, if any. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $1,150,000, and the total proceeds to us, before expenses, will be $27,600,000.

Sole Book-Running Manager

Jefferies

Joint Lead Manager

Janney Montgomery Scott

Co-Managers

J.J.B. Hilliard, W.L. Lyons, LLC **Wunderlich Securities**

Prospectus Supplement dated , 2012

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement, together with the accompanying prospectus, sets forth the information that you should know before investing. You should read the prospectus supplement and accompanying prospectus, which contain important information, before deciding whether to invest in the Series A Term Preferred Stock.

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

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

This prospectus supplement, which describes the specific terms of this offering, also adds to and updates information contained in the accompanying prospectus. The accompanying prospectus gives more general information, some of which may not apply to this offering. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date, the statement in the document having the later date modifies or supersedes the earlier statement.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus in making an investment decision. We have not authorized any other person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the Series A Term Preferred Stock in any jurisdiction where such an offer or sale is not permitted. The information appearing in this prospectus supplement and in the accompanying prospectus is accurate only as of the dates on their respective covers, regardless of the time of delivery or any sale of the Series A Term Preferred Stock.

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

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PROSPECTUS SUPPLEMENT SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this prospectus supplement and in the accompanying prospectus, including the Company s Certificate of Designation of % Series A Cumulative Term Preferred Stock of Gladstone Investment Corporation, or the Certificate of Designation, the form of which is attached as Appendix A to this prospectus supplement, prior to making an investment in the Series A Term Preferred Stock, and especially the information set forth under the headings Risk Factors. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the Company, we, us or our refers to Gladstone Investment Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; and Gladstone Companies refers to our Adviser and its affiliated companies. Capitalized terms used but not defined in this prospectus supplement or accompanying prospectus have the meanings given to such terms in the Certificate of Designation. Unless otherwise stated, the information in this prospectus supplement and the accompanying prospectus does not take into account the possible exercise by the underwriters of their over-allotment option.

Gladstone Investment Corporation

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

As of December 31, 2011, our portfolio consisted of investments in 17 companies in 12 states in 12 different industries with a fair value of $226.8 million, consisting of senior term debt, subordinated term debt, preferred equity and common equity. Since our initial public offering in June 2005, we have made 80 consecutive monthly distributions. Our monthly distribution per share of common stock was $0.05 in each of January and February 2012. Our Board of Directors has also declared a monthly dividend of $0.05 per share of common stock for March 2012.

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

As of December 31, 2011, we had 22,080,133 shares of common stock, par value $0.001 per share, or Common Stock, outstanding and no shares of preferred stock outstanding.

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

Investment Strategy

We seek to achieve returns from current interest income from owning senior, subordinated and mezzanine debt, and capital gains from the sale of preferred stock, warrants to purchase common stock and common stock that we purchase in connection with buyouts and recapitalizations of small and mid-sized companies. We seek to make investments that generally range between $10 million and $40 million each, although this investment size may vary proportionately as the size of our capital base changes. Typically, our debt investments mature in no more than seven years. Our debt investments accrue interest at fixed or variable rates and most have minimum interest rates. We invest either by ourselves or jointly with other buyout funds or management of the company. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were to be investing alone. We expect that the majority of the investments we make will consist of term debt of private companies that cannot or will not expend the resources to have their debt securities rated by a credit rating agency. We cannot accurately predict what ratings these loans might receive if they were rated, and thus cannot determine whether or not they could be considered investment grade quality. However, for loans that lack a rating by a credit rating agency, investors should assume that most of these loans will be below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds, and may be considered high risk compared to investment grade debt instruments.

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

Our Investment Adviser and Administrator

Our Adviser is our affiliate and is our investment adviser. Our Adviser is led by a management team that has extensive experience in our lines of business. Excluding our chief financial officer, all of our executive officers serve as either directors or executive officers, or both, of our Adviser, our Administrator and certain other funds affiliated with us and are advised by our Adviser. Our Administrator employs our chief financial officer, chief compliance officer, internal counsel, controller and treasurer and their respective staffs.

Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliated funds, some of which may co-invest with us on certain portfolio investments. In the future, our Adviser and our Administrator may provide investment advisory and administrative services, respectively, to other funds, both public and private.

Our Adviser was organized as a Delaware corporation in 2002 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. Since October 1, 2004, we have been externally managed by the Adviser, which is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in California, Illinois and New York.

We have entered into an investment advisory and management agreement with the Adviser, which we refer to as the Advisory Agreement. At a meeting of our Board of Directors held on July 12, 2011, our Board of Directors unanimously voted to approve the extension of the term of the Advisory Agreement through August 31, 2012. In reaching a decision to approve the Advisory Agreement, the Board of Directors reviewed a significant amount of information and considered, among other things:

- the nature, quality and extent of the advisory and other services to be provided to us by the Adviser;
- the fee structures of comparable externally managed business development companies that engage in similar investing activities; and
- various other matters.

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Based on the information reviewed and the considerations detailed above, our Board of Directors, including all of the directors who are not interested persons as that term is defined in the 1940 Act, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and approved the Advisory Agreement, as well as the Administration Agreement, as being in the best interests of our stockholders.

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THE OFFERING

The following is a brief summary of some of the terms of this offering. For a more complete description of the rights, preferences and other terms of the Series A Term Preferred Stock, see Description of the Series A Term Preferred Stock in this prospectus supplement.

Issuer	Gladstone Investment Corporation
Securities Offered	1,000,000 shares of % Series A Cumulative Term Preferred Stock. The underwriters have the option to purchase up to 150,000 additional shares of Series A Term Preferred Stock from us to cover over allotments, if any.
Liquidation Preference	$25 per share, plus accumulated but unpaid dividends, if any. In the event of any liquidation, dissolution or winding up of our affairs, holders of the Series A Term Preferred Stock will be entitled to receive a liquidation distribution per share equal to $25 per share (which we refer to in this prospectus supplement as the Liquidation Preference), plus an amount equal to all accumulated but unpaid dividends, if any, and distributions accumulated to, but excluding, the date fixed for distribution or payment, whether or not earned or declared by us, but excluding interest on any such distribution or payment. See Description of the Series A Term Preferred Stock Liquidation Rights.
Dividends	The Series A Term Preferred Stock will pay a monthly dividend at a fixed annual rate of % of the Liquidation Preference, or $ per share per year, which we refer to as the Fixed Dividend Rate. The Fixed Dividend Rate is subject to adjustment under certain circumstances, but will not in any case be lower than %.
	Cumulative cash dividends or distributions on each Series A Term Preferred Share will be payable monthly, when, as and if declared, or under authority granted, by our Board of Directors out of funds legally available for such payment. The first dividend period for the Series A Term Preferred Stock will commence on the initial issuance date of such shares upon the closing of this offering, which we refer to as the Date of Original Issue, and will end on March 31, 2012.
Ranking	The shares of Series A Term Preferred Stock are senior securities that constitute capital stock of the Company.
	The Series A Term Preferred Stock ranks:
	n senior to the Common Stock in priority of payment of dividends and as to the distribution of assets upon dissolution, liquidation or the winding-up of our affairs; and
	n equal in priority with all other future series of preferred stock we may issue, which we refer to in this prospectus supplement, collectively with the Series A Term Preferred Stock, as the Preferred Stock, as to priority of payment of dividends and

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distributions of assets upon dissolution, liquidation or the winding-up of our affairs.

We may issue additional shares of Preferred Stock, but we may not issue additional classes of capital stock that rank senior or junior to the Series A Term Preferred Stock (other than Common Stock) as to priority of payment of dividends and as to distribution of assets upon dissolution, liquidation or winding-up of our affairs. We may, however, borrow funds from banks and other lenders so long as the ratio of (1) the value of total assets less the total borrowed amounts to (2) the sum of all senior securities representing indebtedness and the outstanding Series A Term Preferred Stock multiplied by $25 per share is not less than 200%.

Mandatory Term Redemption

We are required to redeem all outstanding Series A Term Preferred Stock on , 2017, at a redemption price equal to the Liquidation Preference ($25 per share), plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the redemption date. If we fail to redeem the Series A Term Preferred Stock pursuant to the mandatory redemption required on , 2017, or in any other circumstance in which we are required to redeem the Series A Term Preferred Stock, then the Fixed Dividend Rate will increase to an annual rate of 11% for so long as such failure continues. See Description of the Series A Term Preferred Stock Redemption and Voting Rights.

Mandatory Redemption for Asset Coverage

If we fail to maintain an Asset Coverage ratio (as defined below) of at least 200% as of the close of business on any calendar day on which NASDAQ is open for trading, or a Business Day, on which Asset Coverage is required to be calculated, and such failure is not cured by the close of business on the date that is 30 calendar days following such Business Day (referred to in this prospectus supplement as an Asset Coverage Cure Date), then we are required to redeem, within 90 calendar days of the Asset Coverage Cure Date, shares of Preferred Stock equal to the lesser of (1) the minimum number of shares of Preferred Stock that will result in our having an Asset Coverage ratio of at least 200% and (2) the maximum number of shares of Preferred Stock that can be redeemed out of funds legally available for such redemption, provided further, that in connection with any such redemption for failure to maintain such Asset Coverage ratio, we may redeem such additional number of shares of Preferred Stock that will result in our having an Asset Coverage ratio of up to and including 215%. The Preferred Stock to be redeemed may include, at our sole option, any number or proportion of the Series A Term Preferred Stock and other series of Preferred Stock. If shares of Series A Term Preferred Stock are to be redeemed in such an event, they will be redeemed at a redemption price equal to the Liquidation Preference ($25 per share), plus accumulated but unpaid dividends, if any, on such shares (whether or not declared, but excluding interest on accumulated but unpaid dividends, if any) to, but excluding, the date fixed for such redemption.

Asset Coverage for purposes of our Preferred Stock is a ratio calculated under Section 18(h) of the 1940 Act, as in effect on the date of the Certificate of Designation, and is determined on the basis of values calculated as of a time within 48 hours (only including Business Days) preceding each determination. We estimate that, on the Date of Original Issue, our Asset Coverage, based on the composition and value of our portfolio as of December 31, 2011, and after giving effect to (1) the issuance of the Series A Term Preferred Stock offered in this offering and (2) the payment of underwriting discounts and commissions of $1.0 million and estimated related offering costs payable by us of approximately $375,000, would have been 285.6%. Our net investment income coverage, which is calculated by dividing our net investment income by the amount of distributions to holders of our Common Stock, averaged approximately 120.2% from March 31, 2009 through December 31, 2011. Net investment income coverage has varied each year since our inception, and there is no assurance that historical coverage levels will be maintained. See Description of the Series A Term Preferred Stock Asset Coverage.

Optional Redemption

At any time on or after , 2016, at our sole option, we may redeem the Series A Term Preferred Stock in whole or from time to time, in part, out of funds legally available for such redemption, at the Liquidation Preference ($25 per share), plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the date fixed for such redemption. See Description of the Series A Term Preferred Stock Redemption Optional Redemption. See Description of the Series A Term Preferred Stock Redemption.

Change of Control Redemption

If a Change of Control Triggering Event occurs, unless we have exercised our option to redeem the Series A Term Preferred Stock, we will be required to redeem all of the outstanding Series A Term Preferred Stock at the Liquidation Preference ($25 per share), plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the date fixed for such redemption. For the definition of Change of Control Triggering Event and additional information concerning the redemption of the Series A Term Preferred Stock in connection with such events, see Description of the Series A Term Preferred Stock Redemption Change of Control.

Voting Rights

Except as otherwise provided in our Amended and Restated Certificate of Incorporation or as otherwise required by law, (1) each holder of Preferred Stock (including the Series A Term Preferred Stock) will be entitled to one vote for each share of Preferred Stock held by such holder on each matter submitted to a vote of our stockholders and (2) the holders of all outstanding Preferred Stock and Common Stock will vote together as a single class; provided, that holders of Preferred Stock, voting separately as a class, will be entitled to elect at least two of our directors and will be entitled to

	elect a majority of our directors if we fail to pay dividends on any outstanding shares of Preferred Stock in an amount equal to two full years of dividends and continuing during that period until we correct that failure. Preferred Stock holders will also vote separately as a class on any matter that materially and adversely affects any preference, right or power of holders of Preferred Stock. See Description of the Series A Term Preferred Stock Voting Rights.
Conversion Rights	The Series A Term Preferred Stock will have no conversion rights.
Use of Proceeds	We intend to use the net proceeds from this offering of approximately $23.6 million (after the payment of underwriting discounts and commissions of $1.0 million and estimated offering expenses payable by us of approximately $375,000) to repay borrowings under our credit facility, then to make investments in buyouts and recapitalizations of small and mid-sized companies in accordance with our investment strategy, with any remaining proceeds to be used for other general corporate purposes. See Use of Proceeds.
U.S. Federal Income Taxes	Prospective investors are urged to consult their own tax advisors regarding these matters in light of their personal investment circumstances.
	We have elected to be treated, and intend to continue to so qualify each year, as a RIC under Subchapter M of the Code, and we generally do not expect to be subject to U.S. federal income tax.
	The dividends on the Series A Term Preferred Stock will not qualify for the dividend received deduction or for taxation as qualified dividend income.
Risk Factors	Investing in the Series A Term Preferred Stock involves risks. You should carefully consider the information set forth in the sections of this prospectus supplement and the accompanying prospectus entitled Risk Factors before deciding whether to invest in our Series A Term Preferred Stock. See Risk Factors beginning on page S-9 of this prospectus supplement and page 9 of the accompanying prospectus.
Information Rights	During any period in which we are not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and any shares of Series A Term Preferred Stock are outstanding, we will provide holders of Series A Term Preferred Stock, without cost, copies of annual reports and quarterly reports substantially similar to the reports on Form 10-K and Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such provisions or, alternatively, we will voluntarily file reports on Form 10-K and Form 10-Q as if we were subject to Section 13 or 15(d) of the Exchange Act.
Redemption and Paying Agent	We have entered into an amendment to our Transfer Agency and Service Agreement with Computershare Shareowner Services, LLC, or Computershare, which we refer to as the Redemption and Paying Agent in this prospectus supplement. Under this amendment, the Redemption and Paying Agent will serve as transfer agent and

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registrar, dividend disbursing agent and redemption and paying agent with respect to the Series A Term Preferred Stock.

Listing	We have applied to list the Series A Term Preferred Stock on the NASDAQ under the symbol GAINP. Trading on the Series A Term Preferred Stock is expected to begin within 30 days after the date of initial delivery of the Series A Term Preferred Stock. Prior to the expected commencement of trading on the NASDAQ, the underwriters may make a market in the Series A Term Preferred Stock, but they are not obligated to do so and may discontinue any market-making at any time without notice.

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RISK FACTORS

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

Risks of Investing in Term Preferred Stock

An investment in term preferred stock with a fixed interest rate bears interest rate risk.

Term preferred stock pays dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to the Series A Term Preferred Stock may increase, which would likely result in a decline in the secondary market price of the Series A Term Preferred Stock prior to , 2017, which we refer to as the Mandatory Term Redemption Date. For additional information concerning dividends on the Series A Term Preferred Stock, see Description of the Series A Term Preferred Stock Dividends and Dividend Periods.

There may be no initial secondary trading market due to delayed listing, and even after listing a liquid secondary trading market may not develop.

Because we have no prior trading history for exchange-listed Preferred Stock, we cannot predict the trading patterns of the Series A Term Preferred Stock, including the effective costs of trading the stock. During a period of up to 30 days from the date of this prospectus supplement, the Series A Term Preferred Stock will not be listed on any securities exchange. During this period, the underwriters may make a market in the Series A Term Preferred Stock, but they are not obligated to do so and may discontinue any market-making at any time without notice. Consequently, an investment in the Series A Term Preferred Stock during this period may be illiquid, and holders of such shares may not be able to sell them during that period as it is unlikely that an active secondary market for the Series A Term Preferred Stock will develop. If a secondary market does develop during this period, holders of the Series A Term Preferred Stock may be able to sell such shares only at substantial discounts from the Liquidation Preference ($25 per share). There is also a risk that such shares may be thinly traded, and the market for such shares may be relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms and features.

The Series A Term Preferred Stock will not be rated.

We do not intend to have the Series A 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 Series A Term Preferred Stock may trade at a price that is lower than they might otherwise trade if rated by a rating agency. It is possible, however, that one or more rating agencies might independently determine to assign a rating to the Series A Term Preferred Stock. In addition, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to the Series A Term Preferred Stock in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market for or the market value of the Series A Term Preferred Stock.

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

We may voluntarily redeem some or all of the Series A Term Preferred Stock on or after , 2016, and we may be forced to redeem some or all of the Series A Term Preferred Stock to meet regulatory requirements and the Asset Coverage requirements of such shares. Any such redemptions may occur at a time that is unfavorable to holders of the Series A Term Preferred Stock. We may have an incentive to redeem the Series A Term Preferred Stock voluntarily before the Mandatory Term 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 Series A Term Preferred Stock. For further information regarding our ability to redeem the Term Preferred Stock, see Description of the Series A Term Preferred Stock Redemption and Asset Coverage.

Claims of holders of the Series A Term Preferred Stock will be subject to a risk of subordination relative to holders of our debt instruments.

Rights of holders of the Series A Term Preferred Stock will be 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 Series A Term Preferred Stock.

We are subject to risks related to the general credit crisis and related liquidity risks.

General market uncertainty and extraordinary conditions in the credit markets may impact the liquidity of our investment portfolio. In turn, during extraordinary circumstances, this uncertainty could impact our distributions and/or ability to redeem the Series A Term Preferred Stock in accordance with their terms. Further, there may be market imbalances of sellers and buyers of Series A Term Preferred Stock during periods of extreme illiquidity and volatility in the credit markets. Such market conditions may lead to periods of thin trading in any secondary market for the Series A Term Preferred Stock and may make valuation of the Series A Term Preferred Stock uncertain. As a result, the spread between bid and ask prices is likely to increase significantly such that, if you invest in the Series A Term Preferred Stock, you may have difficulty selling your shares. Less liquid and more volatile trading environments could also result in sudden and significant valuation declines in the Series A Term Preferred Stock.

Holders of the Series A Term Preferred Stock will be 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 Series A Term Preferred Stock and dividends payable on such shares declines.

Holders of the Series A Term Preferred Stock will bear reinvestment risk.

Given the five-year term and potential for early redemption of the Series A 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 Series A Term Preferred Stock may be lower than the return previously obtained from the investment in such shares.

Holders of Series A Term Preferred Stock will bear dividend risk.

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

We face Asset Coverage risks in our investment activities.

The Asset Coverage that we maintain on the Series A Term Preferred Stock will be based upon a calculation of the value of our portfolio holdings. Our portfolio investments are, and we expect a large percentage of such investments 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 is generally not readily determinable. Our Board of Directors has established an investment valuation policy and consistently applied valuation procedures to determine the fair value of these securities on a quarterly basis. The procedures for the determination of value of many of our debt securities rely on opinions of value submitted to us by Standard & Poor s Securities Evaluations, Inc., or SPSE, the use of internally developed discounted cash flow, or DCF, methodologies, or internal methodologies based on the total enterprise value, or TEV, of the issuer, which we use for certain of our equity investments. SPSE will only evaluate the debt portion of investments for which we specifically request an evaluation, and SPSE may decline to provide requested evaluations for any reason in its sole discretion.

A portion of our assets are, and will continue to be, comprised of equity securities that are valued based on internal assessment using valuation methods approved by our Board of Directors, without the input of SPSE or any other third-party evaluator. While we believe that our equity valuation methods reflect those regularly used as standards by other professionals in our industry who value equity securities, the determination of fair value for securities that are not publicly traded necessarily involves an exercise of subjective judgment, whether or not we obtain the recommendations of an independent third-party evaluator.

Our use of these fair value methods is inherently subjective and is based on estimates and assumptions regarding 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 us or SPSE, or determined using TEV or the DCF methodology. As a result, a risk exists that the Asset Coverage attributable to the Preferred Stock, including the Series A Term Preferred Stock, may be materially lower than what is calculated based upon the fair valuation of our portfolio securities in accordance with our valuation policies. See Risk Factors Risks Related to Our Investments 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 net asset value on page 17 of the accompanying prospectus.

There is a risk of delay in our redemption of the Series A 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 Mandatory Term Redemption Date or a Change of Control Triggering Event, 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 Series A Term Preferred Stock might be adversely affected.

We finance our investments with borrowed money and 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]	(16.0)%	(8.5)%	(1.0)%	6.6%	14.1%

(1) The hypothetical return to common stockholders is calculated by multiplying our total assets as of December 31, 2011 by the assumed rates of return and subtracting all interest accrued on our debt, adjusted for the assumed dividends declared on the preferred stock to be issued in this offering; and then dividing the resulting difference by our total assets attributable to common stock. Based on $318.6 million in total assets, $105.3 million in debt outstanding and $211.6 million in net assets as of December 31, 2011.

Based on an outstanding indebtedness of $20.3 million as of December 31, 2011, which excludes $85.0 million of short-term borrowings at December 31, 2011 that was outstanding for a total duration of eight days, and the effective annual interest rate of 9.2% as of that date, our investment portfolio at fair value would have been required to experience an annual return of at least 4.3% to cover annual interest payments on the outstanding debt.

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Other Risks

In addition to regulatory limitations on our ability to raise capital, our credit facility contains various covenants that, 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 loans. We are party to a credit facility, which provides us with a revolving credit line facility of $60.0 million, of which $29.3 million was drawn as of December 31, 2011. The credit facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. As a result of the credit facility, we are subject to certain limitations on the type of loan investments we make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, and average life. The credit agreement also requires us to comply with other financial and operational covenants, which require us to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum net worth. As of December 31, 2011, we were in compliance with these covenants; however, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Current market conditions have forced us to write down the value of a portion of our assets as required by the 1940 Act and fair value accounting rules. These are not realized losses, but constitute adjustment in asset values for purposes of financial reporting and for collateral value for the credit facility. As assets are marked down in value, the amount we can borrow on the credit facility decreases.

In particular, depreciation in the valuation of our assets, which valuation is subject to changing market conditions that remain very volatile, affects our ability to comply with these covenants. As of December 31, 2011, our net assets were $211.6 million, up from $209.4 million at September 30, 2011, and up from $198.8 million at March 31, 2011. The increase in our net assets is primarily a result of unrealized appreciation over the respective periods. The minimum net worth covenant contained in the credit agreement requires our net assets to be at least $155.0 million. Despite the recent increase in our net assets, the fair value of our investment portfolio remains less than the cost basis by approximately $36.9 million. Given the continued instability 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 the credit facility. Accordingly, there are no assurances that we will continue to comply with these covenants. Under the credit facility, we are also required to maintain our status as a BDC under the 1940 Act and as a RIC under the Code. Our failure to satisfy these 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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, grov 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:

- further adverse changes in the economy and the capital markets;
- risks associated with negotiation and consummation of pending and future transactions;
- the loss of one or more of our executive officers, in particular David Gladstone, David A. R. Dullum, Terry Lee Brubaker or George Stelljes III;
- changes in our business strategy;
- availability, terms and deployment of capital;
- changes in our industry, interest rates, exchange rates or the general economy;
- the degree and nature of our competition; and
- those factors described in the Risk Factors section of this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus supplement or the accompanying prospectus, except as otherwise required by applicable law.

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USE OF PROCEEDS

We estimate that the net proceeds to us of this offering will be approximately $23.6 million, after the payment of underwriting discounts and commissions of $1.0 million and estimated offering expenses of $375,000 payable by us. We intend to use the net proceeds from this offering to repay borrowings outstanding under our credit facility, then to make investments in buyouts and recapitalizations of small and mid-sized companies in accordance with our investment strategy, with any remaining proceeds to be used for other general corporate purposes. Our credit facility matures on October 25, 2014, and, as of December 31, 2011, was accruing interest at an annual rate equal to the 30-day London Interbank Offered Rate, or LIBOR, plus a premium of 3.75%. As of December 31, 2011, $29.3 million was drawn on the credit facility.

If the underwriters exercise their option to purchase up to an additional 150,000 shares of Series A Term Preferred Stock in full, the estimated net proceeds to us will be $27.2 million. We anticipate that substantially all of the net proceeds of this offering will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of the offering primarily in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS

	FOR THE NINE MONTHS ENDED DECEMBER 31,	FOR THE YEARS ENDED MARCH 31,				
	2011	2011	2010	2009	2008	2007
			(Dollars in thousands)			
Net investment income	$ 10,252	$ 16,171	$ 10,598	$ 13,388	$ 13,052	$ 11,148
Add: fixed charges	878	1,202	3,616	5,681	8,479	851
Earnings	$ 11,130	$ 17,373	$ 14,214	$ 19,069	$ 21,531	$ 11,999
Fixed charges and preferred distributions:						
Interest expense	$ 550	$ 701	$ 1,988	$ 5,349	$ 7,733	$ 608
Amortization of deferred financing fees	321	491	1,618	323	734	234
Estimated interest component of rent	7	10	10	9	12	9
Preferred distributions						
Total fixed charges and preferred distributions	$ 878	1,202	3,616	5,681	8,479	851
Ratio of earnings to combined fixed charges and preferred distributions	12.7x	14.5x	3.9x	3.4x	2.5x	14.1x

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Computation of Pro Forma Ratio of Earnings to Combined Fixed Charges and Preferred Distributions After Adjustment for issuance of the Series A Term Preferred Stock

	FOR THE NINE MONTHS ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED MARCH 31, 2011
Net investment income	$ 10,252	$ 16,171
Fixed charges, and preferred distributions, as above	878	1,202
Adjustments:		
Pro forma reduction of interest expense[1]	(209)	(193)
Pro forma fixed charges	669	1,009
Pro forma preferred distributions	1,313	1,750
Total pro forma fixed charges and preferred distributions	1,982	2,759
Pro forma earnings	$ 10,921	$ 17,180
Pro forma ratio of earnings to combined fixed charges and preferred distributions	5.5x	6.2x

(1) Pro forma reduction in interest expense is limited as the weighted average balance on our revolving line of credit was $4.9 million and $2.9 million for the nine months ended December 31, 2011 and the fiscal year ended March 31, 2011, respectively.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2011:

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

	AS OF DECEMBER 31, 2011	
	ACTUAL	AS ADJUSTED
	(Unaudited) (Dollars in thousands)	
Borrowings		
Borrowings at fair value (cost: $105,301, actual; $81,676, as adjusted) [(1)]	$ 105,301	$ 81,676
Preferred Stock		
% Series A Cumulative Term Preferred Stock, $.001 par value per share; $25 liquidation preference per share; 0 shares authorized, issued and outstanding, actual; 1,150,000 shares authorized, 1,000,000 shares issued and outstanding, as adjusted [(2)]	$	25,000
Net Assets Applicable to Common Stockholders		
Common stock, $.001 par value per share, 100,000,000 shares authorized, actual, and as adjusted; 22,080,133 shares issued and outstanding, actual and as adjusted [(3)]	$ 22	$ 22
Capital in excess of par value	257,192	257,192
Cumulative net unrealized depreciation on investments	(36,853)	(36,853)
Cumulative net unrealized depreciation on other	(56)	(56)
Undistributed net investment income	812	812
Accumulated net realized losses	(9,516)	(9,516)
Total Net Assets Available to Common Stockholders	$ 211,601	$ 211,601
Total Capitalization	$ 316,902	$ 318,277

(1) Our borrowings have not been fair-value adjusted for the as adjusted presentation as of December 31, 2011.

(2) Assumes a total of $1.0 million of aggregate underwriting discounts and commissions and $375,000 of estimated offering costs payable by us in connection with this offering will be capitalized and amortized over the life of the Series A Term Preferred Stock.

(3) None of these outstanding shares are held by us or for our account.

The following are our outstanding classes of securities as of December 31, 2011.

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

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SELECTED FINANCIAL INFORMATION

We have derived the selected financial information presented in the first table below as of March 31, 2011 and 2010 and for the fiscal years ended March 31, 2011, 2010 and 2009 from our audited consolidated financial statements included in the accompanying prospectus. We have derived the selected financial information presented in the first table below as of and for the nine months ended December 31, 2011 and 2010 from our unaudited consolidated financial statements included elsewhere in this prospectus supplement. The selected financial information presented in the first table below as of March 31, 2009, 2008 and 2007 and for the fiscal years ended March 31, 2008 and 2007 is derived from our audited consolidated financial statements that are not included in this prospectus supplement or the accompanying prospectus. The information included in the second table below is unaudited.

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

	NINE MONTHS ENDED DECEMBER 31,		YEARS ENDED MARCH 31,				
	2011 (Unaudited)	2010 (Unaudited)	2011	2010	2009	2008	2007
	(Dollar amounts in thousands, except per share and per unit data)						
Statement of operations data:							
Total investment income	$ 15,466	$ 22,286	$ 26,064	$ 20,785	$ 25,812	$ 27,894	$ 17,262
Total expenses net of credits from Adviser	5,214	8,048	9,893	10,187	12,424	14,842	6,114
Net investment income	10,252	14,238	16,171	10,598	13,388	13,052	11,148
Net gain (loss) on investments	12,125	(595)	268	(21,669)	(24,837)	(13,993)	(3,879)
Net increase (decrease) in net assets resulting from operations	$ 22,377	$ 13,643	$ 16,439	$ (11,071)	$ (11,449)	$ (941)	$ 7,269
Per share data [(1)]:							
Net increase (decrease) in net assets resulting from operations per share of Common Stock basic and diluted	$ 1.01	$ 0.62	$ 0.74	$(0.50)	$(0.53)	$(0.06)	$ 0.44
Net investment income before net gain (loss) on investments per share of Common Stock basic and diluted	$ 0.46	$ 0.65	$ 0.73	$ 0.48	$ 0.62	$ 0.79	$ 0.67
Cash distributions declared per share	$(0.43)	$(0.36)	$(0.48)	$(0.48)	$(0.96)	$(0.93)	$(0.85)
Weighted shares of Common Stock outstanding Basic and Diluted	22,080,133	22,080,133	22,080,133	22,080,133	21,545,936	16,560,100	16,560,100

Statement of assets and liabilities data:							
Total assets	$ 318,621	$ 277,940	$ 241,109	$ 297,161	$ 326,843	$ 352,293	$ 323,590
Net assets	$ 211,601	$ 198,682	$ 198,829	$ 192,978	$ 214,802	$ 206,445	$ 222,819
Net asset value per share	$ 9.58	$ 9.00	$ 9.00	$ 8.74	$ 9.73	$ 12.47	$ 13.46
Shares of Common Stock outstanding	22,080,133	22,080,133	22,080,133	22,080,133	22,080,133	16,560,100	16,560,100
Senior securities data:							
Total borrowings (2)	$ 105,301	$ 75,400	$ 40,000	$ 102,812	$ 110,265	$ 144,835	$ 100,000
Asset coverage ratio (3)(4)	288%	343%	534%	281%	293%	242%	324%
Asset coverage per unit (4)	$ 2,879	$ 3,429	$ 5,344	$ 2,814	$ 2,930	$ 2,422	$ 3,228

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(1) Per share data for net increase (decrease) in net assets resulting from operations are based on the weighted average shares of Common Stock outstanding for both basic and diluted.

(2) See Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement for more information regarding our level of indebtedness.

(3) As a business development company, we are generally required to maintain an Asset Coverage ratio of 200% of total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings and guaranty commitments.

(4) Asset coverage per unit is the Asset Coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

	NINE MONTHS ENDED DECEMBER 31,		YEARS ENDED MARCH 31,				
	2011	2010	2011	2010	2009	2008	2007
	(Dollar amounts in thousands)						
Other unaudited data:							
Number of portfolio companies	17	17	17	16	46	52	47
Average size of portfolio company investment at cost	$ 15,507	$ 11,522	$ 11,600	$ 14,223	$ 7,586	$ 6,746	$ 5,843
Principal amount of new investments	$ (86,327)	$ (41,616)	$ (43,634)	$ (4,788)	$ (49,959)	$ (175,255)	$ (182,953)
Proceeds from loan repayments and investments sold	$ 24,985	$ 96,784	$ 97,491	$ 90,240	$ 46,742	$ 96,438	$ 61,167
Weighted average yield on investments (1):	12.27%	11.21%	11.39%	11.02%	8.22%	8.91%	8.72%
Total return (2)	(0.91)%	34.48%	38.56%	79.80%	(51.65)%	(31.54)%	4.36%

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

(2) Total return equals the (decrease) increase of the ending market value over the beginning market value, taking into account dividends reinvested in accordance with our dividend reinvestment plan, divided by the monthly beginning market value.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

OVERVIEW

General

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. We were primarily established for the purpose of investing in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. We also invest in senior secured loans, common stock and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments. We operate as a closed-end, non-diversified management investment company and have elected to be treated as a BDC under the 1940 Act. In addition, for tax purposes, we have elected to be treated as a RIC under the Code.

Business Environment

While economic conditions generally appear to be improving, we remain cautious about a long-term economic recovery. The recent recession in general, and the disruptions in the capital markets in particular, have impacted our liquidity options and increased the cost of capital. Many of our portfolio companies, as well as those that we evaluate for possible investment, are impacted by these economic conditions, and if these conditions continue to 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. While these conditions are challenging, we are seeing an increase in the number of new investment opportunities consistent with our investing strategy of providing subordinated debt with equity enhancement features and direct equity in support of management and sponsor-led buyouts of small and medium-sized companies. These new investment opportunities have translated into six new proprietary transactions over the past five quarters, in which we invested an aggregate of $114.0 million.

The increased investing demand in the marketplace has also allowed us to achieve realized gains and other income. We achieved a significant amount of liquidity and realized gains with the sales of A. Stucki Holding Corp., or A. Stucki, and Chase II Holding Corp., or Chase, in June and December 2010, respectively, and the recapitalization of Cavert II Holding Corporation, or Cavert, in April 2011. The sale of our equity in A. Stucki resulted in net cash proceeds to us of $21.5 million and a realized gain of $17.0 million. In addition, we received $30.6 million in repayment of our principal, accrued interest and success fees on the loans to A. Stucki. The net cash proceeds to us from the sale of our equity in Chase were $13.3 million, resulting in a realized gain of $6.3 million. In connection with the Chase equity sale, we accrued and received cash dividend proceeds of $4.1 million from our preferred stock investment. At the same time, we received $22.9 million in repayment of our principal, accrued interest and success fees on the loans to Chase. In April 2011, we sold our common equity investment in and received partial redemption of our preferred stock, while investing new subordinated debt, in Cavert as part of a recapitalization. The gross cash proceeds we received from the sale of our common equity in Cavert were $5.6 million, resulting in a realized gain of $5.5 million. At the same time, we received $2.3 million in a partial redemption of our preferred stock, received $0.7 million in preferred dividends and invested $5.7 million in new subordinated debt of Cavert.

The A. Stucki, Chase, and Cavert transactions were our first management-supported buyout liquidity events, and each was an equity investment success, highlighting our investment strategy of striving to achieve returns through current income from debt investments and capital gains from equity investments. We will strive to utilize the borrowing availability under our line of credit with Branch Banking and Trust Company, or BB&T, as administrative agent and Key Equipment Finance Inc., or Keybank, as a committed lender, which we refer to as the Credit Facility, to make new investments to potentially increase our net investment income and generate capital gains to enhance our ability to pay dividends to our stockholders.

Due to losses realized during the fiscal year ended March 31, 2010, which occurred in connection with the Syndicated Loan Sales described below, which were available to offset future realized gains, we were not required to distribute the realized gains from the A. Stucki and Chase sales to stockholders during the fiscal year ended March 31, 2011, nor is it expected that we will be required to distribute the realized gains from the Cavert recapitalization during the fiscal year ending March 31, 2012. However, our recent successful exits have largely, but not entirely, offset prior periods realized losses, and should we have additional realized gains in the future, we may be required to distribute them to our stockholders. The economic conditions in 2008 and 2009 affected the general availability of credit, and, as a result, during the quarter ended June 30, 2009, we sold 29 senior syndicated loans that were held in our portfolio of investments at March 31, 2009, to various investors in the syndicated loan market, which we refer to as the Syndicated Loan Sales, to repay amounts outstanding under our prior line of credit with Deutsche Bank AG, which matured in April 2009. These loans, in the aggregate, had a cost of approximately $104.2 million, or 29.9% of the cost of our total investments at March 31, 2009, and an aggregate fair value of approximately $69.8 million, or 22.2% of the fair value of our total investments. As a result of the settlement of the Syndicated Loan Sales and other exits, we no longer have any remaining syndicated loans as of December 31, 2011. Collectively, these sales have changed our asset composition in a manner that has affected our ability to satisfy certain elements of the Code s rules for maintenance of our RIC status. To maintain our status as a RIC, in addition to other requirements, as of the close of each quarter 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, which we refer to as the 50% threshold. At times during the quarter ended December 31, 2011, we again fell below the required 50% threshold.

Failure to meet the 50% threshold alone will not result in our loss of RIC status. In circumstances where the failure to meet the 50% threshold is the result of fluctuations in the value of assets, including as a result of the sale of assets, we will still be deemed to have satisfied the 50% threshold and, therefore, maintain our RIC status, provided that we have not made any new investments, including additional investments in our existing portfolio companies (such as advances under outstanding lines of credit), since the time that we fell below the 50% threshold. At December 31, 2011, we satisfied the 50% threshold primarily through the purchase of short-term qualified securities, which was funded through borrowings from our Credit Facility and a short-term loan agreement. Subsequent to the December 31, 2011, 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 currently below the 50% threshold.

Thus, while we currently qualify as a RIC despite our recent inability to meet the 50% threshold and potential inability to do so in the future, if we make any new or additional investments before regaining compliance with the asset diversification test, our RIC status will be threatened. If we make a new or additional investment and fail to regain compliance with the 50% threshold on the next quarterly measurement date following such investment, we will not be in 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 is above the required 50% threshold on a consistent basis, we will continue to seek to employ similar purchases of qualified securities using short-term loans that would allow us to satisfy the 50% threshold, thereby allowing us to make additional investments. There can be no assurance, however, that we will be able to enter into such a transaction on reasonable terms, if at all. We also continue to explore a number of other strategies, including changing the composition of our assets, which could include full or partial divestitures of investments, and raising additional equity or debt capital, such that we would once again exceed the 50% threshold on a consistent basis. Our ability to implement any of these strategies will be subject to market conditions and a number of risks and uncertainties that are, in part, beyond our control.

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On October 26, 2011, we entered into a fourth amended and restated credit agreement through our wholly-owned subsidiary, Gladstone Business Investment, LLC, or Business Investment, to increase the commitment amount of the Credit Facility to $60 million. Subject to certain terms and conditions, the Credit Facility may be expanded to a total of $175 million through the addition of other committed lenders to the facility. The Credit Facility matures on October 25, 2014, which we refer to as the Maturity Date, and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before October 25, 2015 (one year after the Maturity Date). Advances under the Credit Facility will generally bear interest at 30-day LIBOR plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. There are two one-year extension options, to be agreed upon by all parties, which may be exercised on or before October 26, 2012 and October 26, 2013, as applicable. We incurred fees of $0.7 million in connection with this amendment.

The Credit Facility limits payments on distributions to the aggregate net investment income for each of the twelve month periods ended March 31, 2012, 2013 and 2014. Other covenants included in the Credit Facility include a minimum net worth covenant of $155.0 million plus 50.0% of all equity and subordinated debt raised after October 26, 2011 and to maintain asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act. As of January 30, 2012, there was $21.0 million outstanding under the Credit Facility, and $35.7 million was available for borrowing due to certain limitations on our borrowing base.

Regulatory limitations under the Code and the 1940 Act intensify challenges in the current market in which we invest, and contractual restrictions under the agreement governing our Credit Facility further constrain our ability to access the capital markets. To maintain our qualification as a RIC, we must satisfy, among other requirements, an annual distribution requirement to pay out at least 90% of our ordinary income and short-term capital gains to our stockholders. Because we are required to distribute our income in this manner, and because the illiquidity of many of our investments makes it difficult for us to finance new investments through the sale of current investments, our ability to make new investments is highly dependent upon external financing. Our external financing sources include the issuance of equity securities, debt securities or other leverage, such as borrowings under our Credit Facility. 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 at least a 200% asset coverage ratio, meaning, generally, that for every dollar of debt, we must have two dollars of assets.

Market conditions have also affected the trading price of our common stock and thus our ability to finance new investments through the issuance of equity. On February 24, 2012, the closing market price of our common stock was $7.66, which represented a 20% discount to our December 31, 2011 net asset value, or NAV, per share of $9.58. When our stock trades below NAV, as it has consistently since September 30, 2008, our ability to issue equity is constrained by provisions of the 1940 Act, which generally prohibits the issuance and sale of common stock at an issuance price below NAV per share without stockholder approval other than through sales to our then-existing stockholders pursuant to a rights offering. At our annual meeting of stockholders held on August 4, 2011, our stockholders approved a proposal which authorizes us to sell shares of our common stock at a price below our then-current NAV per share, subject to certain limitations, including that the cumulative number of shares issued and sold pursuant to such authority does not exceed 25% of our then-outstanding common stock immediately prior to each such sale, for a period of one year from the date of approval, provided that our Board of Directors makes certain determinations prior to any such sale. This proposal is in effect until our 2012 annual stockholders meeting, at which time we may ask our stockholders to vote in favor of this proposal for another year.

The continued unsteady economic recovery may also continue to cause the value of the collateral securing some of our loans to fluctuate, as well as the value of our equity investments, which has impacted and may continue to impact our ability to borrow under our Credit Facility. Additionally, our Credit Facility contains covenants regarding the maintenance of certain minimum loan concentrations and net worth covenants, which are affected by the decrease in value of our portfolio. Failure to meet these requirements would result in a default which, if we are unable to obtain a waiver from our lenders, would cause an acceleration of our repayment obligations under our Credit Facility. As of January 30, 2012, we were in compliance with all of our Credit Facility s covenants.

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We expect that, given these regulatory and contractual constraints in combination with current market conditions, debt and equity capital may be costly or difficult for us to access in the near term. However, our portfolio valuations over the past two years have generally stabilized and there are increased investing opportunities that we see in our target markets, as demonstrated by our six new investments totaling $114.0 million. We are cautiously optimistic about the long-term prospects for the U.S. economy and have shifted our near-term strategy to include making conservative investments in businesses that we believe will weather the current economic conditions and that are likely to produce attractive long-term returns for our stockholders. Despite the liquidity that we were able to generate with the A. Stucki, Chase and Cavert transactions and the increased commitment on our Credit Facility, a significant amount of this liquidity has been used in our six new investments over the past five quarters. Future investment activity may be dependent on our access to capital, which may be limited or challenged, and other events beyond our control may still encumber our ability to make new investments in the future.

Investment Highlights

During the three months ended December 31, 2011, we made $18.5 million in new debt and equity investments and extended $0.4 million of additional investments to existing portfolio companies through revolver draws or additions to term notes. Since our initial public offering in June 2005 through December 31, 2011, we have made 169 investments in 95 companies for a total of $711.5 million, before giving effect to principal repayments on investments and divestitures.

Recent Developments

Portfolio Activity

During the nine months ended December 31, 2011, the following significant transactions occurred:

- In April 2011, we recapitalized our investment in Cavert in which we received gross cash proceeds of $5.6 million from the sale of our common equity, resulting in a realized gain of $5.5 million, $2.3 million in a partial redemption of our preferred stock and $0.7 million in preferred dividends. At the same time, we invested $5.7 million in new subordinated debt in Cavert. Due to the recapitalization, Cavert was reclassified from a Control investment to an Affiliate investment during the three months ended June 30, 2011.

- In April 2011, we invested $16.4 million in a new Control investment, Mitchell Rubber Products, Inc., or Mitchell, consisting of subordinated debt and preferred and common equity. Mitchell, headquartered in Mira Loma, California, develops, mixes and molds rubber compounds for specialized applications in the non-tire rubber market.

- In May 2011, we received full repayment of our syndicated loan to Fifth Third Processing Solutions, LLC, or Fifth Third, resulting in net cash proceeds received of $0.5 million.

- In July 2011, we received full repayment of our last remaining syndicated loan, to Survey Sampling, LLC, or Survey Sampling, resulting in net cash proceeds received of $2.3 million.

- In August 2011, we invested $28.1 million in a new Control investment, SOG Specialty Knives and Tools, LLC, or SOG, consisting of senior debt and preferred equity. SOG, headquartered in Lynnwood, Washington, designs and produces specialty knives and tools for the hunting/outdoors, military/law enforcement and industrial markets.

- In September 2011, we invested $13.8 million in a new Control investment, SBS Industries, Inc., or SBS, consisting of senior debt and preferred and common equity. SBS, headquartered in Tulsa, Oklahoma, is a manufacturer and value-added distributor of special fasteners and threaded screw products.

- In October 2011, we received full repayment of our senior subordinated term loan to Quench Holdings Corp., or Quench, resulting in gross proceeds of $8.0 million. We still hold preferred and common equity in Quench.

- In November 2011, we sold Neville Limited, or Neville, for gross proceeds of approximately $0.3 million, recognizing a realized loss of $0.3 million on the sale. Neville was property we received in connection with the A. Stucki sale in June 2010.

- In December 2011, we restructured our investment in Country Club Enterprises, LLC, or CCE, converting $4.0 million of senior subordinated debt into preferred shares in a non-cash transaction. We also received additional preferred shares as consideration for past-due interest and other receivables owed from CCE.

- In December 2011, we received full repayment of our senior notes to American Greetings Corporation, or AMG, resulting in gross proceeds of $3.0 million.

- In December 2011, we invested $19.6 million in a new Affiliate investment, Channel Technologies Group, LLC, or Channel, consisting of senior debt and preferred and common equity. Channel, headquartered in Santa Barbara, California, designs and manufactures products used in military, commercial and medical applications.

Renewal of Credit Facility

On October 26, 2011, we entered into a fourth amended and restated credit agreement through Business Investment to increase the commitment amount of our revolving line of credit to $60 million. The Credit Facility was arranged by BB&T, as administrative agent, with Keybank also joining the Credit Facility as a committed lender. Subject to certain terms and conditions, the Credit Facility may be expanded to a total of $175 million through the addition of other committed lenders. The Credit Facility matures on October 25, 2014, or the Maturity Date, and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before October 25, 2015 (one year after the Maturity Date). Advances under the Credit Facility will generally bear interest at 30-day LIBOR plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. There are two one-year extension options, to be agreed upon by all parties, which may be exercised on or before October 26, 2012 and October 26, 2013, as applicable. We incurred fees of $0.7 million in connection with this amendment.

Short-Term Loan

Similar to previous quarter-ends, to maintain our RIC status, on December 28, 2011, we purchased $85.0 million short-term United States Treasury Bills, or T-Bills, through Jefferies & Company, Inc., or Jefferies. The T-Bills were purchased using $9.0 million in funds drawn on the Credit Facility and the proceeds from a $76.0 million short-term loan from Jefferies, with an effective annual interest rate of approximately 0.65%. On January 5, 2012, when the T-Bills matured, we repaid the $76.0 million loan from Jefferies, and on January 6, 2012, we repaid the $9.0 million borrowed under the Credit Facility for the transaction.

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Results of Operations

Comparison of the Three Months Ended December 31, 2011 to the Three Months Ended December 31, 2010

	THREE MONTHS ENDED DECEMBER 31, 2011	2010	$ CHANGE	% CHANGE
INVESTMENT INCOME				
Interest income	**$ 5,085**	$ 3,925	$ 1,160	29.6%
Other income	**84**	6,812	(6,728)	(98.8)
Total investment income	**5,169**	10,737	(5,568)	(51.9)
EXPENSES				
Loan servicing and base management fees	**1,140**	977	163	16.7
Incentive fee		1,898	(1,898)	NM
Administration fee	**182**	142	40	28.2
Interest expense	**185**	135	50	37.0
Amortization of deferred financing fees	**106**	116	(10)	(8.6)
Other	**459**	328	131	39.9
Expenses before credits from Adviser	**2,072**	3,596	(1,524)	(42.4)
Credits to fees	**(345)**	(450)	105	(23.3)
Total expenses net of credits to fee	**1,727**	3,146	(1,419)	(45.1)
NET INVESTMENT INCOME	**3,442**	7,591	(4,149)	(54.7)
REALIZED AND UNREALIZED GAIN ON:				
Net realized (loss) gain on investments	**(105)**	6,514	(6,619)	NM
Net unrealized appreciation on investments	**1,769**	1,026	743	72.4
Net unrealized appreciation on other	**389**	4	385	9,625.0
Net gain on investments and other	**2,053**	7,544	(5,491)	(72.8)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 5,495**	$ 15,135	$ (9,640)	(63.7)

NM = Not Meaningful

Investment Income

Total investment income decreased by 51.9% for the three months ended December 31, 2011, as compared to the prior year period. This decrease was due primarily to success fee and dividend income resulting from the sale of our investments in Chase during the three months ended December 31, 2010, partially offset by a larger interest-bearing portfolio and increased yield during the three months ended December 31, 2011.

Interest income from our investments in debt securities increased 29.6% for the three months ended December 31, 2011, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended December 31, 2011, was approximately $161.4 million, compared to $135.2 million for the prior year period, primarily due to the new investments in Venyu Solutions, Inc., or Venyu, Precision Southwest, Inc., or Precision, Mitchell, SOG, SBS and Channel, partially offset by the sale of Chase and the restructurings of Galaxy Tool Holdings Corp., or Galaxy and CCE. At December 31, 2011, two loans, ASH Holdings Corp., or ASH, and CCE, were on non-accrual, with an aggregate weighted average principal balance of $14.8 million. At December 31, 2010, one loan, ASH, was on non-accrual, with a weighted average principal balance of $8.6 million.

The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents, for the three months ended December 31, 2011, was 12.5%, compared to 11.5% for the prior year period. The weighted average yield varies from period to period, based on the current stated interest rate on interest-bearing investments. The

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increase in the weighted average yield for the three months ended December 31, 2011, resulted primarily from the exits of lower interest-bearing debt investments, such as Quench, AMG and Chase, and the addition of higher-yielding debt investments in Venyu, Precision, Mitchell, SOG, SBS and Channel, which, in the aggregate, had a weighted average interest rate of 13.2% as of December 31, 2011.

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

	AS OF DECEMBER 31, 2011		THREE MONTHS ENDED DECEMBER 31, 2011	
COMPANY	**FAIR VALUE**	**% OF PORTFOLIO**	**INVESTMENT INCOME**	**% OF TOTAL INVESTMENT INCOME**
SOG Specialty Knives and Tools, LLC	$ 28,543	12.6%	$ 670	13.0%
Acme Cryogenics, Inc.	26,662	11.7	426	8.2
Venyu Solutions, Inc.	24,654	10.9	631	12.2
Channel Technologies Group, LLC (A)	18,549	8.2	15	0.3
Mitchell Rubber Products, Inc.	17,700	7.8	450	8.7
Subtotal five largest investments	**116,108**	**51.2**	**2,192**	**42.4**
Other portfolio companies	110,663	48.8	2,977	57.6
Total investment portfolio	**$ 226,771**	**100.0%**	**$ 5,169**	**100.0%**

	AS OF DECEMBER 31, 2010		THREE MONTHS ENDED DECEMBER 31, 2010	
COMPANY	**FAIR VALUE**	**% OF PORTFOLIO**	**INVESTMENT INCOME**	**% OF TOTAL INVESTMENT INCOME**
Chase II Holding Corp. (B)	$	%	$ 6,902	64.3%
Venyu Solutions, Inc.	25,000	16.5	439	4.1
Acme Cryogenics, Inc.	19,028	12.6	439	4.1
Cavert II Holding Corp.	17,580	11.6	223	2.0
Danco Acquisition Corp.	13,224	8.8	398	3.7
Subtotal five largest investments	**74,832**	**49.5**	**8,401**	**78.2**
Other portfolio companies	76,278	50.5	2,336	21.8
Total investment portfolio	**$ 151,110**	**100.0%**	**$ 10,737**	**100.0%**

(A) We invested in Channel on December 28, 2011.

(B) We sold Chase on December 29, 2010.

Other income decreased 98.8% from the prior year period, primarily due to our sale of Chase in December 2010, which resulted in us recording an aggregate of $6.3 million in other income. No success fee or dividend income was recorded during the quarter ended December 31, 2011.

Operating Expenses

Total operating expenses, excluding any voluntary and irrevocable credits to the base management and incentive fees, decreased 42.4% for the three months ended December 31, 2011, primarily due to a decrease in the incentive fee expense, as compared to the prior year period.

The aggregate of loan servicing and base management fees increased for the three months ended December 31, 2011, as compared to the prior year period, which is reflective of the increased size of our loan portfolio over the respective periods. The decrease in the credits we receive from our Adviser was a result of fewer fees being paid to our Adviser from our portfolio companies during the three months ended December 31, 2011, due to fees earned related to the closings of Venyu and Precision during the prior year period, partially offset by fees earned related to the closing of our investment in Channel during the three months ended December 31, 2011. The Adviser did not earn an incentive fee during the three months ended December 31, 2011; however, a credit was recorded in the

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quarter ended December 31, 2011, relating to the incentive fee paid during the three months ended June 30, 2010, as explained in the table below. The incentive fee earned by our Adviser during the three months ended December 31, 2010, was primarily due to Other income recorded in connection with the Chase sale. The base management and incentive fees are computed quarterly, as described under Investment Advisory and Management Agreement in Note 4 of the notes to the accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	THREE MONTHS ENDED DECEMBER 31, 2011	2010
Average total assets subject to base management fee [A]	$ 228,000	$ 195,400
Multiplied by prorated annual base management fee of 2%	0.5%	0.5%
Gross base management fee	1,140	977
Reduction for loan servicing fees [B]	(811)	(634)
Base management fee [B]	$ 329	$ 343
Credits to base management fee from Adviser:		
Credit for fees received by Adviser from the portfolio companies	$ (291)	$ (450)
Credit to base management fee from Adviser	(291)	(450)
Net base management fee	$ 38	$ (107)
Gross incentive fee[B]	$	$ 1,898
Credit from waiver issued by Adviser s board of directors[C]	(54)	
Net incentive fee	$ (54)	$ 1,898
Total credits to fees:		
Credit for fees received by Adviser from the portfolio companies	$ (291)	$ (450)
Incentive fee credit	(54)	
Credit to fees from Adviser [B]	$ (345)	$ (450)

[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, in total, as a line item on the *Condensed Consolidated Statement of Operations*.

(C) The credit to the incentive fee for the three months ended December 31, 2011, is 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 in an orderly transaction, 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 expense increased 37.0% for the three months ended December 31, 2011, as compared to the prior year period**,** due to increased borrowings under our Credit Facility. The weighted average balance outstanding on our Credit Facility during the quarter ended December 31, 2011, was $7.6 million, as compared to $0.3 million in the prior year period. The effective interest rate charged on our borrowings during the three months ended December 31, 2011, excluding the impact of deferred financing fees, was 9.2%. This figure is not meaningful for the three months ended December 31, 2010, as we had minimal borrowings outstanding under the Credit Facility during the period.

Other expenses increased 39.9% for the three months ended December 31, 2011, as compared to the prior year period**,** primarily due to increases in stockholder-related costs and bad debt expense. Because we did not raise equity capital over a specified period of time, we were required to write off certain deferred offering costs in connection with our registration statement during the three months ended December 31, 2011. The increase in bad debt expense is in connection with CCE, which we placed on non-accrual during the three months ended September 30, 2011.

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Realized and Unrealized Gains and Losses on Investments

Realized (Loss) Gain

During the three months ended December 31, 2011, we sold Neville, the property received in connection with our sale of A. Stucki in June 2010, for total proceeds of $0.3 million, which resulted in a realized loss of $0.3 million, partially offset by a net post-closing adjustment gain of $0.2 million to the A. Stucki sale. During the three months ended December 31, 2010, we recorded a realized gain of $6.9 million in connection with the exit of Chase in December 2010, partially offset by a post-closing adjustment loss of $0.3 million to the A. Stucki sale.

Unrealized Appreciation and Depreciation

Net unrealized appreciation (depreciation) of investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously-recorded unrealized appreciation or depreciation when gains and losses are actually realized. During the three months ended December 31, 2011, we recorded net unrealized appreciation on investments in the aggregate amount of $1.8 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2011 was as follows:

		THREE MONTHS ENDED DECEMBER 31, 2011			
PORTFOLIO COMPANY	**INVESTMENT CLASSIFICATION**	**REALIZED GAIN (LOSS)**	**UNREALIZED APPRECIATION (DEPRECIATION)**	**REVERSAL OF UNREALIZED DEPRECIATION**	**NET GAIN (LOSS)**
Tread Corp.	Control	$	$ 3,121	$	$ 3,121
SBS Industries, LLC	Control		2,110		2,110
Mitchell Rubber Products, Inc.	Control		1,082		1,082
Precision Southeast, Inc.	Control		603		603
Mathey Investments, Inc.	Control		413		413
SOG Specialty Knives K&T, LLC	Control		395		395
Acme Cryogenics, Inc.	Control		358		358
Quench Holdings Corp.	Affiliate		327		327
A. Stucki Holding Corp.	Control	164			164
Neville Limited	Control	(269)		61	(208)
Danco Acquisition Corp.	Affiliate		(485)		(485)
Venyu Solutions, Inc.	Control		(651)		(651)
Country Club Enterprises, LLC	Control		(1,600)		(1,600)
Noble Logistics, Inc.	Affiliate		(1,627)		(1,627)
Galaxy Tool Holding Corp.	Control		(2,459)		(2,459)
Other, net (<$100 Net)	Various		91	30	121
Total		**$ (105)**	**$ 1,678**	**$ 91**	**$ 1,664**

The primary changes in our net unrealized appreciation for the three months ended December 31, 2011, were notable appreciation of our equity investments in Tread Corp., or Tread, SBS, and Mitchell, which were primarily due to increased performance. This appreciation was partially offset by increased depreciation in Galaxy and Noble Logistics, Inc., or Noble, primarily due to decreased performance, as well as a full markdown in fair value on CCE, which had a fair value of $0 as of December 31, 2011, primarily due to decreased performance. Excluding the impact of the aforementioned portfolio companies, the net unrealized appreciation of $1.1 million recognized on our portfolio 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 some of our portfolio companies.

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During the quarter ended December 31, 2010, we recorded net unrealized appreciation of investments in the aggregate amount of $1.0 million. The unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2010 was as follows:

		THREE MONTHS ENDED DECEMBER 31, 2010			
PORTFOLIO COMPANY	INVESTMENT CLASSIFICATION	REALIZED GAIN (LOSS)	UNREALIZED APPRECIATION (DEPRECIATION)	REVERSAL OF UNREALIZED APPRECIATION	NET GAIN (LOSS)
Acme Cryogenics, Inc.	Control	$	$ 3,933	$	$ 3,933
Chase II Holding Corp.	Control	6,857		(4,444)	2,413
Noble Logistics, Inc.	Affiliate		2,147		2,147
Galaxy Tool Holding Corp.	Control		2,011		2,011
Quench Holdings Corp.	Affiliate		435		435
Country Club Enterprises, LLC	Control		(105)		(105)
Danco Acquisition Corp.	Affiliate		(209)		(209)
A.Stucki Holding Corp.	Control	(343)			(343)
Cavert II Holding Corp.	Control		(488)		(488)
ASH Holdings Corp.	Control		(2,321)		(2,321)
Other, net (<$100 Net)	Various		67		67
Total		**$ 6,514**	**$ 5,470**	**$ (4,444)**	**$ 7,540**

The primary drivers in our net unrealized appreciation for the quarter ended December 31, 2010 were notable appreciations in the equity of Acme Cryogenics, Inc., or Acme, Noble and Galaxy, largely offset by the reversal of previously-recorded unrealized appreciation on our sale of Chase, as well as a full markdown in fair value on ASH, which had a fair value of $0 as of December 31, 2010. Excluding reversals, the unrealized appreciation of $5.5 million 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 $1.0 million and $0.8 million of net unrealized appreciation on our debt positions and equity holdings, respectively, for the three months ended December 31, 2011. At December 31, 2011, the fair value of our investment portfolio was less than our cost basis by $36.9 million, as compared to $38.7 million at September 30, 2011, representing net unrealized appreciation of $1.8 million for the period. We believe that our aggregate investment portfolio was valued at a depreciated value due primarily to the general instability of the loan markets and lingering effects of the recent recession on the performances of certain of our portfolio companies. While valuations have generally stabilized over the past two years, our entire portfolio was fair valued at 86.0% of cost as of December 31, 2011. The cumulative net unrealized depreciation of our investments does not have a direct impact on our current ability to pay distributions to stockholders; however, it may be an indication of possible future realized losses, which could ultimately reduce our income available for distribution.

Net Unrealized Appreciation/(Depreciation) on Other

Net unrealized depreciation on other is the net aggregate change in the fair value of our Credit Facility borrowings and our interest rate cap agreements during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains and losses are realized. We elected to apply ASC 825, Financial Instruments, which requires us to apply a fair value methodology to the Credit Facility. Generally, we will estimate the fair value of its Credit Facility using estimates of value provided by an independent third party and its own assumptions in the absence of observable market data, including estimated remaining life, credit party risk, current market yield and interest rate spreads of similar securities as of the measurement date. However, as the renewal of the Credit Facility occurred during the three months ended December 31, 2011, cost was determined to approximate fair value, and the unrealized depreciation of $0.4 million due to the increase in fair value of our Credit

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Facility borrowings recorded during the quarter ended June 30, 2011, was reversed during the quarter ended December 31, 2011. For the three months ended December 31, 2010, we recorded a minimal amount of unrealized appreciation due to the increase in fair value of our interest rate cap agreements.

Net Increase in Net Assets Resulting from Operations

For the three months ended December 31, 2011, we recorded a net increase in net assets resulting from operations of $5.5 million as a result of the factors discussed above. For the three months ended December 31, 2010, we recorded a net increase in net assets resulting from operations of $15.1 million. Our net increase in net assets resulting from operations per basic and diluted weighted average common share for the three months ended December 31, 2011 and 2010 was $0.25 and $0.69, respectively.

Comparison of the Nine Months Ended December 31, 2011 to the Nine Months Ended December 31, 2010

	NINE MONTHS ENDED DECEMBER 31,			
	2011	2010	$ CHANGE	% CHANGE
INVESTMENT INCOME				
Interest income	$ 14,188	$ 11,928	$ 2,260	18.9%
Other income	1,278	10,358	(9,080)	(87.7)
Total investment income	15,466	22,286	(6,820)	(30.6)
EXPENSES				
Loan servicing and base management fees	3,212	2,970	242	8.1
Incentive fee	19	2,949	(2,930)	(99.4)
Administration fee	468	582	(114)	(19.6)
Interest expense	550	558	(8)	(1.4)
Amortization of deferred financing fees	321	383	(62)	(16.2)
Other	1,715	1,236	479	38.8
Expenses before credits from Adviser	6,285	8,678	(2,393)	(27.6)
Credits to fees	(1,071)	(630)	(441)	70.0
Total expenses net of credits to fee	5,214	8,048	(2,834)	(35.2)
NET INVESTMENT INCOME	10,252	14,238	(3,986)	(28.0)
REALIZED AND UNREALIZED GAIN (LOSS) ON:				
Net realized gain on sale of investments	5,091	23,489	(18,398)	(78.3)
Net realized loss on other	(40)		(40)	NM
Net unrealized appreciation (depreciation) on investments	7,053	(24,063)	31,116	NM
Net unrealized appreciation (depreciation) on other	21	(21)	42	NM
Net gain (loss) on investments and other	12,125	(595)	12,720	NM
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 22,377	$ 13,643	$ 8,734	64.0%

NM = Not Meaningful

Investment Income

Total investment income decreased by 30.6% for the nine months ended December 31, 2011, as compared to the prior year period. 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 period as part of the sale of our investments in A. Stucki and Chase in June and December 2010, respectively, partially offset by holding higher-yielding debt investments in our portfolio during the current period.

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Interest income from our investments in debt securities increased 18.9% for the nine months ended December 31, 2011, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the nine months ended December 31, 2011, was approximately $153.8 million, compared to approximately $141.1 million for the prior year period. This increase was due primarily to new investments in Venyu, Precision, Mitchell, SOG, SBS and Channel, partially offset by the sale of our investments in A. Stucki and Chase and the restructurings of Galaxy and CCE. At December 31, 2011, two loans, ASH and CCE, were on non-accrual, with an aggregate weighted average principal balance of $14.2 million during the nine months ended December 31, 2011. CCE was put on non-accrual during the three months ended September 30, 2011. At December 31, 2010, one loan, ASH, was on non-accrual, with a weighted average principal balance of $8.0 million during the nine months ended December 31, 2010.

The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents, for the nine months ended December 31, 2011, was 12.3%, compared to 11.2% for the prior year period. The weighted average yield varies from period to period, based on the current stated interest rate on interest-bearing investments. The increase in the weighted average yield for the nine months ended December 31, 2011, is a result of the sales of lower interest-bearing debt investments, such as A. Stucki, Chase, Quench and AMG, and the addition of higher-yielding debt investments in Venyu, Precision, Mitchell, SOG, SBS and Channel, which, in the aggregate, had a weighted average interest rate of 13.2% as of December 31, 2011.

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

	AS OF DECEMBER 31, 2011		NINE MONTHS ENDED DECEMBER 31, 2011	
COMPANY	FAIR VALUE	% OF PORTFOLIO	INVESTMENT INCOME	% OF TOTAL INVESTMENT INCOME
SOG Specialty Knives and Tools, LLC	$ 28,543	12.6%	$ 1,063	6.8%
Acme Cryogenics, Inc.	26,662	11.7	1,283	8.3
Venyu Solutions, Inc.	24,654	10.9	1,885	12.2
Channel Technologies Group, LLC (A)	18,549	8.2	15	0.1
Mitchell Rubber Products, Inc.	17,700	7.8	1,312	8.5
Subtotal five largest investments	**116,108**	**51.2**	**5,558**	**35.9**
Other portfolio companies	110,663	48.8	9,908	64.1
Total investment portfolio	**$ 226,771**	**100.0%**	**$ 15,466**	**100.0%**

	AS OF DECEMBER 31, 2010		NINE MONTHS ENDED DECEMBER 31, 2010	
COMPANY	FAIR VALUE	% OF PORTFOLIO	INVESTMENT INCOME	% OF TOTAL INVESTMENT INCOME
Chase II Holding Corp. (B)	$	%	$ 8,093	36.3%

A. Stucki Holding Corp. [C]			3,317	14.9
Venyu Solutions, Inc.	25,000	16.6	439	2.0
Acme Cryogenics, Inc.	19,028	12.6	1,307	5.9
Cavert II Holding Corp.	17,580	11.6	1,457	6.5
Subtotal five largest investments	**61,608**	**40.8**	**14,613**	**65.6**
Other portfolio companies	89,502	59.2	7,673	34.4
Total investment portfolio	**$ 151,110**	**100.0%**	**$ 22,286**	**100.0%**

[A] Channel was a new investment on December 28, 2011.
[B] We sold Chase in December 2010.
[C] We sold A. Stucki in June 2010.

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Other income decreased 87.7% from the prior year period, primarily due to an aggregate of $9.1 million of Other income, including success fee and dividend income, that we recorded as a result of the sale of our investments in A. Stucki and Chase in June and December 2010, respectively, in addition to $1.2 million of success fee income from prepayments from Cavert and Mathey Investments, Inc., or Mathey. This was partially offset during the current year period by $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 $0.4 million of success fee income, resulting from prepayments received from Mathey and Cavert during the current year period.

Operating Expenses

Total operating expenses, excluding any voluntary and irrevocable credits to the base management and incentive fees, decreased 27.6% for the nine months ended December 31, 2011, driven primarily by a decrease in incentive fees paid, as compared to the prior year period.

The aggregate of loan servicing and base management fees increased for the nine months ended December 31, 2011, as compared to the prior year period, which is reflective of the increased size of our loan portfolio over the respective periods. The increase in the credit we receive from our Adviser was a result of additional fees earned by our Adviser during the nine months ended December 31, 2011, related to the closings of our investments in Mitchell, SOG, SBS and Channel. An incentive fee of $19 was earned by the Adviser during the three months ended June 30, 2011, as net investment income for the quarter was above the hurdle rate. The incentive fee earned during the prior year period was due primarily 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 Investment Advisory and Management Agreement in Note 4 of the notes to the accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	NINE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED DECEMBER 31, 2010
Average total assets subject to base management fee (A)	$ 214,133	$ 198,000
Multiplied by prorated annual base management fee of 2%	1.5%	1.5%
Gross base management fee	3,212	2,970
Reduction for loan servicing fees (B)	(2,204)	(2,124)
Base management fee (B)	$ 1,008	$ 846
Credits to base management fee from Adviser:		
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	(1,017)	(615)
Credit to base management fee from Adviser	(1,017)	(630)
Net base management fee	$ (9)	$ 216
Gross incentive fee (B)	$ 19	$ 2,949
Credit from waiver issued by Adviser s board of directors (C)	(54)	
Net incentive fee	$ (35)	$ 2,949
Total credits to fees:		
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	(1,017)	(615)
Incentive fee credit	(54)	

Credit to fees from Adviser [B]	$ (1,071)	$ (630)

(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, in total, as a line item on the *Condensed Consolidated Statement of Operations*.

(C) The credit to the incentive fee for the three months ended December 31, 2011, is 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.

Other expenses increased 38.8% for the nine months ended December 31, 2011, as compared to the prior year period**,** primarily due to increases in stockholder-related costs and bad debt expense. Because we did not raise equity capital over a specified period of time, we were required to write off certain deferred offering costs in connection with our registration statement during the current period. The increase in bad debt expense was in connection with 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. During the nine months ended December 31, 2011, we also received full repayment of our syndicated loans to Fifth Third and Survey Sampling, for aggregate proceeds of $2.8 million and a minimal realized gain. Additionally, we recorded post-closing adjustments related to the sale of A. Stucki in June 2010 and the sale of Chase in December 2010, which we realized as a net loss of $0.2 million during the nine months ended December 31, 2011. During the nine months ended December 31, 2010, we sold two proprietary investments, A. Stucki and Chase, for total proceeds of $92.5 million and recorded an aggregate realized gain of $23.5 million.

Unrealized Appreciation and Depreciation

During the nine months ended December 31, 2011, we recorded net unrealized appreciation on investments in the aggregate amount of $7.1 million, which included the reversal of $6.0 million in aggregate unrealized appreciation, primarily related to the Cavert recapitalization. Excluding reversals, we had $13.1 million in net unrealized appreciation for the nine months ended December 31, 2011.

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The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended December 31, 2011 were as follows:

		NINE MONTHS ENDED DECEMBER 31, 2011			
PORTFOLIO COMPANY	**INVESTMENT CLASSIFICATION**	**REALIZED GAIN (LOSS)**	**UNREALIZED APPRECIATION (DEPRECIATION)**	**REVERSAL OF UNREALIZED (APPRECIATION) DEPRECIATION**	**NET GAIN (LOSS)**
Acme Cryogenics, Inc.	Control	$	$ 7,171	$	$ 7,171
Tread Corp.	Control		6,760		6,760
SBS, Industries, LLC	Control		2,110		2,110
Quench Holdings Corp.	Affiliate		1,888		1,888
Mitchell Rubber Products, Inc.	Control		1,322		1,322
Galaxy Tool Holding Corp.	Control		1,008		1,008
Survey Sampling, LLC	Non-Control/Non-Affiliate	(1)	808	1	808
Mathey Investments, Inc.	Control		471		471
A. Stucki Holding Corp.	Control	412			412
Noble Logistics	Affiliate		306	95	401
SOG Specialty K&T Knives	Control		395		395
B-Dry, LLC	Non-Control/Non-Affiliate		(112)		(112)
Neville Limited	Control	(269)	15	61	(193)
Venyu Solutions, Inc.	Control		(358)		(358)
ASH Holdings Corp.	Control		(375)		(375)
Cavert II Holding Corp.	Affiliate	5,507	243	(6,194)	(444)
Chase II Holding Corp.	Control	(563)			(563)
Danco Acquisition Corp.	Affiliate		(1,057)		(1,057)
Country Club Enterprises, LLC	Control		(7,560)		(7,560)
Other, net (<$100 Net)	Various	5	39	16	60
Total		**$ 5,091**	**$ 13,074**	**$ (6,021)**	**$ 12,144**

The primary changes in our net unrealized appreciation for the nine months ended December 31, 2011, were notable appreciation in our equity investments in Acme, Tread, SBS, Mitchell and Galaxy, primarily due to both increased performance and an increase in multiples, and appreciation of our debt investment to Quench, which was paid off at par during the three months ended December 31, 2011. This appreciation was partially offset by increased depreciation in Danco Acquisition Corp., or Danco, and CCE, which was placed on non-accrual during the three months ended September 30, 2011, for decreased performance and being past-due on its obligations to us, 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 $1.4 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 some of our portfolio companies.

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During the nine months ended December 31, 2010, we had net unrealized depreciation of investments in the aggregate amount of $24.1 million, which included the reversal of $21.9 million in unrealized appreciation related to the A. Stucki and Chase sales. Excluding reversals, we had $2.2 million in net unrealized depreciation for the nine months ended December 31, 2010. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended December 31, 2010 were as follows:

		NINE MONTHS ENDED DECEMBER 31, 2010			
PORTFOLIO COMPANY	**INVESTMENT CLASSIFICATION**	**REALIZED GAIN (LOSS)**	**UNREALIZED APPRECIATION (DEPRECIATION)**	**REVERSAL OF UNREALIZED (APPRECIATION) DEPRECIATION**	**NET GAIN (LOSS)**
Chase II Holding Corp.	Control	$ 6,857	$ 3,753	$ (4,444)	$ 6,166
Acme Cryogenics, Inc.	Control		5,028		5,028
Noble Logistics, Inc.	Affiliate		2,986		2,986
Cavert II Holding Corp.	Control		1,774		1,774
Survey Sampling, LLC	Non-Control/Non-Affiliate		500		500
Quench Holdings Corp.	Affiliate		176		176
Tread Corp.	Control		(103)		(103)
Country Club Enterprises, LLC	Control		(149)		(149)
A. Stucki Corp.	Control	16,614		(17,405)	(791)
ASH Holdings Corp.	Control		(3,005)		(3,005)
Galaxy Tool Holding Corp.	Control		(13,238)		(13,238)
Other, net (<$100 Net)	Various	18	83	(19)	82
Total		**$ 23,489**	**$ (2,195)**	**$ (21,868)**	**$ (574)**

The primary changes in our net unrealized depreciation for the nine months ended December 31, 2010 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 December 31, 2010. Noteworthy appreciation was experienced in our equity holdings of Acme, Noble, and Cavert, as well as in our debt position in Survey Sampling. 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 $2.3 million of net unrealized depreciation and $9.4 million of net unrealized appreciation on our debt positions and equity holdings, respectively, for the nine months ended December 31, 2011. At December 31, 2011, the fair value of our investment portfolio was less than our cost basis by approximately $36.9 million, as compared to $44.0 million at March 31, 2011, representing net unrealized appreciation of approximately $7.1 million for the period. We believe that our aggregate investment portfolio was valued at a depreciated value, primarily 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. Even though valuations have generally stabilized over the past year, our entire portfolio was fair valued at 86.0% of cost as of December 31, 2011. 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.

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Realized and Unrealized Gain and Loss on Other

Realized Loss

For the nine months ended December 31, 2011, we recorded a net realized loss of $40 due to the expiration of one of our interest rate cap agreements. There were no non-investment realized gains or losses during the nine months ended December 31, 2010.

Unrealized Appreciation and Depreciation

For the nine months ended December 31, 2011, we recorded a minimal amount of unrealized appreciation due to the reversal of previously-recorded unrealized depreciation on an interest rate cap upon its expiration and the resulting realized loss. For the nine months ended December 31, 2011, we recorded a minimal amount of unrealized depreciation due to the decrease in fair value of our interest rate cap agreements.

Net Increase in Net Assets Resulting from Operations

For the nine months ended December 31, 2011 and 2010, we recorded a net increase in net assets resulting from operations of $22.4 million and $13.6 million, respectively, as a result of the factors discussed above. Our net increase in net assets resulting from operations per basic and diluted weighted average common share for the nine months ended December 31, 2011 and 2010 was $1.01 and $0.62, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities for the nine months ended December 31, 2011, was approximately $48.9 million, as compared to net cash provided by operating activities of $28.4 million during the nine months ended December 31, 2010. This decrease in cash from operating activities was primarily due to the increase in cash disbursed during the nine months ended December 31, 2011, for the investments in four new portfolio companies, as well as a decrease in the amount of principal repayments received from portfolio companies and proceeds from sales. Partially offsetting this decrease was cash received from the custodian after December 31, 2010, a result of the sale of Chase in December 2010.

At December 31, 2011, we had investments in equity of, loans to or syndicated participations in 17 private companies with an aggregate cost basis of approximately $263.6 million. At December 31, 2010, we had investments in equity of, loans to or syndicated participations in 17 private companies with an aggregate cost basis of approximately $195.9 million. The following table summarizes our total portfolio investment activity during the nine months ended December 31, 2011 and 2010:

	NINE MONTHS ENDED DECEMBER 31,	
	2011	2010
Beginning investment portfolio, at fair value	$ 153,285	$ 206,858
New investments	76,895	35,814
Disbursements to existing portfolio companies	9,432	5,287
Scheduled principal repayments	(820)	(2,506)
Unscheduled principal repayments	(16,133)	(59,037)
Amortization of premiums and discounts		(6)
Proceeds from sales	(8,032)	(35,010)
Net realized gain	5,091	23,489
Net unrealized appreciation (depreciation)	13,074	(2,195)
Reversal of net unrealized appreciation	(6,021)	(21,868)
Other cash activity, net		(231)

Other non-cash activity, net		515
Ending investment portfolio, at fair value	$ 226,771	$ 151,110

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The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at December 31, 2011.

		AMOUNT
For the remaining three months ending March 31:	2012	$ 776
For the fiscal year ending March 31:	2013	31,602
	2014	29,772
	2015	32,886
	2016	26,775
	Thereafter	66,585
	Total contractual repayments	**$ 188,396**
	Investments in equity securities	75,459
	Adjustments to cost basis on debt securities	(231)
	Total cost basis of investments held at December 31, 2011:	**$ 263,624**

In light of the liquidity resulting from the sale of our investments in A. Stucki and Chase and the recapitalization of Cavert, the general stabilization of our portfolio valuations over the past two year and the increased investing opportunities that we see in our target markets, as demonstrated by our six new proprietary investments over the last five quarters totaling $114.0 million, we are cautiously optimistic about our long-term investment prospects. As a result, we have shifted our investment activity from being focused primarily on retaining capital and building the value of our existing portfolio companies to a strategy that includes making new investments in businesses that we believe will weather the current economic conditions and are likely to produce attractive long-term returns for our stockholders. Increasing new investment activity over the long run will require accessing capital markets, which continues to be challenging in these unstable economic conditions, while ensuring that we can maintain our RIC status.

Financing Activities

Net cash provided by financing activities for the nine months ended December 31, 2011, was approximately $54.8 million, consisting primarily of net borrowings on the short-term loan and our Credit Facility in excess of repayments by approximately $65.3 million, partially offset by $9.6 million in distributions to stockholders. Net cash used in financing activities for the nine months ended December 31, 2010 was approximately $36.1 million, which was primarily a result of net repayments on the short-term loan and our Credit Facility in excess of borrowings by approximately $27.4 million, plus $7.9 million in distributions to stockholders.

Distributions

To qualify as a RIC and thus avoid corporate level tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. In accordance with these requirements, we declared and paid cash distributions of $0.360 per common share during the nine months ended December 31, 2010, and $0.435 per common share during the nine months ended December 31, 2011. In January 2012, our Board of Directors declared a monthly distribution of $0.050 per common share for each of January, February and March 2012. We declared these distributions based on our estimates of net taxable income for the fiscal year.

For the fiscal year ended March 31, 2011, which includes the nine months ended December 31, 2010, our distributions to stockholders of approximately $10.6 million were less than our taxable income over the same period. 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, 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.

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Equity

On July 21, 2009, we filed a registration statement, which we refer to as the Registration Statement, with the SEC that we amended on October 2, 2009 and which the SEC declared effective on October 8, 2009. We filed post-effective amendments to the Registration Statement on August 24, 2010, and November 22, 2010, which the SEC declared effective on December 23, 2010. We also filed post-effective amendments to the registration statement on June 17, 2011, and August 17, 2011, which the SEC declared effective on September 9, 2011. This prospectus supplement and the accompanying prospectus are a part of the Registration Statement. The Registration Statement will permit us to issue, through one or more transactions, including the offering of the Series A Term Preferred Stock, 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 these securities.

We estimate that the net proceeds to us of the offering of Series A Term Preferred Stock will be approximately $23.6 million, after the payment of underwriting discounts and commissions of $1.0 million and estimated offering expenses of $375,000 payable by us. We intend to use the net proceeds from this offering to repay borrowings outstanding under the Credit Facility, then to make investments in buyouts and recapitalizations of small and mid-sized companies in accordance with our investment strategy, with any remaining proceeds to be used for other general corporate purposes.

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. Additionally, when our common stock is trading below NAV per share, as it has consistently traded for the last two years, we will have regulatory constraints under the 1940 Act on our ability to obtain additional capital in this manner. On February 24, 2012, our stock closed trading at $7.66, representing a 20% discount to our December 31, 2011 NAV of $9.58 per share. Generally, the 1940 Act provides that we may not issue stock for a price below NAV per share without first obtaining the approval of our stockholders and our independent directors or through a rights offering.

Future Capital Resources

At our 2011 annual stockholders meeting, held on August 4, 2011, our stockholders approved a proposal that allows us to sell shares of our common stock at a price below our then current NAV per share, subject to certain limitations (including, but not limited to, that the cumulative number of shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale), should we choose to do so. This proposal is in effect until our next annual stockholders meeting in 2012, at which time we may ask our stockholders to vote in favor of this proposal for another period of one year.

Revolving Credit Facility

On April 14, 2009, through our wholly-owned subsidiary Business Investment, we entered into the Credit Facility, which provided for a $50.0 million revolving line of credit, arranged by BB&T, as administrative agent. KeyBank also joined the Credit Facility as a committed lender.

On April 13, 2010, we renewed the Credit Facility through Business Investment by entering into a third amended and restated credit agreement that provided for a $50.0 million, two-year revolving line of credit. Advances under the Credit Facility generally bore interest at the 30-day LIBOR (subject to a minimum rate of 2.0%), plus 4.5% per annum, with a commitment fee of 0.50% per annum on undrawn amounts when advances were outstanding above 50.0% of the commitment and 1.0% on undrawn amounts if the advances outstanding were below 50.0% of the commitment. In connection with the Credit Facility renewal, we paid an upfront fee of 1.0%.

On October 26, 2011, we entered into a fourth amended and restated credit agreement through Business Investment to increase the commitment amount of our Credit Facility to $60 million. Subject to certain terms and conditions, the Credit Facility may be expanded to a total of $175 million through the addition of other committed lenders to the facility. The Credit Facility matures on October 25, 2014, and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before October 25, 2015 (one year after the

Maturity Date). Advances under the Credit Facility will generally bear interest at 30-day LIBOR plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. There are two one-year extension options, to be agreed upon by all parties, that may be exercised on or before October 26, 2012 and October 26, 2013, as applicable. We incurred fees of $0.7 million in connection with this amendment. As of December 31, 2011, we had borrowings of $29.3 million outstanding with approximately $28.4 million of availability under the Credit Facility.

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, 2011, 2012, 2013 and 2014. 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 $155.0 million plus 50% of all equity and subordinated debt raised after October 26, 2011, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of January 30, 2012, we were in compliance with all covenants.

During May 2009, we entered into a new interest rate cap agreement for a notional amount of $45.0 million that effectively limited the interest rate on a portion of the borrowings under the Credit Facility. During the three months ended June 30, 2011, we recorded a realized loss of $40 upon the expiration of this agreement in May 2011.

In April 2010, we entered into a forward interest rate cap agreement, effective May 2011 and expiring in May 2012, for a notional amount of $45.0 million that effectively limits the interest rate on a portion of the borrowings under the line of credit pursuant to the terms of the Credit Facility. 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 Credit Facility. We incurred a premium fee of $29 in conjunction with this agreement.

The administrative agent also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account, with The Bank of New York Mellon Trust Company, N.A. as custodian. BB&T is also the trustee of the account, generally remits the collected funds to us once a month. At January 30, 2012, the amount due from the custodian was approximately $0.8 million.

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 January 30, 2012, we were in compliance with the covenants under the performance guaranty.

Our continued compliance with these covenants, however, 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 86.0% of cost as of December 31, 2011. 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 October 25, 2014, and, if the facility is not renewed or extended by this date, all unpaid principal and interest will be due and payable on or before October 25, 2015. 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, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, such as those recorded in connection with the Syndicated Loan Sales, which resulted in a realized loss of approximately $34.6 million during the quarter ended June 30, 2009. 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 and assets and voting interest in us.

Short-Term Note

For each quarter end since June 30, 2009, which we refer to as the measurement dates, we satisfied the 50% threshold, primarily 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. Therefore, at quarter-end, on December 28, 2011, we purchased $85.0 million of T-Bills through Jefferies. The T-Bills were purchased using $9.0 million in funds drawn on the Credit Facility and the proceeds from a $76.0 million short-term loan from Jefferies, with an effective annual interest rate of approximately 0.65%. On January 5, 2012, when the T-Bills matured, we repaid the $76.0 million loan from Jefferies, and on January 6, 2012, we repaid the $9.0 million drawn on the Credit Facility for the transaction.

Contractual Obligations and Off-Balance Sheet Arrangements

At December 31, 2011, we were not a party to any signed term sheets for potential investments. However, we have lines of credit with 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 December 31, 2011 and March 31, 2011 to be minimal.

In addition to the lines of credit with our portfolio companies, we have also extended certain guaranties on behalf of some our portfolio companies. As of December 31, 2011, 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 summarizes the dollar balance of unused line of credit commitments and guaranties as of December 31 and March 31, 2011:

	AS OF DECEMBER 31, 2011	AS OF MARCH 31, 2011
Unused line of credit commitments	**$ 3,643**	$ 2,386
Guaranties	**4,748**	4,664
Total	**$ 8,391**	$ 7,050

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The following table shows our contractual principal on borrowings as of December 31, 2011:

	PAYMENTS DUE BY PERIOD				
BORROWINGS	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS	TOTAL
Short-term loan [(A)]	$ 76,001	$	$	$	$ 76,001
Credit Facility		29,300			29,300
Total borrowings	**$ 76,001**	**$ 29,300**	**$**	**$**	**$ 105,301**

[(A)] On January 6, 2012, we repaid the short-term loan in full.

Critical Accounting Policies

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

Investment Valuation

The most significant estimate inherent in the preparation of our condensed 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.

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

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

- **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

- **<u>Level 3</u>** inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect the 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 December 31, 2011 and March 31, 2011, all of our investments were valued using Level 3 inputs. See Note 3 *Investments* in the accompanying notes to our *Condensed Consolidated Financial Statements* included elsewhere in this prospectus supplement for additional information regarding fair value measurements and our application of ASC 820.

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

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

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

- publicly traded securities;
- securities for which a limited market exists; and
- securities for which no market exists.

Valuation Methods:

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

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

In the event these limited markets become illiquid to a degree that market prices are no longer readily available, we will value our syndicated loans using alternative methods, such as estimated net present values of the future cash flows or discounted cash flows, or DCF. The use of a DCF methodology follows that prescribed by ASC 820, which provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs, such as quotes in active markets, are not available. When relevant observable market data does not exist, 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, we consider multiple inputs, such as a risk-adjusted discount rate that incorporates adjustments that market participants would make both for nonperformance and liquidity risks. As such, we 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. We apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

As of March 31, 2011, we determined that the indicative bid prices were reliable indicators of fair value for our syndicate investments. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), we determined that these valuation inputs were classified as Level 3 within the fair value hierarchy as defined in ASC 820. As of December 31, 2011, we had no syndicated investments.

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Securities for which no market exists: The valuation methodology for securities for which no market exists falls into three categories: (1) portfolio investments comprised solely of debt securities; (2) portfolio investments in controlled companies comprised of a bundle of securities, which can include debt and equity securities and (3) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities.

(1) 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, which we refer to as 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 us by Standard & Poor s Securities Evaluations, Inc., or SPSE. We may also submit paid-in-kind, or 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, we have engaged SPSE to submit opinions of value for our debt securities that are issued by portfolio companies in which we own no equity, or equity-like securities. SPSE s opinions of value are based on the valuations prepared by our portfolio management team, as described below. We request that SPSE also evaluate and assign values to success fees when we determine that there is a reasonable probability of receiving a success fee on a given loan. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation and may decline to make requested evaluations for any reason, at its sole discretion. Upon completing our collection of data with respect to the investments (which may include 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 valuation data is forwarded to SPSE for review and analysis. SPSE makes its independent assessment of the data that we have assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

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

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

(2) Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The fair value of these investments is determined based on the total enterprise value, or TEV, of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820. For 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. In accordance with ASC 820, we apply the in-use premise of value, which assumes the debt and equity securities are sold together. Under this liquidity waterfall approach, we first calculate the TEV of the issuer by incorporating some or all of the following factors:

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

In gathering the sales to third parties of similar securities, we may gather and analyze industry statistics and use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once we have estimated the TEV of the issuer, we 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 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 our Adviser s judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, our Adviser may recommend that we use a valuation by SPSE, or if that is unavailable, a DCF valuation technique.

(3) Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities: We value Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical secondary market as our principal market. In accordance with ASC 820, we determine the fair value of these debt securities of non-control investments assuming the sale of an individual debt security using the in-exchange premise of value. As such, we estimate the fair value of the debt component using estimates of value provided by SPSE and our own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments that we do not control or cannot gain control as of the measurement date, we estimate the fair value of the equity using the in-exchange premise of value based on factors such as the overall value of the issuer, the relative fair value of other units of account, including debt, or other relative value approaches. Consideration also is given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, we may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in absence of other observable market data, our own assumptions.

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 arms-length transaction in the security s principal market.

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.

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

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

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

For the debt securities for which we do not use a third-party NRSRO risk rating, we seek to have our risk rating system mirror the risk rating systems of major risk rating organizations, such as those provided by an NRSRO. While we seek to mirror the NRSRO systems, we cannot provide any assurance that our risk rating system will provide the same risk rating as an NRSRO for these securities. The following chart is an estimate of the relationship of our risk rating system to the designations used by two NRSROs as they risk rate debt securities of major companies. Because our system rates debt securities of companies that are unrated by any NRSRO, there can be no assurance that the correlation to the NRSRO set out below is accurate. We believe our risk rating would be 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, our scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB or Baa2 from an NRSRO, however, no assurance can be given that a >10 on our scale is equal to a BBB or Baa2 on an NRSRO scale.

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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 December 31, 2011, two control investments, CCE and ASH, were on non-accrual with an aggregate fair value of $0. At March 31, 2011, one Control investment, ASH, was 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 December 31 and March 31, 2011, representing approximately 100.0% and 95.8%, respectively, of all loans in our portfolio at fair value at the end of each period:

RATING	AS OF DECEMBER 31, 2011	AS OF MARCH 31, 2011
Highest	7.0	9.0
Average	5.0	5.6
Weighted Average	5.3	5.9

Lowest	2.0	3.0

As of December 31, 2011, we did not have any non-proprietary loans in our investment portfolio. At March 31, 2011, the risk rating for our syndicated loan that was not rated by an NRSRO, Survey Sampling, was 7.0, representing approximately 1.2% of all loans in our portfolio at fair value at the end of the period. Survey Sampling was repaid at par in July 2011. For loans that are currently rated by an NRSRO, we risk rate such loans in accordance with the risk rating systems of major risk rating organizations, such as those provided by an NRSRO. As of March 31, 2011, the weighted average risk ratings for all loans in our portfolio that were rated by an NRSRO were BB+/Ba2, representing approximately 3.0% of all loans in our portfolio at fair value at March 31, 2011. Our last remaining non-proprietary loan rated by an NRSRO, AMG, was repaid at a premium in December 2011.

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Tax Status

Federal Income Taxes

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

In an effort to limit certain excise taxes imposed on RICs, we generally distribute during each calendar year, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. However, we did incur an excise tax of $41 and $24 for the calendar years ended December 31, 2011 and 2010, respectively. Under the RIC Modernization Act, or 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 being considered all short-term as permitted under previous regulation.

In 2011, we 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 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 and for the accretion of discounts, 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. Non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectible. At December 31, 2011, ASH and CCE were on non-accrual. The non-accrual loans had an aggregate cost basis of $13.7 million, or 7.3% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $0. At March 31, 2011, ASH was on non-accrual with a debt cost basis of $9.3 million, or 6.7% of the cost basis of debt investments in our portfolio, and a fair value of $0.

During the three months ended December 31, 2011, we did not have any loans in our portfolio that contained a PIK provision; however, during the nine months ended December 31, 2011, 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 income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of distributions, even though we have not yet collected the cash. The sole loan which had a PIK provision paid off, at par, during the quarter ended September 30, 2011. We did not record any PIK income during the nine months ended December 31, 2010.

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Other Income Recognition

We record success fees upon receipt. Success fees are contractually due upon a change of control in a portfolio company and we record them in Other income in the accompanying *Condensed Consolidated Statements of Operations*. During the three and nine months ended December 31, 2011, we recorded success fees of $0 and $0.4 million, respectively, representing prepayments received from Mathey and Cavert. During the three and nine months ended December 31, 2010, we recorded success fees of $2.7 million and $5.4 million, respectively, due to prepayments received from Mathey and Cavert and the income recognized as a result of the sales and payoffs of A. Stucki and Chase.

Dividend income on preferred equity securities is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash, and it is recorded in Other Income in the accompanying *Condensed Consolidated Statements of Operations*. We did not record any dividend income during the quarter ended December 31, 2011; however, during the nine months ended December 31, 2011, we recorded and collected $0.7 million of accrued dividends on preferred shares in connection with the recapitalization of Cavert. During the three months ended December 31, 2010, we recorded and collected $4.0 million of accrued dividends on preferred shares of Chase. During the nine months ended December 31, 2010, we also recorded and collected $0.3 million of accrued dividends on preferred shares of A. Stucki and accrued and received a special dividend of property valued at $0.5 million in connection with the A. Stucki sale.

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SUPPLEMENTAL PORTFOLIO INFORMATION

The following table sets forth certain information as of December 31, 2011 regarding each portfolio company in which we held a debt or equity security as of such date. All such investments were made in accordance with our investment policies and procedures described in this prospectus supplement and in the accompanying prospectus.

COMPANY (1)	INDUSTRY	INVESTMENT	PERCENTAGE OF CLASS HELD ON A FULLY-DILUTED BASIS (2)	PRINCIPAL	COST	FAIR VALUE
CONTROL INVESTMENTS:						
Acme Cryogenics, Inc.	Manufacturing manifolds and	Senior Subordinated Term Debt		$ 14,500	$ 14,500	$ 14,500
2801 Mitchell Avenue	pipes for industrial gasses	Preferred Stock	84.7%		6,984	10,746
Allentown, PA 18103		Common Stock	69.8%		1,045	1,084
		Common Stock Warrants	69.8%		25	332
					22,554	26,662
ASH Holdings Corp.	Retail and Service school	Revolving Credit Facility,				
2630 W. Buckeye Rd.	buses and parts	$342 available (non-accrual)		3,658	3,616	
Phoenix, AZ 85009		Senior Subordinated Term Debt				
		(non-accrual)		6,250	6,060	
		Preferred Stock	53.8%		2,500	
		Common Stock	73.6%			
		Common Stock Warrants	73.6%		4	
		Guaranty ($750)				
					12,180	
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt				
29 Tobey Rd.		(non-accrual)			4,000	
W. Wareham, MA 02576		Preferred Stock	59.9%		7,725	
		Guaranty ($3,998)				
					11,725	
Galaxy Tool Holding Corp.	Manufacturing aerospace	Senior Subordinated Term Debt		5,220	5,220	5,220
1111 Industrial Rd.	and Plastics	Preferred Stock	82.7%		19,658	2,447
Windfield, KS 67156		Common Stock	55.0%		48	
					24,926	7,667
Mathey Investments, Inc.	Manufacturing pipe-cutting	Revolving Credit Facility,				
4344 S. Maybelle Ave.	and pipe-fitting equipment	$1,750 available				
Tulsa, OK 74107		Senior Term Debt		2,375	2,375	2,375
		Senior Term Debt		3,727	3,727	3,727
		Senior Term Debt		3,500	3,500	3,500
		Common Stock	85.0%		777	269
					10,379	9,871
Mitchell Rubber Products, Inc.	Manufacturing rubber	Subordinated Term Debt		13,560	13,560	13,645
10220 San Sevaine Way	compounds	Preferred Stock	31.7%		2,790	2,913
Mira Loma, CA 91752		Common Stock	31.7%		28	1,142

					16,378	17,700
Precision Southeast, Inc.	Manufacturing injection	Revolving Credit Facility,				
PO Box 50610	molding and plastics	$451 available		749	749	749
4900 Hwy 501		Senior Term Debt		7,775	7,775	7,775
Myrtle Beach, SC 29579		Preferred Stock	90.9%		1,909	2,063
		Common Stock	77.3%		91	289
					10,524	10,876
SBS, Industries, LLC	Manufacturing specialty	Revolving Credit Facility,				
1843 N 106th East Ave.	fasteners and threaded	$250 available		250	250	250
Tulsa, OK 74116	screw Products	Senior Term Debt		11,355	11,355	11,355
		Preferred Stock	90.9%		1,994	2,047
		Common Stock	76.2%		221	2,279
					13,820	15,931
SOG Specialty K&T, LLC	Manufacturing specialty	Senior Term Debt		6,200	6,200	6,200
6521 212th St. SW	knives and tools	Senior Term Debt		12,199	12,199	12,199
Lynnwood, WA 98036		Preferred Stock	70.9%		9,749	10,144
					28,148	28,543
Tread Corp.	Manufacturing storage and	Senior Subordinated Term Debt		7,750	7,750	7,750
176 Eastpark Dr.	transport equipment	Preferred Stock	57.1%		833	1,063
Roanoke, VA 24019		Common Stock	50.7%		1	544
		Common Stock Warrants	50.7%		3	5,084
					8,587	14,441

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COMPANY [1]	INDUSTRY	INVESTMENT	PERCENTAGE OF CLASS HELD ON A FULLY-DILUTED BASIS [2]	PRINCIPAL	COST	FAIR VALUE
Venyu Solutions, Inc.	Service online servicing	Senior Subordinated Term Debt		$ 7,000	$ 7,000	$ 7,000
7127 Florida Blvd.	suite	Senior Subordinated Term Debt		12,000	12,000	12,000
Baton Rouge, LA 70806		Preferred Stock	64.0%		6,000	5,654
					25,000	24,654
Total Control Investments (represented 68.9% of total investments at fair value)					**$ 184,221**	**$ 156,345**
AFFILIATE INVESTMENTS:						
Cavert II Holding Corp.	Manufacturing bailing	Senior Term Debt		$ 2,150	$ 2,150	$ 2,171
620 Forum Parkway	wire	Senior Subordinated Term Debt		4,671	4,671	4,711
Rural Hall, NC 27045		Subordinated Term Debt		5,700	5,700	5,736
		Preferred Stock	86.4%		1,844	2,548
					14,365	15,166
Channel Technologies Group, LLC	Manufacturing acoustic	Revolving Credit Facility,				
879 Ward Drive	Products	$1,050 available		200	200	200
Santa Barbara, CA 93111		Senior Term Debt		6,000	6,000	6,000
		Senior Term Debt		10,750	10,750	10,750
		Preferred Stock	11.2%		1,599	1,599
		Common Stock	9.8%			
					18,549	18,549
Danco Acquisition Corp.	Manufacturing machining	Revolving Credit Facility,				
950 George St.	and sheet metal work	$0 available		1,500	1,500	1,350
Santa Clara, CA 95054		Senior Term Debt		2,575	2,575	2,318
		Senior Term Debt		8,891	8,891	8,002
		Preferred Stock	59.5%		2,500	
		Common Stock Warrants	40.0%		3	
					15,469	11,670
Noble Logistics, Inc.	Service aftermarket auto	Senior Term Debt		7,227	7,227	4,698
11335 Clay Rd., Ste. 100	parts Delivery	Senior Term Debt		3,650	3,650	2,372
Houston, TX 77041		Senior Term Debt		3,650	3,650	2,372
		Preferred Stock	69.2%		1,750	3,707
		Common Stock	13.1%		1,682	134
					17,959	13,283
Quench Holdings Corp.	Service sales, installation					
780 5th Ave., Ste. 110	and service of water	Preferred Stock	5.3%		2,950	2,515
King of Prussia, PA 19046	coolers	Common Stock	2.3%		447	
					3,397	2,515
Total Affiliate Investments (represented 27.0% of total investments at fair value)					**$ 69,739**	**$ 61,183**
NON-CONTROL/NON-AFFILIATE INVESTMENTS:						
B-Dry, LLC	Service basement	Senior Term Debt		$ 6,494	$ 6,494	$ 6,364
13876 Cravath Place	waterproofer	Senior Term Debt		2,870	2,870	2,812
Woodbridge, VA 22191		Common Stock Warrants	5.5%		300	67

	9,664	9,243
Total Non-Control/Non-Affiliate Investments (represented 4.1% of total investments at fair value)	**$ 9,664**	**$ 9,243**
TOTAL INVESTMENTS	**$ 263,624**	**$ 226,771**

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

(2) The percentage of class held on a fully-diluted basis represents the percentage of the class of security the Company may own assuming the exercise of the Company s 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.

Investment Concentrations

Approximately 43.0% of the aggregate fair value of our investment portfolio at December 31, 2011 was comprised of senior term debt, 31.1% was comprised of subordinated term debt and 25.9% was comprised of preferred and common equity securities or their equivalents. At December 31, 2011, we had investments in 17 portfolio companies with an aggregate fair value of $226.8 million, of which SOG, Acme and Venyu collectively comprised

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approximately $79.9 million, or 35.2% of our total investment portfolio, at fair value. The following table outlines our investments by security type at December 31 and March 31, 2011:

	DECEMBER 31, 2011		MARCH 31, 2011	
	COST	FAIR VALUE	COST	FAIR VALUE
Senior term debt	**$ 104,088**	**$ 97,541**	$ 64,566	$ 58,627
Senior subordinated term debt	**84,077**	**70,562**	74,602	62,806
Preferred equity	**70,784**	**47,444**	52,922	25,398
Common equity/Equivalents	**4,675**	**11,224**	5,102	6,454
Total Investments	**$ 263,624**	**$ 226,771**	$ 197,192	$ 153,285

Investments at fair value consisted of the following industry classifications at December 31 and March 31, 2011:

	DECEMBER 31, 2011		MARCH 31, 2011	
	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
Chemicals, Plastics and Rubber	**$ 44,362**	**19.5%**	$ 19,906	13.0%
Diversified/Conglomerate Manufacturing	**30,219**	**13.3**	12,746	8.3
Leisure, Amusement, Motion Pictures, Entertainment	**28,543**	**12.6**		
Containers, Packaging and Glass	**26,042**	**11.5**	29,029	19.0
Machinery (Non-Agriculture, Non-Construction and Non-Electronic)	**25,802**	**11.4**	10,431	6.8
Electronics	**24,654**	**10.9**	25,012	16.3
Oil and Gas	**14,441**	**6.4**	4,931	3.2
Cargo Transport	**13,283**	**5.8**	13,183	8.6
Buildings and Real Estate	**9,243**	**4.1**	10,120	6.6
Aerospace and Defense	**7,667**	**3.4**	6,659	4.4
Home and Office Furnishings, Housewares and Durable Consumer Products	**2,515**	**1.1**	8,627	5.6
Telecommunications			1,499	1.0
Printing and Publishing			3,073	2.0
Automobile			7,560	4.9
Diversified Conglomerate Service			509	0.3
Total Investments	**$ 226,771**	**100.0%**	$ 153,285	100.0%

The investments, at fair value, were included in the following geographic regions of the United States at December 31 and March 31, 2011:

	DECEMBER 31, 2011		MARCH 31, 2011	
	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
South	**$ 131,166**	**57.8%**	$ 92,172	60.1%
West	**58,761**	**25.9**	12,746	8.3
Northeast	**29,177**	**12.9**	38,126	24.9
Midwest	**7,667**	**3.4**	10,241	6.7
Total Investments	**$ 226,771**	**100.0%**	$ 153,285	100.0%

The geographic region reflects the location of the headquarters of our portfolio companies. A portfolio company may have a number of other business locations in other geographic regions.

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DESCRIPTION OF THE SERIES A TERM PREFERRED STOCK

The following is a brief description of the terms of our Series A Term Preferred Stock. This is not a complete description and is subject to, and entirely qualified by reference to, our Amended and Restated Certificate of Incorporation and the Certificate of Designation. The form of the Certificate of Designation is attached to this prospectus supplement, and the final form of the Certificate of Designation will be filed with the SEC as an exhibit to our registration statement of which this prospectus supplement and the accompanying prospectus are a part. You may obtain copies of these documents as described under Where You Can Find More Information.

General

Under our Amended and Restated Certificate of Incorporation, we are authorized to issue 110,000,000 shares of stock, of which 100,000,000 are Common Stock and 10,000,000 are Preferred Stock. We are designating 1,150,000 shares of Preferred Stock as Series A Term Preferred Stock. We currently do not have any shares of Preferred Stock outstanding. Terms of the Series A Term Preferred Stock are set forth in the Certificate of Designation.

At the time of issuance, the Series A Term Preferred Stock will be fully paid and non-assessable and will have no preemptive, conversion, or exchange rights or rights to cumulative voting. We may issue additional series of Preferred Stock in the future and, if we do so, the Series A Term Preferred Stock will rank equally with shares of all our other Preferred Stock as to payment of dividends and the distribution of our assets upon dissolution, liquidation or winding up of our affairs. The Series A Term Preferred Stock is, and all other Preferred Stock that we may issue in the future will be, senior as to dividends and distributions to the Common Stock.

Except in certain limited circumstances, holders of the Series A Term Preferred Stock will not receive certificates representing their ownership interest in such shares, and the shares of Series A Term Preferred Stock will be represented by a global certificate to be held by the Depository Trust Company, or the Securities Depository, for the Series A Term Preferred Stock.

Dividends and Dividend Periods

General

The holders of the Series A Term Preferred Stock will be entitled to receive cumulative cash dividends and distributions on such shares, when, as and if declared by, or under authority granted by, our Board of Directors out of funds legally available for payment and in preference to dividends and distributions on Common Stock, calculated separately for each monthly dividend period, each a Dividend Period, for the Series A Term Preferred Stock at the Fixed Dividend Rate in effect during such Dividend Period, in an amount equal to the Liquidation Preference ($25 per share) for the Series A Term Preferred Stock. The Fixed Dividend Rate is computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends so declared and payable will be paid to the extent permitted under state law and our Amended and Restated Certificate of Incorporation, and to the extent available, in preference to and priority over any dividend declared and payable on Common Stock.

Fixed Dividend Rate

The Fixed Dividend Rate is an annual rate of % for the Series A Term Preferred Stock. The Fixed Dividend Rate for the Series A Term Preferred Stock may be adjusted in certain circumstances, including upon the occurrence of certain events resulting in a Default Period (as defined below).

Payment of Dividends and Dividend Periods

The first Dividend Period for the Series A Term Preferred Stock will commence on , 2012 and end on March 31, 2012 and each subsequent Dividend Period will be a calendar month (or the portion thereof occurring prior to the redemption of such Series A Term Preferred Stock). Dividends will be payable monthly in arrears on the Dividend Payment Date the last Business Day of the month of the Dividend Period and upon redemption of the

Series A Term Preferred Stock. Except for the first Dividend Period, dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of Series A Term Preferred Stock as their names shall appear on our registration books at the close of business on the on the applicable record date, which shall be such date designated by our Board of Directors that is not more than 20, nor less than seven calendar days prior to such Dividend Payment Date. Dividends with respect to the first Dividend Period of the Series A Term Preferred Stock will be declared on or about March 6, 2012 and paid on March 30, 2012 to holders of record of such Series A Term Preferred Stock as their names appear on our registration books at the close of business on March 22, 2012.

Only holders of Series A Term Preferred Stock on the record date for a Dividend Period will be entitled to receive dividends and distributions payable with respect to such Dividend Period, and holders of Series A Term Preferred Stock who sell shares before such a record date and purchasers of Series A Term Preferred Stock who purchase shares after such a record date should take the effect of the foregoing provisions into account in evaluating the price to be received or paid for such Series A Term Preferred Stock.

Although dividends will accrue and be paid monthly, the record date for holders of Series A Term Preferred Stock entitled to receive dividend payments may vary from month-to-month. We will notify holders of the Series A Term Preferred Stock of each record date by issuance of a quarterly press release.

Mechanics of Payment of Dividends

Not later than 12:00 noon, New York City time, on a Dividend Payment Date, we are required to deposit with the Redemption and Paying Agent sufficient funds for the payment of dividends in the form of Deposit Securities. Deposit Securities will generally consist of: (1) cash or cash equivalents; (2) direct obligations of the United States or its agencies or instrumentalities that are entitled to the full faith and credit of the United States, which we refer to as the U.S. Government Obligations; (3) investments in money market funds registered under the 1940 Act that qualify under Rule 2a-7 under the 1940 Act and certain similar investment vehicles that invest in U.S. Government Obligations or any combination thereof; or (4) any letter of credit from a bank or other financial institution that has a credit rating from at least one NRSRO that is the highest applicable rating generally ascribed by such NRSRO to bank deposits or short-term debt of similar banks or other financial institutions, in each case either that is a demand obligation payable to the holder on any Business Day or that has a maturity date, mandatory redemption date or mandatory payment date, preceding the relevant date of redemption, or the Redemption Date, Dividend Payment Date or other payment date. We do not intend to establish any reserves for the payment of dividends.

All Deposit Securities paid to the Redemption and Payment Agent for the payment of dividends will be held in trust for the payment of such dividends to the holders of Series A Term Preferred Stock. Dividends will be paid by the Redemption and Payment Agent to the holders of Series A Term Preferred Stock as their names appear on our registration books. Dividends that are in arrears for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date. Such payments are made to holders of Series A Term Preferred Stock as their names appear on our registration books on such date, not exceeding 20 nor less than seven calendar days preceding the payment date thereof, as may be fixed by our Board of Directors. Any payment of dividends in arrears will first be credited against the earliest accumulated but unpaid dividends. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on any Series A Term Preferred Stock which may be in arrears. See Adjustment to Fixed Dividend Rate Default Period.

Upon failure to pay dividends for at least two years, the holders of Series A Term Preferred Stock will acquire certain additional voting rights. See Voting Rights below. Such rights shall be the exclusive remedy of the holders of Series A Term Preferred Stock upon any failure to pay dividends on Term Preferred Stock.

Adjustment to Fixed Dividend Rate Default Period

Subject to the cure provisions below, a Default Period with respect to the Series A Term Preferred Stock will commence on a date we fail to deposit the Deposit Securities to redeem the Series A Term Preferred Stock in any circumstance in which redemption is required, or a Redemption Default, or to pay a dividend on the Series A Term Preferred Stock, or a Dividend Default, as required as described above. A Default Period with respect to a Dividend Default or a Redemption Default shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends and any unpaid redemption price shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of a Default, the applicable dividend rate for each day during the Default Period will be equal to the Default Rate. The Default Rate in respect of a Dividend Default for any calendar day will be equal to 9% per annum. The Default Rate in respect of a Redemption Default will be equal to 11% per annum.

No Default Period with respect to a Dividend Default or Redemption Default will be deemed to commence if the amount of any dividend or any redemption price due (if such Default is not solely due to our willful failure) is deposited irrevocably in trust, in same-day funds with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three Business Days after the applicable Dividend Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount and period of such non-payment based on the actual number of calendar days comprising such period divided by 360.

Restrictions on Dividend, Redemption, Other Payments and Issuance of Debt

No full dividends and distributions will be declared or paid on Series A Term Preferred Stock for any Dividend Period, or a part of a Dividend Period, unless the full cumulative dividends and distributions due through the most recent dividend payment dates for all outstanding shares of Preferred Stock have been, or contemporaneously are, declared and paid through the most recent dividend payment dates for each share of Preferred Stock. If full cumulative dividends and distributions due have not been paid on all outstanding shares of Preferred Stock of any series, any dividends and distributions being declared and paid on Series A Term Preferred Stock will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on the shares of each such series of Preferred Stock on the relevant dividend payment date. No holders of Series A Term Preferred Stock will be entitled to any dividends and distributions in excess of full cumulative dividends and distributions as provided in the Certificate of Designation.

For so long as any shares of Series A Term Preferred Stock are outstanding, we will not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in Common Stock) in respect of the Common Stock; (y) call for redemption, redeem, purchase or otherwise acquire for consideration any such Common Stock; or (z) pay any proceeds of our liquidation in respect of such Common Stock, unless, in each case, (A) immediately thereafter, we will be in compliance with the 200% Asset Coverage limitations set forth under the 1940 Act after deducting the amount of such dividend or distribution or redemption or purchasing price or liquidation proceeds, (B) all cumulative dividends and distributions of shares of all series of Series A Term Preferred Stock and all other series of Preferred Stock, if any, ranking on parity with the Series A Term Preferred Stock due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and sufficient funds or Deposit Securities as permitted by the terms of such Preferred Stock for the payment thereof shall have been deposited irrevocably with the applicable paying agent) and (C) we have deposited Deposit Securities with the Redemption and Paying Agent in accordance with the requirements described herein with respect to outstanding Series A Term Preferred Stock to be redeemed pursuant to a Term Redemption or Asset Coverage mandatory redemption resulting from the failure to comply with the Asset Coverage as described below for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms described herein on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

Except as required by law, we will not redeem any shares of Series A Term Preferred Stock unless all accumulated and unpaid dividends and distributions on all outstanding shares of Series A Term Preferred Stock and other series of Preferred Stock, if any, ranking on parity with the Series A Term Preferred Stock with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by us) (x) will have been or are contemporaneously paid or (y) will have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions will have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent; provided, however, that the foregoing will not prevent the purchase or acquisition of outstanding shares of Series A Term Preferred Stock pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding shares of Series A Term Preferred Stock and any other series of Preferred Stock, if any, for which all accumulated and unpaid dividends and distributions have not been paid.

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We may issue debt in one or more classes or series. Under the 1940 Act, we may not (1) declare any dividend with respect to any Preferred Stock if, at the time of such declaration (and after giving effect thereto), Asset Coverage with respect to any of our borrowings that are senior securities representing indebtedness (as defined in the 1940 Act), would be less than 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum Asset Coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring dividends on its Preferred Stock) or (2) declare any other distribution on the Preferred Stock or purchase or redeem Preferred Stock if at the time of the declaration or redemption (and after giving effect thereto), Asset Coverage with respect to such borrowings that are senior securities representing indebtedness would be less than 200% (or such higher percentage as may in the future be specified in or under the 1940 Act as the minimum Asset Coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its shares). Senior securities representing indebtedness generally means any bond, debenture, note or similar obligation or instrument constituting a security (other than shares of capital stock) and evidencing indebtedness and could include our obligations under any borrowings. For purposes of determining Asset Coverage for senior securities representing indebtedness in connection with the payment of dividends or other distributions on or purchases or redemptions of stock, the term senior security does not include any promissory note or other evidence of indebtedness issued in consideration of any loan, extension or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed. The term senior security also does not include any such promissory note or other evidence of indebtedness in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of our total assets at the time when the loan is made; a loan is presumed under the 1940 Act to be for temporary purposes if it is repaid within 60 calendar days and is not extended or renewed; otherwise, such loan is presumed not to be for temporary purposes. For purposes of determining whether the 200% statutory Asset Coverage requirements described above apply in connection with dividends or distributions on or purchases or redemptions of Preferred Stock, such Asset Coverage may be calculated on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of the applicable determination.

Asset Coverage

If we fail to maintain Asset Coverage of at least 200% as of the close of business on the last Business Day of a Calendar Quarter (meaning the three months ended March 31, June 30, September 30 and December 31), the Series A Term Preferred Stock may become subject to mandatory redemption as provided below. Asset Coverage means asset coverage of a class of senior security which is a stock, as defined for purposes of Section 18(h) of the 1940 Act as in effect on the date of the Certificate of Designation, determined on the basis of values calculated as of a time within two Business Days next preceding the time of such determination. For purposes of this determination, no shares of Series A Term Preferred Stock or other Preferred Stock, if any, will be deemed to be outstanding for purposes of the computation of Asset Coverage if, prior to or concurrently with such determination, either sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Preferred Stock) to pay the full redemption price for such Preferred Stock (or the portion thereof to be redeemed) will have been deposited in trust with the Redemption and Paying Agent for such Preferred Stock and the requisite notice of redemption for such Preferred Stock (or the portion thereof to be redeemed) will have been given or sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Preferred Stock) to pay the full redemption price for such Preferred Stock (or the portion thereof to be redeemed) will have been segregated by us and our custodian, or Custodian, from our assets, by means of appropriate identification on the Custodian s books and records or otherwise in accordance with the Custodian s normal procedures. In such event, the Deposit Securities or other sufficient funds so deposited or segregated will not be included as our assets for purposes of the computation of Asset Coverage.

Redemption

Mandatory Term Redemption

We are required to provide for the mandatory redemption, or the Term Redemption, of all of the Series A Term Preferred Stock on the Mandatory Term Redemption Date, at a redemption price equal to the Liquidation Preference ($25 per share), plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to, but excluding, the Mandatory Term Redemption Date, which we refer to as the Term Redemption Price.

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Mandatory Redemption for Asset Coverage

If we fail to have Asset Coverage of at least 200% as provided in the Certificate of Designation and such failure is not cured as of the close of business on the Asset Coverage Cure Date, we will fix a redemption date and proceed to redeem the number of shares of Preferred Stock as described below at a price per share equal to the liquidation price per share of the applicable Preferred Stock, which in the case of the Series A Term Preferred Stock we refer to as the Mandatory Redemption Price and is equal to the Liquidation Preference ($25 per share), plus accumulated but unpaid dividends and distributions thereon (whether or not earned or declared but excluding interest thereon) to, but excluding, the date fixed for redemption by our Board of Directors. We will redeem out of funds legally available the number of shares of Preferred Stock (which may include at our sole option any number or proportion of Series A Term Preferred Stock) equal to the lesser of (i) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in us having Asset Coverage of at least 200% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available in accordance with our Amended and Restated Certificate of Incorporation and applicable law, provided further, that in connection with any such redemption for failure to maintain such Asset Coverage ratio, we may redeem such additional number of shares of Preferred Stock that will result in our having an Asset Coverage ratio of up to and including 215%. We will effect a redemption on the date fixed by us, which date will not be later than 90 calendar days after the Asset Coverage Cure Date, except that if we do not have funds legally available for the redemption of all of the required number of shares of Series A Term Preferred Stock and other shares of Preferred Stock which have been designated to be redeemed or we otherwise are unable to effect such redemption on or prior to 90 calendar days after the Asset Coverage Cure Date, we will redeem those shares of Series A Term Preferred Stock and other shares of Preferred Stock which we were unable to redeem on the earliest practicable date on which we are able to effect such redemption.

Optional Redemption

On or after , 2016 (any such date, an Optional Redemption Date), at our sole option, we may redeem, from time to time, in whole or in part, outstanding Series A Term Preferred Stock, at a redemption price equal to the Liquidation Preference ($25 per share), plus an amount equal to all unpaid dividends and distributions accumulated to, but excluding, the Optional Redemption Date (whether or not earned or declared by us, but excluding interest thereon), which we refer to as the Optional Redemption Price.

Subject to the provisions of the Certificate of Designation and applicable law, our Board of Directors will have the full power and authority to prescribe the terms and conditions upon which shares of Series A Term Preferred Stock will be redeemed from time to time.

We may not on any date deliver a notice of redemption to redeem any shares of Series A Term Preferred Stock pursuant to the optional redemption provisions described above unless on such date we have available Deposit Securities for the Optional Redemption Date contemplated by such notice of redemption having a value not less than the amount due to holders of shares of Series A Term Preferred Stock by reason of the redemption of such shares of Series A Term Preferred Stock, or Market Value, on such Optional Redemption Date.

Change of Control

If a Change of Control Triggering Event (as defined below) occurs with respect to the Series A Term Preferred Stock, unless we have exercised our option to redeem such Series A Term Preferred Stock as described above, we will be required to redeem all of the outstanding Series A Term Preferred Stock at a price equal to the Liquidation Preference ($25.00 per share), plus an amount equal to any accumulated and unpaid dividends up to, but excluding, the date of redemption, but without interest, which we refer to as the Change of Control Redemption Price.

For purposes of the foregoing discussion of the Change of Control Redemption, the following definitions are applicable:

Change of Control Triggering Event means the occurrence of any of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or more series of related transactions, of all or substantially all of our assets and the assets of the our subsidiaries, taken as a whole, to any Person, other than us or one of our subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our outstanding Voting Stock or other Voting Stock into which our Voting Stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; (3) we consolidate with, or merge with or into, any Person, or any Person consolidates with, or merges with or into, us, in any such event pursuant to a transaction in which any of our outstanding Voting Stock or the Voting Stock of such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of our Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving Person or any direct or indirect parent company of the surviving Person immediately after giving effect to such transaction; (4) the first day on which a majority of the members of our Board of Directors are not Continuing Directors; or (5) the adoption of a plan relating to our liquidation or dissolution. Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control Triggering Event under clause (2) above if (i) we become a direct or indirect wholly-owned subsidiary of a holding company and (ii)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of our Voting Stock immediately prior to that transaction or (B) immediately following that transaction no Person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

Continuing Directors means, as of any date of determination, any member of our Board of Directors who (A) was a member of our Board of Directors on the date the Series A Term Preferred Stock was originally issued or (B) was nominated for election, elected or appointed to our Board of Directors with the approval of a majority of the continuing directors who were members of our Board of Directors at the time of such nomination, election or appointment (either by a specific vote or by approval of a proxy statement in which such member was named as a nominee for election as a director, without objection to such nomination).

Person means and includes an individual, a partnership, a trust, a corporation, a limited liability company, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

Voting Stock means, with respect to any specified Person that is a corporation as of any date, the capital stock of such Person that is at the time entitled to vote generally in the election of the directors of such Person.

Redemption Procedures

We will file a notice of our intention to redeem with the SEC so as to provide the 30 calendar day notice period contemplated by Rule 23c-2 under the 1940 Act, or such shorter notice period as may be permitted by the SEC or its staff.

If we shall determine or be required to redeem, in whole or in part, shares of Series A Term Preferred Stock, we will deliver a notice of redemption, or a Notice of Redemption, by overnight delivery, by first class mail, postage prepaid or by electronic means to the holders of such shares of Series A Term Preferred Stock to be redeemed, or request the Redemption and Paying Agent, on our behalf, to promptly do so by overnight delivery, by first class mail or by electronic means. A Notice of Redemption will be provided not more than 45 calendar days prior to the date fixed for redemption in such Notice of Redemption, which we refer to as the Redemption Date; provided, however, that, in the event of a Change of Control Redemption, the Notice of Redemption will, if mailed prior to the date of consummation of the Change of Control Triggering Event, state that the Change of Control Redemption is conditioned on the Change of Control Triggering Event occurring and, provided further, that if, by the date that is three Business Days prior to the date fixed for redemption in such Notice of Redemption, the Change of Control Triggering Event shall not have occurred, the Redemption Date shall be extended until a date that is no more than three Business Days after the date on which the Change of Control Triggering Event occurs. If fewer than all of the outstanding shares of Series A Term Preferred Stock are to be redeemed pursuant to either the Asset Coverage mandatory redemption provisions or the optional redemption provisions, the shares of Series A Term Preferred Stock to be redeemed will be selected either (1) pro rata among Series A Term Preferred Stock, (2) by lot or (3) in such other manner as our Board of Directors may determine to be fair and equitable. If fewer than all shares of Series A

Term Preferred Stock held by any holder are to be redeemed, the Notice of Redemption mailed to such holder shall also specify the number of shares of Series A Term Preferred Stock to be redeemed from such holder or the method of determining such number. We may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to the Certificate of Designation that such redemption is subject to one or more conditions precedent and that we will not be required to effect such redemption unless each such condition has been satisfied. No defect in any Notice of Redemption or delivery thereof will affect the validity of redemption proceedings except as required by applicable law.

If we give a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by us), we will (i) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value at the time of deposit no less than the redemption price of the shares of Series A Term Preferred Stock to be redeemed on the Redemption Date and (ii) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable redemption price to the holders of shares of Series A Term Preferred Stock called for redemption on the Redemption Date. Notwithstanding the foregoing, if the Redemption Date is the Mandatory Term Redemption Date, then such deposit of Deposit Securities will be made no later than 15 calendar days prior to the Mandatory Term Redemption Date.

Upon the date of the deposit of Deposit Securities by us for purposes of redemption of shares of Series A Term Preferred Stock, all rights of the holders of Series A Term Preferred Stock so called for redemption shall cease and terminate except the right of the holders thereof to receive the Term Redemption Price, the Mandatory Redemption Price (as defined below), the Optional Redemption Price (as defined below) or the Change of Control Redemption Price thereof, as applicable (any of the foregoing referred to in this prospectus supplement as the Redemption Price, and such shares of Series A Term Preferred Stock will no longer be deemed outstanding for any purpose whatsoever (other than the transfer thereof prior to the applicable Redemption Date and other than the accumulation of dividends on such stock in accordance with the terms of the Series A Term Preferred Stock up to, but excluding, the applicable Redemption Date). We will be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of shares of Series A Term Preferred Stock called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of 90 calendar days from the Redemption Date will, to the extent permitted by law, be repaid to us, after which the holders of shares of Series A Term Preferred Stock so called for redemption shall look only to us for payment of the Redemption Price. We will be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

On or after a Redemption Date, each holder of shares of Series A Term Preferred Stock in certificated form (if any) that are subject to redemption will surrender the certificate(s) evidencing such shares of Series A Term Preferred Stock to us at the place designated in the Notice of Redemption and will then be entitled to receive the Redemption Price, without interest, and in the case of a redemption of fewer than all shares of Series A Term Preferred Stock represented by such certificate(s), a new certificate representing shares of Series A Term Preferred Stock that were not redeemed.

If any redemption for which a Notice of Redemption has been provided is not made by reason of the absence of our legally available funds in accordance with the Certificate of Designation and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default will be deemed to have occurred if we have failed to deposit in trust with the Redemption and Paying Agent the applicable Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent has not been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any shares of Series A Term Preferred Stock, dividends may be declared and paid on such shares of Series A Term Preferred Stock in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such shares of Series A Term Preferred Stock shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

We may, in our sole discretion and without a stockholder vote, modify the redemption procedures with respect to notification of redemption for the Series A Term Preferred Stock, provided that such modification does not materially and adversely affect the holders of Series A Term Preferred Stock or cause us to violate any applicable law, rule or regulation.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, the holders of the Series A Term Preferred Stock will be entitled to receive out of our assets available for distribution to stockholders, after satisfying claims of creditors but before any distribution or payment will be made in respect of the Common Stock, a liquidation distribution equal to the Liquidation Preference ($25 per share), plus an amount equal to all unpaid dividends and distributions accumulated to, but excluding, the date fixed for such distribution or payment (whether or not earned or declared by us, but excluding interest thereon), and such holders will be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

If, upon any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, our assets available for distribution among the holders of all Series A Term Preferred Stock, and any other outstanding shares of Preferred Stock, if any, will be insufficient to permit the payment in full to such holders of Series A Term Preferred Stock of the Liquidation Preference ($25 per share), plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to such other shares of Preferred Stock, then the available assets will be distributed among the holders of such Series A Term Preferred Stock and such other series of Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or winding up of our affairs whether voluntary or involuntary, unless and until the Liquidation Preference ($25 per share) on each outstanding share of Series A Term Preferred Stock plus accumulated and unpaid dividends and distributions has been paid in full to the holders of Series A Term Preferred Stock, no dividends, distributions or other payments will be made on, and no redemption, repurchase or other acquisition by us will be made by us in respect of, the Common Stock.

Neither the sale of all or substantially all of the property or business of the Company, nor the merger, consolidation or our reorganization into or with any other business or corporation, statutory trust or other entity, nor the merger, consolidation or reorganization of any other business or corporation, statutory trust or other entity into or with us will be a dissolution, liquidation or winding up, whether voluntary or involuntary, for purposes of the provisions relating to liquidation set forth in the Certificate of Designation.

Voting Rights

Except as otherwise provided in our Amended and Restated Certificate of Incorporation, the Certificate of Designation, or as otherwise required by applicable law, each holder of Series A Term Preferred Stock will be entitled to one vote for each share of Series A Term Preferred Stock held by such holder on each matter submitted to a vote of our stockholders and the holders of outstanding shares of any Preferred Stock, including the Series A Term Preferred Stock, will vote together with holders of Common Stock as a single class. Under applicable rules of NASDAQ, we are currently required to hold annual meetings of stockholders.

In addition, the holders of outstanding shares of any Preferred Stock, including the Series A Term Preferred Stock, will be 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. The holders of outstanding shares of Common Stock and Preferred Stock, including Series A Term Preferred Stock, voting together as a single class, will elect the balance of our directors. Under our bylaws, 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. 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. One of the Preferred Directors will be up for election in 2012, and the other Preferred Director will be up for election in 2013.

In the event we owe accumulated dividends (whether or not earned or declared) on our Preferred Stock equal to at least two full years of dividends (and sufficient cash or securities have not been deposited a paying agent for the payment of the accumulated dividends) the number of directors constituting the board will be increased by the number of directors, which we refer to as the New Preferred Directors, that when added to the Preferred Directors will constitute a majority. We will then call a special meeting of stockholders to permit the election of the New Preferred Directors. The term of the New Preferred Directors will last for so long as we are in arrears on our dividends as described above. The ability of the holders of Preferred Stock to elect the New Preferred Directors will also terminate, subject to reinstatement, once we have a Dividend Payment Date on which we are no longer in arrears on our dividends to the extent described above.

Notwithstanding the foregoing, if: (1) at the close of business on any dividend payment date for dividends on any outstanding share of any Preferred Stock, including any outstanding shares of Series A Term Preferred Stock, accumulated dividends (whether or not earned or declared) on the shares of Preferred Stock, including the Series A Term Preferred Stock, equal to at least two full years dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or (2) at any time holders of any shares of Preferred Stock are entitled under the 1940 Act to elect a majority of our directors (a period when either of the foregoing conditions exists, a Voting Period), then the number of members constituting our Board of Directors will automatically be increased by the smallest number that, when added to the two directors elected exclusively by the holders of shares of any Preferred Stock, including the Series A Term Preferred Stock, as described above, would constitute a majority of our Board of Directors as so increased by such smallest number; and the holders of the shares of Preferred Stock, including the Series A Term Preferred Stock, will be entitled as a class on a one-vote-per-share basis, to elect such additional directors. The terms of office of the persons who are directors at the time of that election will not be affected by the election of the additional directors. If we thereafter shall pay, or declare and set apart for payment, in full all dividends payable on all outstanding shares of Preferred Stock, including Series A Term Preferred Stock, for all past dividend periods, or the Voting Period is otherwise terminated, (1) the voting rights stated above shall cease, subject always, however, to the revesting of such voting rights in the holders of shares of Preferred Stock upon the further occurrence of any of the events described herein, and (2) the terms of office of all of the additional directors so elected will terminate automatically. Any Preferred Stock, including Series A Term Preferred Stock, issued after the date hereof will vote with Series A Term Preferred Stock as a single class on the matters described above, and the issuance of any other Preferred Stock, including Series A Term Preferred Stock, by us may reduce the voting power of the holders of Series A Term Preferred Stock.

As soon as practicable after the accrual of any right of the holders of shares of Preferred Stock to elect additional directors as described above, we will call a special meeting of such holders and notify the Redemption and Paying Agent and/or such other person as is specified in the terms of such Preferred Stock to receive notice, (i) by mailing or delivery by electronic means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such holders, such meeting to be held not less than 10 nor more than 30 calendar days after the date of the delivery by electronic means or mailing of such notice. If we fail to call such a special meeting, it may be called at our expense by any such holder on like notice. The record date for determining the holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of holders of shares of Preferred Stock held during a Voting Period at which directors are to be elected, such holders, voting together as a class (to the exclusion of the holders of all our other securities and classes of capital stock), will be entitled to elect the number of additional directors prescribed above on a one-vote-per-share basis.

Except as otherwise permitted by the terms of the Certificate of Designation, so long as any shares of Series A Term Preferred Stock are outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of shares of Series A Term Preferred Stock, voting as a separate class, amend, alter or repeal the provisions of the Amended and Restated Certificate of Incorporation or the Certificate of Designation, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of the Series A Term Preferred Stock or the holders thereof; provided, however, that (i) a change in our capitalization as described under the heading Issuance of Additional Preferred Stock will not be considered to materially and adversely affect the rights and preferences of Series A Term Preferred Stock, and (ii) a division of a share of Series A Term Preferred Stock will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of Series A Term Preferred Stock. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a share of Series A Term Preferred Stock of such series or the holder thereof unless such matter (i) alters or abolishes any preferential right of such share of Series A Term Preferred Stock, or (ii) creates, alters or abolishes any right in respect of redemption of such Series A Term Preferred Stock (other than as a result of a division of such Series A Term Preferred Stock).

So long as any shares of Series A Term Preferred Stock are outstanding, we will not, without the affirmative vote or consent of the holders of at least 66 2/3% of the shares of Series A Term Preferred Stock outstanding at the time, voting as a separate class, file a voluntary application for relief under federal bankruptcy law or any similar application under state law for so long as we are solvent and does not foresee becoming insolvent.

The affirmative vote of the holders of at least a majority of the shares of Preferred Stock, including the shares of Series A Term Preferred Stock outstanding at the time, voting as a separate class, will be required (i) to approve us ceasing to be, or to withdraw our election as, a business development company, or (ii) to approve any plan of reorganization (as such term is defined in Section 2(a)(33) of the 1940 Act) adversely affecting such shares of Preferred Stock. For purposes of the foregoing, the vote of a majority of the outstanding shares of Preferred Stock means the vote at an annual or special meeting duly called of (a) 67% or more of such shares present at a meeting, if the holders of more than 50% of such outstanding shares are present or represented by proxy at such meeting, or (b) more than 50% of such outstanding shares, whichever is less.

For purposes of determining any rights of the holders of Series A Term Preferred Stock to vote on any matter, whether such right is created by the Certificate of Designation, by the provisions of the Amended and Restated Certificate of Incorporation, by statute or otherwise, no holder of Series A Term Preferred Stock will be entitled to vote any shares of Series A Term Preferred Stock and no share of Series A Term Preferred Stock will be deemed to be outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such Series A Term Preferred Stock will have been given in accordance with the Certificate of Designation, and the Redemption Price for the redemption of such shares of Series A Term Preferred Stock will have been irrevocably deposited with the Redemption and Paying Agent for that purpose. No shares of Series A Term Preferred Stock held by us will have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

Unless otherwise required by law or our Amended and Restated Certificate of Incorporation, holders of Series A Term Preferred Stock will not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in the Voting Rights section of the Certificate of Designation. The holders of shares of Series A Term Preferred Stock will have no rights to cumulative voting. In the event that we fail to declare or pay any dividends on Series A Term Preferred Stock, the exclusive remedy of the holders will be the right to vote for additional directors as discussed above; provided that the foregoing does not affect our obligation to accumulate and, if permitted by applicable law and the Certificate of Designation, pay dividends at the Default Rate as discussed above.

Issuance of Additional Preferred Stock

So long as any shares of Series A Term Preferred Stock are outstanding, we may, without the vote or consent of the holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of our senior securities representing stock under Section 18 of the 1940 Act, ranking on parity with the Series A Term Preferred Stock as to payment of dividends and distribution of assets upon dissolution, liquidation or the winding up of our affairs, in addition to then outstanding shares of Series A Term Preferred Stock, including additional series of Preferred Stock, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, in each case in accordance with applicable law, provided that we will, immediately after giving effect to the issuance of such additional Preferred Stock and to our receipt and application of the proceeds thereof, including to the redemption of Preferred Stock with such proceeds, have Asset Coverage of at least 200%.

Actions on Other than Business Days

Unless otherwise provided in the Certificate of Designation, if the date for making any payment, performing any act or exercising any right is not a Business Day, such payment will be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount will accrue for the period between such nominal date and the date of payment.

Modification

The Board of Directors, without the vote of the holders of Series A Term Preferred Stock, may interpret, supplement or amend the provisions of the Certificate of Designation or any appendix thereto to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Preferred Stock.

Information Rights

During any period in which we are not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and any shares of Series A Term Preferred Stock are outstanding, we will provide holders of Series A Term Preferred Stock, without cost, copies of annual reports and quarterly reports substantially similar to the reports on Form 10-K and Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such provisions or, alternatively, we will voluntarily file reports on Form 10-K and Form 10-Q as if we were subject to Section 13 or 15(d) of the Exchange Act.

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UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement to be dated on or about , 2012, between us and Jefferies & Company, Inc., as representative of the several underwriters, we have agreed to sell to the underwriters and the underwriters have severally agreed to purchase from us, the number of shares of Series A Term Preferred Stock indicated in the table below:

Underwriters	Number of Shares
Jefferies & Company, Inc.	
Janney Montgomery Scott LLC	
J.J.B. Hilliard, W.L. Lyons, LLC	
Wunderlich Securities, Inc.	
Total	1,000,000

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

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

The underwriters have advised us, after the commencement of trading on NASDAQ, that they currently intend to make a market in the Series A Term Preferred Stock. Additionally, prior to the commencement of trading, the underwriters may make a market in the Series A Term Preferred Stock. However, the underwriters are not obligated to make such a market and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series A Term Preferred Stock.

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

Commission and Expenses

The underwriters have advised us that they propose to offer the shares of Series A Term Preferred Stock to the public at the initial public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of $ per share of Series A Term Preferred Stock. The underwriters may allow, and certain dealers may reallow, a discount from the concession not in excess of $ per share of Series A Term Preferred Stock to certain brokers and dealers. After the offering, the initial public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement. The following table shows the public offering price, the underwriting discounts and commissions that we are to pay the underwriters and

the proceeds, before expenses, to us in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares of Series A Term Preferred Stock.

	PER SHARE		TOTAL	
	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES
Public Price Offering	$ 25.00	$ 25.00	$ 25,000,000	$ 28,750,000
Underwriting discounts and commissions paid by us	$ 1.00	$ 1.00	$ 1,000,000	$ 1,150,000
Proceeds to us, before expenses	$ 24.00	$ 24.00	$ 24,000,000	$ 27,600,000

We estimate that expenses payable by us in connection with this offering, other than underwriting discounts and commissions referred to above, will be approximately $375,000.

Listing

We have applied to list the Series A Term Preferred Stock on NASDAQ under the symbol GAINP. Trading of the Series A Term Preferred Stock on NASDAQ is expected to begin within 30 days after the date of initial delivery of the Series A Term Preferred Stock. Our common stock is traded on NASDAQ under the symbol GAIN.

Option to Purchase Additional Shares

We have granted to the underwriters an option, exercisable for 25 days from the date of this prospectus supplement, to purchase up to an aggregate of 150,000 additional shares of Series A Term Preferred Stock at the public offering price set forth on the cover page of this prospectus supplement, less underwriting discounts and commissions. If the underwriters exercise this option, each underwriter will be obligated, subject to specified conditions, to purchase a number of additional shares of Series A Term Preferred Stock proportionate to that underwriter s initial purchase commitment as indicated in the table above. This option may be exercised only if the underwriters sell more shares of Series A Term Preferred Stock than the total number set forth in the table above.

No Sales of Similar Securities

We and our executive officers and directors have agreed that, for a period of 60 days after the date of this prospectus supplement and subject to certain exceptions, we will not, directly or indirectly, without the prior written consent of Jefferies & Company, Inc., (i) sell, offer to sell, contract to sell or lend any Series A Term Preferred Stock, Common Stock or Related Securities (as defined below); (ii) effect any short sale, or establish or increase any put equivalent position (as defined in Rule 16a-1(h) under the Exchange Act) or liquidate or decrease any call equivalent position (as defined in Rule 16a-1(b) under the Exchange Act) of any Series A Term Preferred Stock, Common Stock or Related Securities; (iii) pledge, hypothecate or grant any security interest in any Series A Term Preferred Stock, Common Stock or Related Securities; (iv) in any other way transfer or dispose of any Series A Term Preferred Stock or Related Securities; (v) enter into any swap, hedge or similar arrangement or agreement that transfers, in whole or in part, the economic risk of ownership of any Series A Term Preferred Stock, Common Stock or Related Securities, regardless of whether any such transaction is to be settled in securities, in cash or otherwise; (vi) announce the offering of any Series A Term Preferred Stock, Common Stock or Related Securities; (vii) file any registration statement under the Securities Act in respect of any Series A Term Preferred Stock, Common Stock or Related Securities (other than as contemplated by the underwriting agreement with respect to the Series A Term Preferred Stock); or (viii) publicly announce the intention to do any of the foregoing. For purposes of the foregoing, Related Securities shall mean any options or warrants or other rights to acquire Series A Term Preferred Stock or Common Stock or any securities exchangeable or exercisable for or convertible into Series A Term Preferred Stock or Common Stock, or to acquire other securities or rights ultimately exchangeable or exercisable for, or convertible into, Series A Term Preferred Stock or Common Stock.

This restriction terminates after the close of trading of our Common Stock on and including the 60 days after the date of this prospectus supplement. However, subject to certain exceptions, in the event that either:

- during the last 17 days of the 60-day restricted period, we issue an earnings release or material news or a material event relating to us occurs, or

- prior to the expiration of the 60-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 60-day restricted period,

then in either case the expiration of the 60-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the issuance of an earnings release or the occurrence of the material news or event, as applicable, unless Jefferies & Company, Inc. waives, in writing, such an extension.

Jefferies & Company, Inc. may, in its sole discretion and at any time or from time to time before the termination of the 60-day period, without public notice, release all or any portion of the securities subject to lock-up agreements.

Stabilization

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

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

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

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

Electronic Distribution

A prospectus supplement in electronic format may be made available by e-mail or on the web sites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares of Series A Term Preferred Stock for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus supplement in electronic format, the information on the underwriters web sites and any information contained in any other web site maintained by any of the underwriters is not part of this prospectus supplement, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

Affiliations and Conflicts of Interest

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

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

Settlement

We expect to deliver the shares of Series A Term Preferred Stock against payment for the Series A Term Preferred Stock on or about the date specified on the cover page of this prospectus supplement, which will be the fifth business day following the date of the pricing of the Series A Term Preferred Stock (such settlement being referred to as T+5). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade shares of Series A Term Preferred Stock prior to the date that is three business days preceding the settlement date will be required, by virtue of the fact that the Series A Term Preferred Stock initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Series A Term Preferred Stock who wish to trade the Series A Term Preferred Stock during such period should consult their advisors.

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TAX MATTERS

This discussion serves as a supplement to the discussion in the accompanying prospectus under the heading Material U.S. Federal Income Tax Considerations.

Gain or loss, if any, resulting from our redemption of the Series A Term Preferred Stock will generally be taxed as gain or loss from a sale or exchange of the Series A Term Preferred Stock rather than as a dividend, but only if the redemption distribution (a) is deemed not to be essentially equivalent to a dividend, (b) is in complete redemption of a holder s interest in Gladstone Investment Corporation, (c) is substantially disproportionate with respect to the holder, or (d) with respect to non-corporate holders, is in partial liquidation of Gladstone Investment Corporation. For purposes of (a), (b) and (c) above, a holder s ownership of our common stock will be taken into account.

A portion of the amount received by a holder on either the sale, or our redemption, of the Series A Term Preferred Stock may be characterized as dividend income to the extent it is attributable to declared but unpaid dividends.

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REDEMPTION AND PAYING AGENT

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

MISCELLANEOUS

To the extent that a holder of Series A Term Preferred Stock is directly or indirectly a beneficial owner of more than 10% of any class of our outstanding shares (meaning, for purposes of holders of Series A Term Preferred Stock, more than 10% of our outstanding Series A Term Preferred Stock), such 10% beneficial owner would be subject to the short-swing profit rules that are imposed pursuant to Section 16 of the Exchange Act (and related reporting requirements). These rules generally provide that such a 10% beneficial owner may have to disgorge any profits made on purchases and sales, or sales and purchases, of our equity securities (including the Series A Term Preferred Stock and Common Stock) within any six-month time period. Investors should consult with their own counsel to determine the applicability of these rules.

WHERE YOU CAN FIND MORE INFORMATION

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

This prospectus supplement and the accompanying prospectus do not contain all of the information in our registration statement, including amendments, exhibits and schedules. Statements in this prospectus supplement and in the accompanying prospectus about the contents of any contract or other document are not necessarily

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complete and, in each instance, reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

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

LEGAL MATTERS

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

PROXY VOTING POLICIES AND PROCEDURES

We have delegated our proxy voting responsibility to the Adviser. The proxy voting policies and procedures of the Adviser are set out below. The guidelines are reviewed periodically by the 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, the Adviser has a fiduciary duty to act solely in our best interests. As part of this duty, the Adviser recognizes that it must vote our securities in a timely manner free of conflicts of interest and in our best interests.

The 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

The Adviser votes proxies relating to our portfolio securities in what it perceives to be the best interest of our stockholders. The 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 the Adviser will vote in favor of proposals that the Adviser believes are likely to increase the value of the portfolio securities we hold. Although the Adviser will generally vote against proposals that may have a negative effect on our portfolio securities, the 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 the Adviser s vote is not the product of a conflict of interest, the 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 the Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, the Adviser will disclose such conflicts to us, including our independent directors and may request guidance from us on how to vote such proxies.

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Proxy Voting Records

You may obtain information without charge about how the Adviser voted proxies by making a written request for proxy voting information to:

Michael LiCalsi, Internal Counsel

c/o Gladstone Investment Corporation

1521 Westbranch Dr.

McLean, VA 22102

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INDEX TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

(UNAUDITED)

	DECEMBER 31, 2011	MARCH 31, 2011
ASSETS		
Investments at fair value		
Control investments (Cost of **$184,221** and $136,306, respectively)	**$ 156,345**	$ 104,062
Affiliate investments (Cost of **$69,739** and $45,145, respectively)	**61,183**	34,556
Non-Control/Non-Affiliate investments (Cost of **$9,664** and $15,741, respectively)	**9,243**	14,667
Total investments (Cost of **$263,624** and $197,192, respectively)	**226,771**	153,285
Cash and cash equivalents	**86,470**	80,580
Restricted cash	**1,960**	4,499
Interest receivable	**1,142**	737
Due from custodian	**722**	859
Deferred financing fees	**953**	373
Prepaid assets	**297**	224
Other assets	**306**	552
TOTAL ASSETS	**$ 318,621**	$ 241,109
LIABILITIES		
Borrowings at fair value		
Short-term loan (Cost of **$76,001** and $40,000, respectively)	**$ 76,001**	$ 40,000
Credit Facility (Cost of **$29,300** and $0, respectively)	**29,300**	
Total borrowings (Cost of **$105,301** and $40,000, respectively)	**105,301**	40,000
Accounts payable and accrued expenses	**491**	201
Fees due to Adviser	**187**	499
Fee due to Administrator	**183**	171
Other liabilities	**858**	1,409
TOTAL LIABILITIES	**107,020**	42,280
NET ASSETS	**$ 211,601**	$ 198,829
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value per share, 100,000,000 shares authorized, 22,080,133 shares issued and outstanding at December 31, 2011 and March 31, 2011	**$ 22**	$ 22
Capital in excess of par value	**257,192**	257,192
Cumulative net unrealized depreciation on investments	**(36,853)**	(43,907)
Cumulative net unrealized depreciation on other	**(56)**	(76)

Undistributed net investment income		**812**		165
Accumulated net realized losses		**(9,516)**		(14,567)
TOTAL NET ASSETS	**$**	**211,601**	$	198,829
NET ASSET VALUE PER SHARE AT END OF PERIOD	**$**	**9.58**	$	9.00

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

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31, 2011	THREE MONTHS ENDED DECEMBER 31, 2010	NINE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED DECEMBER 31, 2010
INVESTMENT INCOME				
Interest income				
Control investments	**$ 3,515**	$ 2,557	**$ 9,075**	$ 7,701
Affiliate investments	**1,226**	970	**3,958**	3,031
Non-Control/Non-Affiliate investments	**343**	391	**1,148**	1,175
Cash and cash equivalents	**1**	7	**7**	21
Total interest income	**5,085**	3,925	**14,188**	11,928
Other income				
Control investments	**25**	6,812	**1,201**	10,358
Non-Control/Non-Affiliate investments	**59**		**77**	
Total other income	**84**	6,812	**1,278**	10,358
Total investment income	**5,169**	10,737	**15,466**	22,286
EXPENSES				
Loan servicing fee	**811**	634	**2,204**	2,124
Base management fee	**329**	343	**1,008**	846
Incentive fee		1,898	**19**	2,949
Administration fee	**182**	142	**468**	582
Interest expense	**185**	135	**550**	558
Amortization of deferred financing fees	**106**	116	**321**	383
Professional fees	**139**	84	**453**	306
Stockholder related costs	**31**	26	**403**	245
Other expenses	**289**	218	**859**	685
Expenses before credits from Adviser	**2,072**	3,596	**6,285**	8,678
Credits to fees from Adviser	**(345)**	(450)	**(1,071)**	(630)
Total expenses net of credits to fees	**1,727**	3,146	**5,214**	8,048
NET INVESTMENT INCOME	**3,442**	7,591	**10,252**	14,238
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized (loss) gain on investments	**(105)**	6,514	**5,091**	23,489
Net realized loss on other			**(40)**	
Net unrealized appreciation (depreciation) on investments	**1,769**	1,026	**7,053**	(24,063)

Net unrealized appreciation (depreciation) on other	**389**	4	**21**	(21)
Net gain (loss) on investments and other	**2,053**	7,544	**12,125**	(595)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 5,495**	$ 15,135	**$ 22,377**	$ 13,643
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE				
Basic and diluted	$ 0.25	$ 0.69	$ 1.01	$ 0.62
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING				
Basic and diluted	**22,080,133**	22,080,133	22,080,133	22,080,133

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	NINE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED DECEMBER 31, 2010
Operations:		
Net investment income	**$ 10,252**	$ 14,238
Net realized gain on investments	**5,091**	23,489
Net realized loss on other	**(40)**	
Net unrealized appreciation (depreciation) on investments	**7,053**	(24,063)
Net unrealized appreciation (depreciation) on other	**21**	(21)
Net increase in net assets from operations	**22,377**	13,643
Capital transactions:		
Shelf offering registration costs, net		10
Distributions:		
Distributions to stockholders	**(9,605)**	(7,949)
Total increase in net assets	**12,772**	5,704
Net assets at beginning of period	**198,829**	192,978
Net assets at end of period	**$ 211,601**	$ 198,682

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

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	NINE MONTHS ENDED DECEMBER 31,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	**$ 22,377**	$ 13,643
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Purchase of investments	**(86,327)**	(41,616)
Principal repayments on investments	**16,953**	61,774
Proceeds from sales of investments	**8,032**	35,010
Net realized gain on investments	**(5,091)**	(23,489)
Net realized loss on other	**40**	
Net unrealized (appreciation) depreciation on investments	**(7,053)**	24,063
Net unrealized (appreciation) depreciation on other	**(21)**	21
Net amortization of premiums and discounts		6
Amortization of deferred financing fees	**321**	383
Decrease in restricted cash	**2,539**	
(Increase) decrease in interest receivable	**(405)**	486
Decrease (increase) in due from custodian	**137**	(39,354)
Decrease (increase) in other assets	**183**	(5,009)
Increase (decrease) in accounts payable and accrued expenses	**290**	(42)
(Decrease) increase in fees due to Adviser	**(312)**	1,463
Increase (decrease) in administration fee payable to Administrator	**12**	(6)
(Decrease) increase in other liabilities	**(551)**	1,038
Net cash (used in) provided by operating activities	**(48,876)**	28,371
CASH FLOWS FROM FINANCING ACTIVITIES		
Shelf offering registration proceeds		10
Proceeds from short-term loans	**178,502**	167,400
Repayments on short-term loans	**(142,501)**	(175,000)
Proceeds from Credit Facility	**52,700**	24,000
Repayments on Credit Facility	**(23,400)**	(43,800)
Purchase of derivatives	**(29)**	(41)
Deferred financing fees	**(901)**	(745)
Distributions paid to stockholders	**(9,605)**	(7,949)
Net cash provided by (used in) financing activities	**54,766**	(36,125)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,890**	(7,754)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**80,580**	87,717
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 86,470**	$ 79,963

NON-CASH ACTIVITIES [(A)]	**$**	$ 515

[(A)] Non-cash activities for the nine months ended December 31, 2010, represent real property distributed to shareholders of A. Stucki Holding Corp. prior to its sale in June 2010. This property is included in the Company s *Condensed Consolidated Schedule of Investments* under Neville Limited at March 31, 2011, and was sold during the three months ended December 31, 2011.

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

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

DECEMBER 31, 2011

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)

(UNAUDITED)

COMPANY [(A)]	INDUSTRY	INVESTMENT [(B)]	PRINCIPAL	COST	FAIR VALUE
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2015)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares)[(C)(F)]		6,984	10,746
		Common Stock (418,072 shares)[(C)(F)]		1,045	1,084
		Common Stock Warrants (452,683 shares)[(C)(F)]		25	332
				22,554	26,662
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, $342 available (3.0%, Due 3/2013)[(G)]	3,658	3,616	
		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)			
				12,180	
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 ($3,998)			
				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	2,447
		Common Stock (48,093 shares)[(C)(F)]		48	

				24,926	7,667
Mathey Investments, Inc.	Manufacturing pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $1,750 available (10.0%, Due 3/2012)			
		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	269
				10,379	9,871
Mitchell Rubber Products, Inc.	Manufacturing rubber compounds	Subordinated Term Debt (13.0%, Due 10/2016)(D)	13,560	13,560	13,645
		Preferred Stock (27,900 shares)(C)(F)		2,790	2,913
		Common Stock (27,900 shares)(C)(F)		28	1,142
				16,378	17,700
Precision Southeast, Inc.	Manufacturing injection molding and plastics	Revolving Credit Facility, $251 available (7.5%, Due 02/2012)	749	749	749
		Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares)(C)(F)		1,909	2,063
		Common Stock (90,909 shares)(C)(F)		91	289
				10,524	10,876
SBS, Industries, LLC	Manufacturing specialty fasteners and threaded screw products	Revolving Credit Facility, $250 available (10.0%, Due 8/2013)	250	250	250
		Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355
		Preferred Stock (19,935 shares)(C)(F)		1,994	2,047
		Common Stock (221,500 shares)(C)(F)		221	2,279
				13,820	15,931
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	10,144
				28,148	28,543
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	1,063
		Common Stock (129,067 shares)(C)(F)		1	544
		Common Stock Warrants (1,247,727 shares)(C)(F)		3	5,084
				8,587	14,441

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

DECEMBER 31, 2011

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)

(UNAUDITED)

COMPANY (A)	INDUSTRY	INVESTMENT (B)	PRINCIPAL	COST	FAIR VALUE
CONTROL INVESTMENTS (Continued):					
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	5,654
				25,000	24,654
Total Control Investments (represented 68.9% of total investments at fair value)				**$ 184,221**	**$ 156,345**
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp. (H)	Manufacturing bailing wire	Senior Term Debt (10.0%, Due 4/2016)(D)(E)	$ 2,150	$ 2,150	$ 2,171
		Senior Subordinated Term Debt (13.0%, Due 4/2016)(D)	4,671	4,671	4,711
		Subordinated Term Debt (11.8%, Due 4/2016)(D)	5,700	5,700	5,736
		Preferred Stock (18,446 shares)(C)(F)		1,844	2,548
				14,365	15,166
Channel Technologies Group, LLC	Manufacturing acoustic products	Revolving Credit Facility, $1,050 available (7.0%, Due 12/2012)(I)	200	200	200
		Senior Term Debt (8.3%, Due 12/2014)(I)	6,000	6,000	6,000
		Senior Term Debt (12.3%, Due 12/2016)(I)	10,750	10,750	10,750
		Preferred Stock (1,599 shares)(C)(F)(I)		1,599	1,599
		Common Stock (1,598,616 shares)(C)(F)(I)			
				18,549	18,549
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, $0 available (10.0%, Due 10/2012)(D)	1,500	1,500	1,350
		Senior Term Debt (10.0%, Due 10/2012)(D)	2,575	2,575	2,318

		Senior Term Debt (12.5%, Due 4/2013)(D)(E)	8,891	8,891	8,002
		Preferred Stock (25 shares)(C)(F)		2,500	
		Common Stock Warrants (420 shares)(C)(F)		3	
				15,469	11,670
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Senior Term Debt (9.2%, Due 12/2012)(D)	7,227	7,227	4,698
		Senior Term Debt (10.5%, Due 12/2012)(D)	3,650	3,650	2,372
		Senior Term Debt (10.5%, Due 12/2012)(D)(E)	3,650	3,650	2,372
		Preferred Stock (1,075,000 shares)(C)(F)		1,750	3,707
		Common Stock (1,682,444 shares)(C)(F)		1,682	134
				17,959	13,283
Quench Holdings Corp.	Service sales, installation and service of water coolers	Preferred Stock (388 shares)(C)(F)		2,950	2,515
		Common Stock (35,242 shares)(C)(F)		447	
				3,397	2,515
Total Affiliate Investments (represented 27.0% of total investments at fair value)				$ 69,739	$ 61,183
NON-CONTROL/NON- AFFILIATE INVESTMENTS:					
B-Dry, LLC	Service basement waterproofer	Senior Term Debt (12.3%, Due 5/2014)(D)	6,494	6,494	6,364
		Senior Term Debt (12.3%, Due 5/2014)(D)	2,870	2,870	2,812
		Common Stock Warrants (55 shares)(C)(F)		300	67
				9,664	**9,243**
Total Non-Control/Non-Affiliate Investments (represented 4.1% of total investments at fair value)				**$ 9,664**	**$ 9,243**
TOTAL INVESTMENTS				**$ 263,624**	**$ 226,771**

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(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 at December 31, 2011, and due dates represent the contractual maturity date.

(C) Security is non-income producing.

(D) Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at December 31, 2011.

(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 by the Company 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 by the Company without regard to specific series of such class of stock such warrants allow the Company to purchase.

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

(H) In April 2011, the Company sold its common equity investment, received partial redemption of its preferred stock and invested new subordinated debt in Cavert as part of a recapitalization. As a result of the recapitalization, Cavert was reclassified as an Affiliate investment during the three months ended June 30, 2011.

(I) New proprietary portfolio investment valued at cost, as it was determined that the price paid by the Company during the three months ended December 31, 2011, best represents fair value as of December 31, 2011.

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

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

MARCH 31, 2011

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)

(UNAUDITED)

COMPANY (A)	INDUSTRY	INVESTMENT (B)	PRINCIPAL	COST	FAIR VALUE
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2012)	$ 14,500	$ 14,500	$ 14,500
		Senior Subordinated Term Debt (12.5%, Due 12/2011)	415	415	415
		Preferred Stock (898,814 shares)(D)(G)		6,984	4,991
		Common Stock (418,072 shares)(D)(G)		1,045	
		Common Stock Warrants (452,683 shares)(D)(G)		24	
				22,968	19,906
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, $717 available (3.0%, Due 3/2013)(H)	3,283	3,241	
		Senior Subordinated Term Debt (2.0%, Due 3/2013)(H)	6,250	6,060	
		Preferred Stock (2,500 shares)(D)(G)		2,500	
		Common Stock (1 share) (D)(G)			
		Common Stock Warrants (73,599 shares)(D)(G)		4	
		Guaranty ($750)			
				11,805	
Cavert II Holding Corp.	Manufacturing bailing wire	Senior Term Debt (10.0%, Due 10/2012)(F)	2,650	2,650	2,650
		Senior Subordinated Term Debt (13.0%, Due 10/2014)	4,671	4,671	4,671
		Preferred Stock (41,102 shares)(D)(G)		4,110	5,354
		Common Stock (69,126 shares)(D)(G)		69	5,577
				11,500	18,252
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (16.3%, Due 11/2014)(E)	8,000	8,000	7,560
		Preferred Stock (2,380,000 shares)(D)(G)		3,725	
		Guaranty ($3,914)			
				11,725	7,560

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)(D)(G)		19,658	1,439
		Common Stock (48,093 shares)(D)(G)		48	
				24,926	6,659
Mathey Investments, Inc.	Manufacturing pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $718 available (10.0%, Due 3/2012)(E)	1,032	1,032	1,022
		Senior Term Debt (10.0%, Due 3/2013)(E)	2,375	2,375	2,345
		Senior Term Debt (12.0%, Due 3/2014)(E)	3,727	3,727	3,643
		Senior Term Debt (2.5%, Due 3/2014)(E)(F)	3,500	3,500	3,421
		Common Stock (37 shares)(D)(G)		500	
		Common Stock Warrants (21 shares)(D)(G)		277	
				11,411	10,431
Neville Limited	Real Estate investments	Common Stock (100 shares)(D)(G)		610	534
Precision Southeast, Inc.	Manufacturing injection molding and plastics	Revolving Credit Facility, $251 available (7.5%, Due 12/2011)	749	749	749
		Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares)(D)(G)		1,909	1,948
		Common Stock (90,909 shares)(D)(G)		91	305
				10,524	10,777
Tread Corp.	Manufacturing storage and transport equipment	Senior Subordinated Term Debt (12.5%, Due 5/2013)(E)	5,000	5,000	4,931
		Preferred Stock (832,765 shares)(D)(G)		833	
		Common Stock (129,067 shares)(D)(G)		1	
		Common Stock Warrants (1,022,727 shares)(D)(G)		3	
				5,837	4,931
Venyu Solutions, Inc.	Service online servicing suite	Senior Subordinated Term Debt (11.3%, Due 10/2015)	7,000	7,000	7,000
		Senior Subordinated Term Debt (14.0%, Due 10/2015)	12,000	12,000	12,000
		Preferred Stock (5,400 shares)(D)(G)		6,000	6,012
				25,000	25,012
Total Control Investments (represented 67.9% of total investments at fair value)				**$ 136,306**	**$ 104,062**

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

MARCH 31, 2011

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)

(UNAUDITED)

COMPANY [(A)]	INDUSTRY	INVESTMENT [(B)]	PRINCIPAL	COST	FAIR VALUE
AFFILIATE INVESTMENTS:					
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, $400 available (10.0%, Due 10/2011)(E)	$ 1,100	$ 1,100	$ 1,084
		Senior Term Debt (10.0%, Due 10/2012)(E)	2,925	2,925	2,881
		Senior Term Debt (12.5%, Due 4/2013)(E)	8,961	8,961	8,781
		Preferred Stock (25 shares)(D)(G)		2,500	
		Common Stock Warrants (420 shares)(D)(G)		2	
				15,488	12,746
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Revolving Credit Facility, $300 available (4.3%, Due 6/2011)(E)	300	300	206
		Senior Term Debt (9.2%, Due 12/2012)(E)	7,227	7,227	4,951
		Senior Term Debt (10.5%, Due 12/2012)(E)	3,650	3,650	2,500
		Senior Term Debt (10.5%, Due 12/2012)(E)(F)	3,650	3,650	2,500
		Preferred Stock (1,075,000 shares)(D)(G)		1,750	3,026
		Common Stock (1,682,444 shares)(D)(G)		1,683	
				18,260	13,183
Quench Holdings Corp.	Service sales, installation and service of water coolers	Senior Subordinated Term Debt (10.0%, Due 8/2013)(E)	8,000	8,000	6,000
		Preferred Stock (388 shares)(D)(G)		2,950	2,627
		Common Stock (35,242 shares)(D)(G)		447	
				11,397	8,627
Total Affiliate Investments (represented 22.5% of total investments at fair value)				$ 45,145	$ 34,556

NON-CONTROL/NON- AFFILIATE INVESTMENTS:					
American Greetings Corporation	Manufacturing and design greeting Cards	Senior Notes (7.4%, Due 6/2016)[C]	$ 3,043	$ 3,043	$ 3,073
B-Dry, LLC	Service basement waterproofer	Senior Term Debt (11.0%, Due 5/2014)[E]	6,545	6,545	6,512
		Senior Term Debt (11.5%, Due 5/2014)[E]	3,050	3,050	3,035
		Common Stock Warrants (55 shares)[D][G]		300	39
				9,895	9,586
Fifth Third Processing Solutions, LLC	Service electronic payment processing	Senior Subordinated Term Debt (8.3%, Due 11/2017)[C]	500	495	509
Survey Sampling, LLC	Service telecommunications-based sampling	Senior Term Debt (10.7%, Due 12/2012)[C]	2,306	2,308	1,499
Total Non-Control/Non-Affiliate Investments (represented 9.6% of total investments at fair value)				**$ 15,741**	**$ 14,667**
TOTAL INVESTMENTS				**$ 197,192**	**$ 153,285**

(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 at March 31, 2011, and due dates represent the contractual maturity date.

(C) Valued based on the indicative bid price on or near March 31, 2011, 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. at March 31, 2011.

(F) 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.

(G) Aggregates all shares of such class of stock owned by the Company 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 by the Company without regard to specific series of such class of stock such warrants allow the Company to purchase.

(H) Debt security is on non-accrual status.

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

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GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

DECEMBER 31, 2011

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA AND

AS OTHERWISE INDICATED)

NOTE 1. ORGANIZATION

Gladstone Investment Corporation (the Company) was incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The Company is a closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, the Company has elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). The Company s investment objective is to achieve a high level of current income and capital gains by investing in debt and equity securities of established private businesses in the United States.

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

The Company is externally managed by Gladstone Management Corporation (the Adviser), an affiliate of the Company.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933, as amended (the Securities Act). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X under the Securities Act, and the authoritative accounting guidance provided by the AICPA Audit and Accounting Guide for Investment Companies, the Company is not permitted to consolidate any portfolio company investments, including those in which the Company has a controlling interest. In the opinion of the Company s management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended December 31, 2011, are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company s annual report on Form 10-K for the fiscal year ended March 31, 2011, as filed with the Securities and Exchange Commission (the SEC) on May 23, 2011.

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

Investment Valuation Policy

The Company carries its 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 the Company s board of directors (the Board of Directors). In determining the fair value of the Company s investments, the Adviser has established an investment valuation policy (the Policy). The Policy has been approved by the Board of Directors, and each quarter the Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of the Company s investment portfolio.

The Company uses generally accepted valuation techniques to value its portfolio unless the Company has specific information about the value of an investment to determine otherwise. From time to time, the Company may accept an appraisal of a business in which the Company holds 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 the Company s investments. When these specific third-party appraisals are obtained, the Company 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 its 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 Company 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 the Company owns restricted securities that are not freely tradable, but for which a public market otherwise exists, the Company will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature.

Securities for which a limited market exists: The Company 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 Company 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. If the Company concludes that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if a firm bid price is unavailable, the Company 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 Company 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.

In the event these limited markets become illiquid to a degree that market prices are no longer readily available, the Company will value its 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 Company 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 Company 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 Company believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Company will apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

At March 31, 2011, the Company determined that the indicative bid prices were reliable indicators of fair value for its syndicate investments. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), the Company determined that these valuation inputs were classified as Level 3 within the fair value hierarchy as defined in ASC 820. As of December 31, 2011, the Company had no syndicated investments.

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Securities for which no market exists: The valuation methodology for securities for which no market exists falls into three 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 and (C) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities.

(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 the Company has no equity, or equity-like securities, are fair valued utilizing opinions of value submitted to the Company by Standard & Poor s Securities Evaluations, Inc. (SPSE). The Company 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 the Company s 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 the Company has 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. In accordance with ASC 820, the Company applies the in-use premise of value, which assumes the debt and equity securities are sold together. Under this liquidity waterfall approach, the Company 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 Company may reference industry statistics and use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Company has estimated the TEV of the issuer, the Company 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 the Company 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 Company values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which the Company does not control or cannot gain control as of the measurement date, using a hypothetical secondary market as the Company s principal market. In accordance with ASC 820, the Company determines its fair value of these debt securities of non-control investments assuming the sale of an individual debt security using the in-exchange premise of value. As such, the Company 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 the Company does not control or cannot gain control as of the measurement date, the Company estimates the fair value of the equity using the in-exchange premise of value 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 Company may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in absence of other observable market data, its own assumptions.

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 Company might reasonably expect to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

Refer to Note 3 below for additional information regarding fair value measurements and the Company s 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 the Company s qualitative assessment indicates that the debtor is unable to service its debt or other obligations, the Company 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, the Company remains 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 collectable. At December 31, 2011, ASH Holdings Corp. (ASH) and Country Club Enterprises, LLC (CCE) were on non-accrual. These non-accrual loans had an aggregate cost basis of $13.7 million, or 7.3% of the cost basis of debt investments in the Company s portfolio, and an aggregate fair value of $0. At March 31, 2011, ASH was on non-accrual with a debt cost basis of $9.3 million, or 6.7% of the cost basis of debt investments in the Company s portfolio, and a fair value of $0.

The Company did not hold any loans in its portfolio that contained a PIK provision during the three months ended December 31, 2011; however, during the nine months ended December 31, 2011, the Company 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 income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash. The sole loan which had a PIK provision was paid off, at par, during the quarter ended September 30, 2011. The Company did not record any PIK income during the three or nine months ended December 31, 2010.

Other Income Recognition

The Company records success fees upon receipt. Success fees are contractually due upon a change of control in a portfolio company and are recorded in Other income in the accompanying *Condensed Consolidated Statements of Operations*. During the three and nine months ended December, 31, 2011, the Company recorded success fees of $0 and $0.4 million, respectively, representing prepayments received from Mathey Investments, Inc. (Mathey) and Cavert II Holding Corp. (Cavert). During the three and nine months ended December 31, 2010, the Company recorded success fees of $2.7 million and $5.4 million, respectively; $1.2 million of which was due to aggregate prepayments received from Mathey and Cavert, and $4.2 million of which resulted from the exits and payoffs of A. Stucki Holding Corp. (A. Stucki) and Chase II Holding Corp. (Chase).

Dividend income on preferred equity securities is accrued to the extent that such amounts are expected to be collected and if the Company has the option to collect such amounts in cash, and it is recorded in Other income in the accompanying *Condensed Consolidated Statements of Operations*. The Company did not record any dividend

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income during the three months ended December 31, 2011; however, during the nine months ended December 31, 2011, the Company recorded and collected $0.7 million of dividends on accrued preferred shares in connection with the recapitalization of Cavert. During the quarter ended December 31, 2010, the Company recorded and collected $4.0 million of dividends accrued on preferred shares of Chase. During the nine months ended December 31, 2010, the Company also recorded and collected $0.3 million of dividends on preferred shares of A. Stucki and accrued and received a special dividend of property valued at $0.5 million in connection with the A. Stucki sale.

Recent Accounting Pronouncements

In May 2011, the FASB issued 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 IFRSs, (ASU 2011-04) which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company is currently assessing the potential impact that the adoption of ASU 2011-04 may have on the Company s financial position and results of operations.

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 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 the Company s own assumptions based upon the best available information.

As of December 31 and March 31, 2011, all of the Company s investments were valued using Level 3 inputs. The Company transfers 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 nine months ended December 31, 2011 and 2010, there were no transfers in or out of Level 3.

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The following table presents the financial assets carried at fair value as of December 31, 2011, by caption on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* for each of the three levels of hierarchy established by ASC 820:

	AS OF DECEMBER 31, 2011		
	LEVEL 1	**LEVEL 3**	**TOTAL FAIR VALUE REPORTED IN CONDENSED CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**
Control Investments			
Senior term debt	$	$ 48,131	$ 48,131
Senior subordinated term debt		60,115	60,115
Preferred equity		37,076	37,076
Common equity/equivalents		11,023	11,023
Total Control investments		**156,345**	**156,345**
Affiliate Investments			
Senior term debt		40,234	40,234
Senior subordinated term debt		10,447	10,447
Preferred equity		10,368	10,368
Common equity/equivalents		134	134
Total Affiliate investments		**61,183**	**61,183**
Non-Control/Non-Affiliate Investments			
Senior term debt		9,176	9,176
Common equity/equivalents		67	67
Total Non-Control/Non-Affiliate Investments		**9,243**	**9,243**
Total Investments	**$**	**$ 226,771**	**$ 226,771**
Cash Equivalents	85,001		85,001
Total Investments and Cash Equivalents at fair value	**$ 85,001**	**$ 226,771**	**$ 311,772**

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The following table presents the financial assets carried at fair value as of March 31, 2011, by caption on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* for each of the three levels of hierarchy established by ASC 820 that was used to value the Company s assets:

	AS OF MARCH 31, 2011		
	LEVEL 1	**LEVEL 3**	**TOTAL FAIR VALUE REPORTED IN CONDENSED CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**
Control Investments			
Senior term debt	$	$ 21,605	$ 21,605
Senior subordinated term debt		56,297	56,297
Preferred equity		19,745	19,745
Common equity/equivalents		6,415	6,415
Total Control investments		**104,062**	**104,062**
Affiliate Investments			
Senior term debt		22,903	22,903
Senior subordinated term debt		6,000	6,000
Preferred equity		5,653	5,653
Total Affiliate investments		**34,556**	**34,556**
Non-Control/Non-Affiliate Investments			
Senior term debt		14,119	14,119
Senior subordinated term debt		509	509
Common equity/equivalents		39	39
Total Non-Control/Non-Affiliate Investments		**14,667**	**14,667**
Total Investments	**$**	**$ 153,285**	**$ 153,285**
Cash Equivalents	60,000		60,000
Total Investments and Cash Equivalents at fair value	**$ 60,000**	**$ 153,285**	**$ 213,285**

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide a roll-forward in the changes in fair value, broken out by major security type, during the three and nine months ended December 31, 2011 and 2010 for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the 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, the Company categorizes all of the inputs as the lowest level input

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within the hierarchy. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

Fair value measurements using significant unobservable inputs (Level 3)

Periods ended December 31, 2011:

	SENIOR TERM DEBT	SENIOR SUBORDINATED TERM DEBT	PREFERRED EQUITY	COMMON EQUITY/ EQUIVALENTS	TOTAL
Three months ended December 31, 2011:					
Fair value as of September 30, 2011	$ 85,075	$ 80,085	$ 47,452	$ 5,444	$ 218,056
Net realized losses (A)				(105)	(105)
Net unrealized (depreciation) appreciation (B)	(1,521)	2,477	(5,606)	6,328	1,678
Reversal of previously-recorded depreciation upon realization (B)	30			61	91
Issuances/Originations (C)	17,350		1,599		18,949
Sales (D)				(505)	(505)
Settlements/Repayments (E)	(3,393)	(8,000)			(11,393)
Transfers (F)		(4,000)	4,000		
Fair value as of December 31, 2011	**$ 97,541**	**$ 70,562**	**$ 47,445**	**$ 11,223**	**$ 226,771**
Nine months ended December 31, 2011:					
Fair value as of March 31, 2011	$ 58,627	$ 62,806	$ 25,398	$ 6,454	$ 153,285
Net realized (losses) gains (A)	(1)	5		5,087	5,091
Net unrealized (depreciation) appreciation (B)	(734)	(1,705)	4,868	10,645	13,074
Reversal of previously-recorded depreciation (appreciation) upon realization (B)	126	(14)	(686)	(5,447)	(6,021)
Issuances/Originations (C)	47,561	22,385	16,131	250	86,327
Sales (D)			(2,266)	(5,766)	(8,032)
Settlements/Repayments (E)	(8,038)	(8,915)			(16,953)
Transfers (F)		(4,000)	4,000		
Fair value as of December 31, 2011	**$ 97,541**	**$ 70,562**	**$ 47,445**	**$ 11,223**	**$ 226,771**

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Periods ended December 31, 2010:

	SENIOR TERM DEBT	SENIOR SUBORDINATED TERM DEBT	PREFERRED EQUITY	COMMON EQUITY/ EQUIVALENTS	TOTAL
Three months ended December 31, 2010:					
Fair value as of September 30, 2010	$ 64,826	$ 50,481	$ 19,356	$ 6,951	$ 141,614
Net realized gains (A)				6,514	6,514
Net unrealized appreciation (depreciation) (B)	53	(2,456)	8,440	(567)	5,470
Reversal of previously-recorded appreciation upon realization (B)			(3,780)	(664)	(4,444)
Issuances/Originations (C)	8,431	20,191	7,909	91	36,622
Sales (D)			(6,961)	(6,575)	(13,536)
Settlements/Repayments (E)	(14,962)	(6,168)			(21,130
Fair value as of December 31, 2010	**$ 58,348**	**$ 62,048**	**$ 24,964**	**$ 5,750**	**$ 151,110**
Nine months ended December 31, 2010:					
Fair value as of March 31, 2010	$ 94,359	$ 71,112	$ 20,425	$ 20,962	$ 206,858
Net realized gains (A)	18			23,471	23,489
Net unrealized appreciation (depreciation) (B)	1,484	(2,154)	(3,728)	2,203	(2,195)
Reversal of previously-recorded appreciation upon realization (B)	(19)		(3,923)	(17,926)	(21,868)
Issuances/Originations (C)	8,431	21,245	11,238	702	41,616
Sales (D)			(11,348)	(23,662)	(35,010)
Settlements/Repayments (E)	(45,925)	(15,855)			(61,780)
Transfers (G)		(12,300)	12,300		
Fair value as of December 31, 2010	**$ 58,348**	**$ 62,048**	**$ 24,964**	**$ 5,750**	**$ 151,110**

(A) Included in Net realized (loss) gain on investments on the accompanying *Condensed Consolidated Statement of Operations* for the periods ended December 31, 2011 and 2010.
(B) Included in Net unrealized appreciation (depreciation) on investments on the accompanying *Condensed Consolidated Statement of Operations* for the periods ended December 31, 2011 and 2010.
(C) Includes PIK and other non-cash disbursements to portfolio companies.
(D) Included in Net realized gains (losses) and Sales are post-closing adjustments recorded in the current period related to exits from prior periods.
(E) Includes amortization of premiums and discounts and other cost-basis adjustments.
(F) Transfer represents $4.0 million of senior subordinated term debt of CCE, at cost as of September 30, 2011, that was converted to preferred equity during the quarter ended December 31, 2011.
(G) Transfer represents $12.3 million of senior subordinated term debt of Galaxy Tool Holding Corp., at cost as of June 30, 2010, that was converted to preferred and common equity during the quarter ended December 31, 2010.

Non-Proprietary Investment Activity

Non-proprietary investments are investments that were not originated by the Company. During the nine months ended December 31, 2011, the Company received full repayment of its non-proprietary loans to Fifth Third Processing Solutions, LLC, Survey Sampling, LLC, and American

Greetings Corporation (AMG), resulting in aggregate gross proceeds of approximately $5.8 million and a minimal realized gain. As of December 31, 2011, the Company no longer holds any non-proprietary loans in its investment portfolio.

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Proprietary Investment Activity

During the nine months ended December 31, 2011, the following significant transactions occurred:

- In April 2011, the Company recapitalized its investment in Cavert, from which the Company received gross cash proceeds of $5.6 million from the sale of its common equity, resulting in a realized gain of $5.5 million, $2.3 million in a partial redemption of its preferred stock and $0.7 million in preferred dividends. At the same time, the Company invested $5.7 million in new subordinated debt in Cavert. Cavert was reclassified from a Control investment to an Affiliate investment during the three months ended June 30, 2011.

- In April 2011, the Company invested $16.4 million in a new Control investment, Mitchell Rubber Products, Inc. (Mitchell), consisting of subordinated debt and preferred and common equity. Mitchell, headquartered in Mira Loma, California, develops, mixes and molds rubber compounds for specialized applications in the non-tire rubber market.

- In August 2011, the Company invested $28.1 million in a new Control investment, SOG Specialty Knives and Tools, LLC (SOG), consisting of senior debt and preferred equity. SOG, headquartered in Lynnwood, Washington, designs and produces specialty knives and tools for the hunting/outdoors, military/law enforcement and industrial markets.

- In September 2011, the Company invested $13.8 million in a new Control investment, SBS Industries, Inc. (SBS), consisting of senior debt and preferred and common equity. SBS, headquartered in Tulsa, Oklahoma, is a manufacturer and value-added distributor of special fasteners and threaded screw products.

- In October 2011, the Company received full repayment of its senior subordinated term loan to Quench Holdings Corp. (Quench), resulting in gross proceeds of $8.0 million. The Company still holds preferred and common equity in Quench.

- In November 2011, the Company sold Neville Limited (Neville) for gross proceeds of approximately $0.3 million, recognizing a realized loss of $0.3 million on the sale. Neville was property the Company received in connection with the A. Stucki sale in June 2010.

- In December 2011, the Company restructured its investment in CCE, converting $4.0 million of senior subordinated debt into preferred shares of CCE in a non-cash transaction. The Company also received additional preferred shares as consideration for past-due interest and other receivables owed from CCE.

- In December 2011, the Company invested $19.6 million in a new Affiliate investment, Channel Technologies Group, LLC (Channel Technologies), consisting of senior debt and preferred and common equity. Channel Technologies, headquartered in Santa Barbara, California, designs and manufactures products used in military, commercial and medical applications.

Investment Concentrations

Approximately 43.0% of the aggregate fair value of the Company s investment portfolio at December 31, 2011, was comprised of senior term debt, 31.1% was comprised of subordinated term debt and 25.9% was comprised of preferred and common equity securities or their equivalents. At December 31, 2011, the Company had investments in 17 portfolio companies with an aggregate fair value of $226.8 million, of which SOG, Acme Cryogenics, Inc. (Acme) and Venyu Solutions, Inc. (Venyu), collectively, comprised approximately $79.9 million, or 35.2% of the Company s total investment portfolio, at fair value. The following table outlines the Company s investments by security type at December 31 and March 31, 2011:

	DECEMBER 31, 2011		MARCH 31, 2011	
	COST	FAIR VALUE	COST	FAIR VALUE
Senior term debt	**$ 104,088**	**$ 97,541**	$ 64,566	$ 58,627
Senior subordinated term debt	**84,077**	**70,562**	74,602	62,806
Preferred equity	**70,784**	**47,444**	52,922	25,398
Common equity/Equivalents	**4,675**	**11,224**	5,102	6,454
Total Investments	**$ 263,624**	**$ 226,771**	$ 197,192	$ 153,285

Investments at fair value consisted of the following industry classifications at December 31 and March 31, 2011:

	DECEMBER 31, 2011		MARCH 31, 2011	
	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
Chemicals, Plastics and Rubber	**$ 44,362**	**19.5%**	$ 19,906	13.0%
Diversified/Conglomerate Manufacturing	**30,219**	**13.3**	12,746	8.3
Leisure, Amusement, Motion Pictures, Entertainment	**28,543**	**12.6**		
Containers, Packaging and Glass	**26,042**	**11.5**	29,029	19.0
Machinery (Non-Agriculture, Non-Construction and Non-Electronic)	**25,802**	**11.4**	10,431	6.8
Electronics	**24,654**	**10.9**	25,012	16.3
Oil and Gas	**14,441**	**6.4**	4,931	3.2
Cargo Transport	**13,283**	**5.8**	13,183	8.6
Buildings and Real Estate	**9,243**	**4.1**	10,120	6.6
Aerospace and Defense	**7,667**	**3.4**	6,659	4.4
Home and Office Furnishings, Housewares and Durable Consumer Products	**2,515**	**1.1**	8,627	5.6
Telecommunications			1,499	1.0
Printing and Publishing			3,073	2.0
Automobile			7,560	4.9
Diversified Conglomerate Service			509	0.3
Total Investments	**$ 226,771**	**100.0%**	$ 153,285	100.0%

The investments, at fair value, were included in the following geographic regions of the United States at December 31 and March 31, 2011:

	DECEMBER 31, 2011		MARCH 31, 2011	
	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS	FAIR VALUE	PERCENTAGE OF TOTAL INVESTMENTS
South	**$ 131,166**	**57.8%**	$ 92,172	60.1%
West	**58,761**	**25.9**	12,746	8.3
Northeast	**29,177**	**12.9**	38,126	24.9
Midwest	**7,667**	**3.4**	10,241	6.7
Total Investments	**$ 226,771**	**100.0%**	$ 153,285	100.0%

The geographic region reflects the location of the headquarters of the Company s portfolio companies. A portfolio company may have a number of other business locations in other geographic regions.

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Investment Principal Repayments

The following table summarizes the contractual principal repayments and maturity of the Company s investment portfolio by fiscal year, assuming no voluntary prepayments, at December 31, 2011:

		AMOUNT
For the remaining three months ending March 31:	2012	$ 776
For the fiscal year ending March 31:	2013	31,602
	2014	29,772
	2015	32,886
	2016	26,775
	Thereafter	66,585
	Total contractual repayments	**$ 188,396**
	Investments in equity securities	75,459
	Adjustments to cost basis on debt securities	(231)
	Total cost basis of investments held at December 31, 2011:	**$ 263,624**

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs incurred on behalf of portfolio companies and are included in Other assets on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*. The Company maintains an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. The Company charges the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of December 31 and March 31, 2011, the Company had gross receivables from portfolio companies of $0.2 million and $0.5 million, respectively. The allowance for uncollectible receivables was $0 and $0.1 million at December 31 and March 31, 2011, respectively.

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

The Company has entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement), which is controlled by the Company s chairman and chief executive officer. In accordance with the Advisory Agreement, the Company pays the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee. On July 12, 2011, the Board of Directors approved the renewal of the Advisory Agreement through August 31, 2012.

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

	THREE MONTHS ENDED DECEMBER 31, 2011	THREE MONTHS ENDED DECEMBER 31, 2010	NINE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED DECEMBER 31, 2010
Average total assets subject to base management fee (A)	**$ 228,000**	**$ 195,400**	$ 214,133	$ 198,000
Multiplied by prorated annual base management fee of 2%	**0.5%**	**0.5%**	1.5%	1.5%
Gross base management fee	**1,140**	**977**	3,212	2,970
Reduction for loan servicing fees (B)	**(811)**	**(634)**	(2,204)	(2,124)
Base management fee (B)	**$ 329**	**$ 343**	$ 1,008	$ 846
Credits to base management fee from Adviser:				
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	**(291)**	**(450)**	(1,017)	(615)
Credit to base management fee from Adviser	(291)	(450)	(1,017)	(630)
Net base management fee	**$ 38**	**$ (107)**	$ (9)	$ 216
Gross incentive fee (B)	**$**	**$ 1,898**	$ 19	$ 2,949
Credit from waiver issued by Adviser s board of directors (C)	**(54)**		(54)	
Net incentive fee	**$ (54)**	**$ 1,898**	$ (35)	$ 2,949
Total credits to fees:				
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	**(291)**	**(450)**	(1,017)	(615)
Incentive fee credit	**(54)**		(54)	
Credit to fees from Adviser (B)	**$ (345)**	**$ (450)**	$ (1,071)	$ (630)

(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, in total, as a line item on the *Condensed Consolidated Statement of Operations*.

(C) The credit to the incentive fee for the three months ended December 31, 2011, is 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.

Base Management Fee

The base management fee is payable quarterly and assessed at an annual rate of 2.0%, computed on the basis of the value of the Company s 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 cash or cash equivalents resulting from borrowings. In addition, the following three items are adjustments to the base management fee calculation.

n *Loan Servicing Fees*

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

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- *Senior Syndicated Loan Fee Waiver*

The Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations, for the nine months ended December 31, 2011 and 2010, to the extent applicable.

- *Portfolio Company Fees*

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

Incentive Fee

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

- no incentive fee in any calendar quarter in which the Company s pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);
- 100% of the Company s 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 the Company s pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The Company s Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the income-based incentive fee during the three months ended December 31, 2011, related to the Neville sale as described above.

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 the Company s realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, the Company will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since the Company s inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in the Company s 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 the Company s 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 the Company s 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 the Company s 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 the Company s 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 the Company s portfolio in all prior years. No capital gains-based incentive fee has been recorded for the Company from its inception through December 31, 2011, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, the Company did not accrue a capital gains-based incentive fee. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative

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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 the Company 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 for the Company from its inception through December 31, 2011.

As a BDC, the Company makes available significant managerial assistance to its portfolio companies and provides other services to such portfolio companies. Although neither the Company nor its Adviser receive fees in connection with managerial assistance, the Adviser provides other services to the Company s portfolio companies and receives fees for these services.

Administration Agreement

The Company has entered into an administration agreement (the Administration Agreement) with Gladstone Administration, LLC (the Administrator), an affiliate of the Adviser, whereby it pays separately for administrative services. The Administration Agreement provides for payments equal to the Company s 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 the Company s chief financial officer, chief compliance officer, treasurer, internal counsel and their respective staffs. The Company s allocable portion of administrative expenses is generally derived by multiplying the Administrator s total allocable expenses by the percentage of the Company s total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies managed by the Adviser under similar agreements. On July 12, 2011, the Board of Directors approved the renewal of the Administration Agreement through August 31, 2012.

Related Party Fees Due

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

	AS OF DECEMBER 31, 2011	AS OF MARCH 31, 2011
Base management fee due to Adviser	**$ 38**	$ 341
Loan servicing fee due to Adviser	**201**	157
Incentive fee credit due from Adviser	**(54)**	
Other	**2**	1
Total fees due to Adviser	**187**	499
Fee due to Administrator	**183**	171
Total related party fees due	**$ 370**	$ 670

NOTE 5. BORROWINGS

Line of Credit

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

On April 13, 2010, the Company 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

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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, the Company entered into a fourth amended and restated credit agreement to increase the commitment amount under the Credit Facility to $60 million. Subject to certain terms and conditions, the Credit Facility may be expanded up to a total of $175 million through the addition of other committed lenders to the facility. The Credit Facility matures on October 25, 2014 (the Maturity Date), and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before October 25, 2015 (one year after the Maturity Date). Advances under the Credit Facility will generally bear interest at 30-day LIBOR, plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. There are two one-year extension options, to be agreed upon by all parties, which may be exercised on or before October 26, 2012 and October 26, 2013, as applicable.

The following tables summarize noteworthy information related to the Company s Credit Facility:

	AS OF DECEMBER 31, 2011	AS OF MARCH 31, 2011
Commitment amount	$ 60,000	$ 50,000
Borrowings outstanding at cost	29,300	
Availability	28,449	33,866

	FOR THE THREE MONTHS ENDED DECEMBER 31,		FOR THE NINE MONTHS ENDED DECEMBER 31,	
	2011	2010	2011	2010
Weighted average borrowings outstanding	$ 7,591	$ 348	$ 4,852	$ 3,821
Effective interest rate [(A)]	9.2%	154.0 %	14.4%	18.9%
Commitment (unused) fees incurred	$ 77	$ 127	$ 314	$ 350

[(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 Credit Facility, based on the aggregate loan balance pledged by Business Investment, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required.

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

The Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to the Company s credit and collection policies without the lenders consent. The Credit Facility also limits payments on distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2011, 2012, 2013 and 2014. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward availability credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, average life and lien property. The Credit Facility further requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, the Company is subject to a performance guaranty that requires the Company to maintain (i) a minimum net worth of $155.0 million plus 50.0% of all equity and

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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 December 31, 2011, the Company was in compliance with all covenants.

Short-Term Loan

Consistent with prior quarter ends to maintain the Company s status as a RIC, the Company purchased $85.0 million of short-term United States Treasury Bills (T-Bills) through Jefferies & Company, Inc. (Jefferies) on December 28, 2011. As these T-Bills have a maturity of less than three months, the Company considers them to be cash equivalents and includes them in Cash and cash equivalents on the accompanying *Condensed Consolidated Statement of Assets and Liabilities* as of December 31, 2011. The T-Bills were purchased using $9.0 million in funds drawn on the Credit Facility and the proceeds from a $76.0 million short-term loan from Jefferies, with an effective annual interest rate of approximately 0.65%. On January 5, 2012, when the T-Bills matured, the Company repaid the $76.0 million loan from Jefferies, and on January 6, 2012, the Company repaid the $9.0 million drawn on the Credit Facility for the transaction.

Fair Value

The Company elected to apply ASC 825, Financial Instruments, specifically for the Credit Facility and short-term loan, which was consistent with its application of ASC 820 to its investments. Generally, the Company estimates the fair value of its Credit Facility using estimates of value provided by an independent third party and its 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. However, as the renewal of the Credit Facility occurred during the three months ended December 31, 2011, cost was determined to approximate fair value. Additionally, due to the eight-day duration of the short-term loan, cost was deemed to approximate fair value. At both December 31 and March 31, 2011, all of the Company s borrowings were valued using Level 3 inputs. The following tables present the Credit Facility and short-term loan carried at fair value as of December 31 and March 31, 2011, by caption on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward in the changes in fair value during the three and nine months ended December 31, 2011 and 2010:

	Level 3 Borrowings Total Fair Value Reported in Condensed Consolidated Statements of Assets and Liabilities	
	December 31, 2011	**March 31, 2011**
Short-Term Loan	**$ 76,001**	$ 40,000
Credit Facility	**29,300**	
Total	**$ 105,301**	$ 40,000

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	SHORT-TERM LOAN	CREDIT FACILITY	TOTAL FAIR VALUE REPORTED IN CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
Three months ended December 31, 2011:			
Fair value at September 30, 2011	$ 62,501	$ 21,405	$ 83,906
Borrowings	76,001	31,200	107,201
Repayments	(62,501)	(22,900)	(85,401)
Net unrealized depreciation(A)		(405)	(405)
Fair value at December 31, 2011	**$ 76,001**	**$ 29,300**	**$ 105,301**
Nine months ended December 31, 2011:			
Fair value at March 31, 2011	$ 40,000	$	$ 40,000
Borrowings	178,502	52,700	231,202
Repayments	(142,501)	(23,400)	(165,901)
Fair value at December 31, 2011	**$ 76,001**	**$ 29,300**	**$ 105,301**

	SHORT-TERM LOAN	CREDIT FACILITY	TOTAL FAIR VALUE REPORTED IN CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
Three months ended December 31, 2010:			
Fair value at September 30, 2010	$ 25,000	$	$ 25,000
Borrowings	67,400	8,000	75,400
Repayments	(25,000)		(25,000)
Fair value at December 31, 2010	**$ 67,400**	**$ 8,000**	**$ 75,400**
Nine months ended December 31, 2010:			
Fair value at March 31, 2010	$ 75,000	$ 27,812	$ 102,812
Borrowings	167,400	24,000	191,400
Repayments	(175,000)	(43,800)	(218,800)
Net unrealized depreciation [(A)]		(12)	(12)

Fair value at December 31, 2010	**$ 67,400**	**$ 8,000**	**$ 75,400**

(A) Included in Net unrealized appreciation (depreciation) of other on the accompanying *Condensed Consolidated Statements of Operations* for the periods ended December 31, 2011 and 2010.

The fair value of the collateral under the Credit Facility was approximately $223.3 million and $146.3 million at December 31 and March 31, 2011, respectively. The fair value of the collateral under the short-term loan was approximately $85.0 million and $44.0 million at December 31 and March 31, 2011, respectively.

NOTE 6. INTEREST RATE CAP AGREEMENTS

The Company has entered into multiple interest rate cap agreements with BB&T that effectively limit the interest rate on a portion of the borrowings under the line of credit pursuant to the terms of the Credit Facility. The agreements provide that the Company s interest rate on a portion of its borrowings is capped at a certain interest rate when LIBOR is in excess of that certain interest rate. The Company records changes in the fair value of the interest rate cap agreement quarterly based on the current market valuation at quarter end as unrealized depreciation or appreciation of other on the accompanying *Condensed Consolidated Statements of Operations*. Generally, the Company will estimate the fair value of its interest rate caps using estimates of value provided by the counterparty and its own assumptions in the absence of observable market data, including estimated remaining life, counterparty

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credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. 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 DECEMBER 31, 2011 COST	AS OF DECEMBER 31, 2011 FAIR VALUE	AS OF MARCH 31, 2011 COST	AS OF MARCH 31, 2011 FAIR VALUE
May 2009	$ 45,000	6.5%	May 2009	May 2011	$ [B]	$	$ 40	$
April 2010	45,000	6.0	May 2011	May 2012	41		41	4
December 2011	50,000	6.0	May 2012	October 2013	29	14		

[A] Indicates date the Company entered into the interest rate cap agreement with BB&T.
[B] In May 2011, upon expiration of the 2009 Cap, the Company recognized a realized loss of $40.

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 the Company will not enter into any such agreements unless it believes that the other party to the transaction is creditworthy, the Company does 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. COMMON STOCK

Registration Statement

On July 21, 2009, the Company filed a registration statement on Form N-2 (Registration No. 333-160720) that was amended on October 2, 2009 and declared effective by the SEC on October 8, 2009. The Company filed post-effective amendments to such registration statement on August 24, 2010, and November 22, 2010, which the SEC declared effective on December 23, 2010. The Company also filed post-effective amendments to the registration statement on June 17, 2011, and August 17, 2011, which the SEC declared effective on September 9, 2011. This registration statement permits the Company to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of such securities.

NOTE 8. NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE

The following table sets forth the computation of basic and diluted net increase in net assets resulting from operations per share for the three and nine months ended December 31, 2011 and 2010:

	THREE MONTHS ENDED DECEMBER 31, 2011	THREE MONTHS ENDED DECEMBER 31, 2010	NINE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED DECEMBER 31, 2010
Numerator for basic and diluted net increase in net assets resulting from operations per share	**$ 5,495**	$ 15,135	**$ 22,377**	$ 13,643
Denominator for basic and diluted weighted average shares	**22,080,133**	22,080,133	**22,080,133**	22,080,133

Basic and diluted net increase in net assets resulting from operations per share	$ 0.25	$ 0.69	$ 1.01	$ 0.62

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NOTE 9. DISTRIBUTIONS

The Board of Directors declared the following monthly distributions to stockholders for the nine months ended December 31, 2011 and 2010:

FISCAL YEAR	DECLARATION DATE	RECORD DATE	PAYMENT DATE	DISTRIBUTION PER SHARE
2012	April 12, 2011	April 22, 2011	April 29, 2011	$ 0.045
	April 12, 2011	May 20, 2011	May 31, 2011	0.045
	April 12, 2011	June 20, 2011	June 30, 2011	0.045
	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
		Nine months ended December 31, 2011:		**$ 0.435**
2011	April 7, 2010	April 22, 2010	April 30, 2010	$ 0.040
	April 7, 2010	May 20, 2010	May 28, 2010	0.040
	April 7, 2010	June 22, 2010	June 30, 2010	0.040
	July 7, 2010	July 22, 2010	July 30, 2010	0.040
	July 7, 2010	August 23, 2010	August 31, 2010	0.040
	July 7, 2010	September 22, 2010	September 30, 2010	0.040
	October 5, 2010	October 21, 2010	October 29, 2010	0.040
	October 5, 2010	November 19, 2010	November 30, 2010	0.040
	October 5, 2010	December 23, 2010	December 31, 2010	0.040
		Nine months ended December 31, 2010:		**$ 0.360**

Aggregate distributions declared and paid for the nine months ended December 31, 2011 and 2010 were approximately $9.6 million and $7.9 million, respectively, which were declared based on estimates of net investment income for the respective fiscal years. The characterization of the distributions declared and paid for the fiscal year ended March 31, 2012 will be determined at year end and cannot be determined at this time. For the fiscal year ended March 31, 2011, taxable income available for distributions exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, the Company elected to treat a portion of the first distribution paid in fiscal year 2012 as having been paid in the prior year.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Financial Commitments and Obligations

At December 31, 2011, the Company was not party to any signed commitments for potential investments. However, the Company has lines of credit with certain of its portfolio companies that have not been fully drawn. Since these lines of credit have expiration dates and the Company expects many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent the Company s future cash requirements. The Company estimated the fair value of such unused commitments as of

December 31, 2011 and March 31, 2011 to be minimal, and thus the unused portions of these commitments are not recorded on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*.

In addition to the lines of credit with certain portfolio companies, the Company has also extended certain guaranties on behalf of some of its portfolio companies. As of December 31, 2011, the Company has not been required to make any payments on the guaranties discussed below, and the Company considers the credit risk to be remote and the fair values of the guaranties to be minimal.

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In November 2008, the Company executed a guaranty 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 $0.8 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 guaranty of the Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of the Company as guarantor.

In February 2010, the Company executed a guaranty 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 guaranty was renewed in February 2011 and expires in February 2012, unless it is renewed again by the Company, CCE and Agricredit. In connection with this guaranty and its subsequent renewal, the Company recorded aggregate premiums of $0.2 million from CCE.

In April 2010, the Company executed a guaranty 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 guaranty, the Company received a premium of $0.1 million from CCE.

The following table summarizes the dollar balance of unused line of credit commitments and guaranties as of December 31 and March 31, 2011:

	AS OF DECEMBER 31, 2011	AS OF MARCH 31, 2011
Unused line of credit commitments	**$ 3,643**	$ 2,386
Guaranties	**4,748**	4,664
Total	**$ 8,391**	$ 7,050

The following table shows the Company s contractual principal on borrowings as of December 31, 2011:

	PAYMENTS DUE BY PERIOD				
BORROWINGS	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS	TOTAL
Short-term loan [(A)]	$ 76,001	$	$	$	$ 76,001
Credit Facility		29,300			29,300
Total borrowings	**$ 76,001**	**$ 29,300**	**$**	**$**	**$ 105,301**

(A) On January 6, 2012, the Company repaid the short-term loan in full.

Escrow Holdbacks

The Company from time to time will enter into arrangements as it relates to exits of certain investments whereby specific amounts of the proceeds are held in escrow in order to be used to satisfy potential obligations as stipulated in the sales agreements. The Company records escrow amounts in Restricted cash on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*. The Company establishes a contingent liability against the escrow amounts if the Company determines that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liability amounted recorded against the escrow amounts was $0.6 million and $0.9 million as of December 31 and March 31, 2011, respectively, and is located in Other liabilities on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*.

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NOTE 11. FINANCIAL HIGHLIGHTS

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2011	**2010**	**2011**	**2010**
Per Share Data [A]				
Net asset value at beginning of period	**$ 9.48**	$ 8.43	**$ 9.00**	$ 8.74
Income from investment operations [B]:				
Net investment income	**0.16**	0.34	**0.46**	0.65
Realized (loss) gain on investments and other	**(0.01)**	0.30	**0.23**	1.06
Net unrealized appreciation (depreciation) on investments and other	**0.10**	0.05	**0.32**	(1.09)
Total from investment operations	**0.25**	0.69	**1.01**	0.62
Distributions from:				
Net investment income	**(0.15)**	(0.12)	**(0.43)**	(0.36)
Total distributions [C]	**(0.15)**	(0.12)	**(0.43)**	(0.36)
Net asset value at end of period	**$ 9.58**	$ 9.00	**$ 9.58**	$ 9.00
Per share market value at beginning of period	**$ 6.76**	$ 6.75	**$ 7.79**	$ 6.01
Per share market value at end of period	**7.27**	7.65	**7.27**	7.65
Total return [D]	**9.73%**	15.14%	**-0.91%**	34.48%
Shares outstanding at end of period	**22,080,133**	22,080,133	**22,080,133**	22,080,133
Statement of Assets and Liabilities Data:				
Net assets at end of period	**$ 211,601**	$ 198,682	**$ 211,601**	$ 198,682
Average net assets [E]	**208,883**	189,420	**203,103**	191,299
Senior Securities Data:				
Total borrowings	**$ 105,301**	$ 75,400	**$ 105,301**	$ 75,400
Asset coverage ratio [F]	**288%**	343%	**288%**	343%
Average coverage per unit [G]	**$ 2,879**	$ 3,429	**$ 2,879**	$ 3,429
Ratios/Supplemental Data:				
Ratio of expenses to average net assets [H][I]	**3.97%**	7.59%	**4.13%**	6.05%
Ratio of net expenses to average net assets [H][J]	**3.31**	6.64	**3.42**	5.61
Ratio of net investment income to average net assets [H]	**6.59**	16.03	**6.73**	9.92

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

(B) Based on weighted average basic per share data.

(C) Distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

(D)

Total return equals the change in the market value of the Company s common stock from the beginning of the period, taking into account dividends reinvested in accordance with the terms of the Company s dividend reinvestment plan.

(E) Calculated using the average of the balance of net assets at the end of each month of the reporting period.

(F) As a BDC, the Company is generally required to maintain an asset coverage ratio of at least 200% of total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings and guaranty commitments. Asset coverage ratio is the ratio of the carrying value of the Company s total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness.

(G) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

(H) Amounts are annualized.

(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.

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NOTE 12. SUBSEQUENT EVENTS

Short-Term Loan

On December 28, 2011, the Company purchased $85.0 million of T-Bills through Jefferies. The T-Bills were purchased using $9.0 million in funds drawn on the Credit Facility and the proceeds from a $76.0 million short-term loan from Jefferies, with an effective

annual interest rate of approximately 0.65%. On January 5, 2012, when the T-Bills matured, the Company repaid the $76.0 million loan from Jefferies, and on January 6, 2012, the Company repaid the $9.0 million drawn on the Credit Facility for the transaction.

Distributions

On January 10, 2012, the Board of Directors declared the following monthly distributions to stockholders:

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER SHARE
January 23, 2012	January 31, 2012	$ 0.05
February 21, 2012	February 29, 2012	0.05
March 22, 2012	March 30, 2012	0.05
Total for the Quarter:		$ 0.15

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Appendix A

GLADSTONE INVESTMENT CORPORATION

FORM OF CERTIFICATE OF DESIGNATION

OF

% SERIES A CUMULATIVE TERM PREFERRED STOCK

OF

GLADSTONE INVESTMENT CORPORATION

Pursuant to Section 151 of the

General Corporation Law of the State of Delaware

Gladstone Investment Corporation, a corporation organized and existing under the laws of the State of Delaware (the ***Corporation***), certifies that pursuant to the authority contained in its certificate of incorporation, as amended from time to time (the ***Certificate of Incorporation***), and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware (***DGCL***), the Board of Directors has duly approved and adopted the following resolution on , 2012:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation (the ***Board of Directors*** which term as used herein shall include any duly authorized committee of the Board of Directors) by the Certificate of Incorporation, and as set forth in Section 151 of the DGCL, the Board of Directors does hereby designate, create, authorize and provide for the issue of a series of 1,150,000 shares of % Series A Cumulative Term Preferred Stock, $.001 par value per share, having the designations, preferences, relative, participating, optional and other special rights and the qualifications, limitations and restrictions thereof that are set forth in the Certificate of Incorporation and in this resolution as follows:

1.1 Definitions. Unless the context or use indicates another or different meaning or intent, each of the following terms when used in this Certificate of Designation shall have the meaning ascribed to it below, whether such term is used in the singular or plural and regardless of tense:

1940 Act means the Investment Company Act of 1940, as amended, or any successor statute.

1940 Act Asset Coverage means asset coverage, as defined for purposes of Sections 18(h) and 61 of the 1940 Act, of at least 200% with respect to all outstanding senior securities of the Corporation, including all outstanding shares of Series A Term Preferred Stock (or such other asset coverage as may in the future be specified in or under the 1940 Act or by rule, regulation or order of United States Securities and Exchange Commission as the minimum asset coverage for senior securities of a Business Development Company).

Adviser means Gladstone Management Corporation, a Delaware corporation, or such other entity as shall be then serving as the investment adviser of the Corporation, and shall include, as appropriate, any sub-adviser duly appointed by the Adviser.

Asset Coverage means asset coverage of a class of senior security, as defined for purposes of Sections 18(h) and 61 of the 1940 Act as in effect on the date hereof, determined for the Corporation and its majority-owned subsidiaries (as such term is defined in the 1940 Act) on a consolidated basis and on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of such determination.

Asset Coverage Cure Date means, with respect to the failure by the Corporation to maintain Asset Coverage as of the close of business on the last Business Day of a Calendar Quarter (as required by Section 2.4(a)), the date that is thirty (30) calendar days following the Filing Date with respect to such Calendar Quarter.

Board of Directors shall have the meaning as set forth in the Preamble of this Certificate of Designation.

Business Day means any calendar day on which the NASDAQ is open for trading.

Business Development Company shall have the meaning set forth in Section 2(a)(48) of the 1940 Act, or any successor provision.

By-Laws means the By-Laws of the Corporation as amended or restated from time to time.

Calendar Quarter shall mean any of the three month periods ending March 31, June 30, September 30, or December 31, of each year.

Capital Stock means the capital stock of the Corporation authorized by the Certificate of Incorporation.

Certificate of Designation means this Certificate of Designation, as amended from time to time.

Certificate of Incorporation shall have the meaning as set forth in the Preamble to this Certificate of Designation.

Change of Control Redemption shall have the meaning set forth in Section 2.5(d).

Change of Control Redemption Date shall mean a date selected by the Corporation for the Change of Control Redemption, which date shall be within three (3) Business Days after the occurrence of the applicable Change of Control Triggering Event.

Change of Control Redemption Price shall have the meaning set forth in Section 2.5(d).

Change of Control Triggering Event means the occurrence of any of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or more series of related transactions, of all or substantially all of the Corporation s assets and the assets of the Corporation s subsidiaries, taken as a whole, to any Person, other than the Corporation or one of the Corporation s subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the Corporation s outstanding Voting Stock or other Voting Stock into which the Corporation s Voting Stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; (3) the Corporation consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Corporation, in any such event pursuant to a transaction in which any of the Corporation s outstanding Voting Stock or the Voting Stock of such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Corporation s Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving Person or any direct or indirect parent company of the surviving Person immediately after giving effect to such transaction; (4) the first day on which a majority of the members of the Board of Directors are not Continuing Directors; or (5) the adoption of a plan relating to the Corporation s liquidation or dissolution. Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control Triggering Event under clause (2) above if (i) the Corporation becomes a direct or indirect wholly-owned subsidiary of a holding company and (ii)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Corporation s Voting Stock immediately prior to that transaction or (B) immediately following that transaction no Person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

Code means the Internal Revenue Code of 1986, as amended.

Common Stock means the shares of common stock, with a par value of one tenth of one cent ($.001) per share, of the Corporation.

Continuing Directors means, as of any date of determination, any member of the Board of Directors who (A) was a member of the Board of Directors on the Date of Original Issue (B) was nominated for election, elected or appointed to the Board of Directors with the approval of a majority of the continuing directors who were members of the Board of Directors at the time of such nomination, election or appointment (either by a specific vote or by approval of a proxy statement in which such member was named as a nominee for election as a director, without objection to such nomination).

Corporation shall have the meaning as set forth in the Preamble to this Certificate of Designation.

Custodian means a bank, as defined in Section 2(a)(5) of the 1940 Act, that has the qualifications prescribed in paragraph 1 of Section 26(a) of the 1940 Act, or such other entity as shall be providing custodian services to the Corporation as permitted by the 1940 Act or any rule, regulation, or order thereunder, and shall include, as appropriate, any similarly qualified sub-custodian duly appointed by the Custodian.

Custodian Agreement means the Custodian Agreement by and among the Custodian and the Corporation with respect to the Series A Term Preferred Stock.

Date of Original Issue means , 2012.

Default shall have the meaning as set forth in Section 2.2(g)(i).

Default Period shall have the meaning as set forth in Section 2.2(g)(i).

Default Rate shall have the meanings as set forth in Section 2.2(g)(i).

Deposit Securities means, as of any date, any United States dollar-denominated security or other investment of a type described below that either (i) is a demand obligation payable to the holder thereof on any Business Day or (ii) has a maturity date, mandatory redemption date or mandatory payment date, on its face or at the option of the holder, preceding the relevant Redemption Date, Dividend Payment Date or other payment date in respect of which such security or other investment has been deposited or set aside as a Deposit Security:

(A) cash or any cash equivalent;

(B) any U.S. Government Obligation;

(C) any Short-Term Money Market Instrument;

(D) any investment in any money market fund registered under the 1940 Act that qualifies under Rule 2a-7 under the 1940 Act, or similar investment vehicle described in Rule 12d1-1(b)(2) under the 1940 Act, that invests principally in Short-Term Money Market Instruments or U.S. Government Obligations or any combination thereof; or

(E) any letter of credit from a bank or other financial institution that has a credit rating from at least one Nationally Recognized Statistical Rating Organization that is the highest applicable rating generally ascribed by such rating agency to bank deposits or short-term debt of similar banks or other financial institutions as of the date of this Certificate of Designation (or such rating s future equivalent).

Dividend Default shall have the meaning as set forth in Section 2.2(g)(i).

Dividend Payment Date means the last Business Day of each Dividend Period.

Dividend Period means, with respect to each share of Series A Term Preferred Stock, in the case of the first Dividend Period, the period beginning on the Date of Original Issue and ending on and including March 31, 2012 and for each subsequent Dividend Period, the period beginning on and including the first calendar day of the month following the month in which the previous Dividend Period ended and ending on and including the last calendar day of such month.

Dividend Rate means, as of any date, the Fixed Dividend Rate as adjusted, if a Default Period shall be in existence on such date, in accordance with the provisions of Section 2.2(g).

Electronic Means means email transmission, facsimile transmission or other similar electronic means of communication providing evidence of transmission (but excluding online communications systems covered by a separate agreement) acceptable to the sending party and the receiving party, in any case if operative as between any two parties, or, if not operative, by telephone (promptly confirmed by any other method set forth in this definition),

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which, in the case of notices to the Redemption and Paying Agent and the Custodian, shall be sent by such means to each of its representatives set forth in the Redemption and Paying Agent Agreement and the Custodian Agreement, respectively.

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

Filing Date means, with respect to any Calendar Quarter, the date of filing of the Corporation s SEC Report with respect to such Calendar Quarter.

Fixed Dividend Rate means %.

Holder means, with respect to the Series A Term Preferred Stock or any other security issued by the Corporation, a Person in whose name such security is registered in the registration books of the Corporation maintained by the Redemption and Paying Agent or otherwise.

Liquidation Preference means $25.00 per share.

Mandatory Redemption Price shall have the meaning as set forth in Section 2.5(b)(i)(A).

Market Value of any asset of the Corporation means, for securities for which market quotations are readily available, the market value thereof determined by an independent third-party pricing service designated from time to time by the Board of Directors. Market Value of any asset shall include any interest accrued thereon. The pricing service values portfolio securities at the mean between the quoted bid and asked price or the yield equivalent when quotations are readily available. Securities for which quotations are not readily available are valued at fair value as determined by the pricing service using methods that include consideration of: yields or prices of securities of comparable quality, type of issue, coupon, maturity and rating; indications as to value from dealers; and general market conditions. The pricing service may employ electronic data processing techniques or a matrix system, or both, to determine recommended valuations.

Non-Call Period means the period beginning on the Date of Original of Issue and ending at the close of business on , 2016, during which the Series A Term Preferred Stock shall not be subject to redemption at the option of the Corporation.

Notice of Redemption shall have the meaning as set forth in Section 2.5(e).

Optional Redemption Date shall have the meaning as set forth in Section 2.5(c)(i).

Optional Redemption Price shall have the meaning as set forth in Section 2.5(c)(i).

Outstanding means, as of any date with respect to the Series A Term Preferred Stock, the number of shares of Series A Term Preferred Stock theretofore issued by the Corporation except (without duplication):

(i) any shares of the Series A Term Preferred Stock theretofore cancelled or redeemed or delivered to the Redemption and Paying Agent for cancellation or redemption in accordance with the terms hereof;

(ii) any shares of Series A Term Preferred Stock as to which the Corporation shall have given a Notice of Redemption and irrevocably deposited with the Redemption and Paying Agent sufficient Deposit Securities to redeem such shares in accordance with Section 2.5 hereof;

(iii) any shares of Series A Term Preferred Stock as to which the Corporation shall be the Holder or the beneficial owner; and

(iv) any shares of Series A Term Preferred Stock represented by any certificate in lieu of which any new certificate has been executed and delivered by the Corporation.

Person means and includes an individual, a partnership, a trust, a corporation, a limited liability company, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

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Preferred Stock means any Capital Stock of the Corporation classified as preferred stock, including shares of Series A Term Preferred Stock, shares of any other series of such preferred stock now or hereafter issued by the Corporation, and any other shares of Capital Stock hereafter authorized and issued by the Corporation of a class having priority over any other class as to distribution of assets or payments of dividends.

Redemption and Paying Agent means Computershare Shareowner Services, LLC and its successors or any other redemption and paying agent appointed by the Corporation with respect to the Series A Term Preferred Stock.

Redemption and Paying Agent Agreement means the Redemption and Paying Agent Agreement or other similarly titled agreement by and among the Redemption and Paying Agent for the Series A Term Preferred Stock and the Corporation.

Redemption Date shall have the meaning as set forth in Section 2.5(e).

Redemption Default shall have the meaning as set forth in Section 2.2(g)(i).

Redemption Price shall mean the Term Redemption Price, the Mandatory Redemption Price, the Optional Redemption Price or the Change of Control Redemption Price, as applicable.

SEC Report means, with respect to any Calendar Quarter, the Corporation s Annual Report on Form 10-K or Quarterly Report on Form 10-Q filed by the Corporation with the Securities and Exchange Commission with respect to such Calendar Quarter (or, in the case of the Calendar Quarter that is the last Calendar Quarter in the Corporation s fiscal year, with respect to the fiscal year that includes such Calendar Quarter).

Securities Depository shall mean The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation that agrees to follow the procedures required to be followed by such securities depository as set forth in this Certificate of Designation with respect to the Series A Term Preferred Stock.

Series A Term Preferred Stock shall have the meaning as set forth in Section 2.1(a).

Short-Term Money Market Instruments means the following types of instruments if, on the date of purchase or other acquisition thereof by the Corporation, the remaining term to maturity thereof is not in excess of 180 days:

(i) commercial paper rated A-1 if such commercial paper matures in 30 days or A-1+ if such commercial paper matures in over 30 days;

(ii) demand or time deposits in, and bankers acceptances and certificates of deposit of (A) a depository institution or trust company incorporated under the laws of the United States of America or any state thereof or the District of Columbia or (B) a United States branch office or agency of a foreign depository institution (provided that such branch office or agency is subject to banking regulation under the laws of the United States, any state thereof or the District of Columbia); and

(iii) overnight funds.

Term Redemption Date means , 2017.

Term Redemption Price shall have the meaning as set forth in Section 2.5(a).

U.S. Government Obligations means direct obligations of the United States or of its agencies or instrumentalities that are entitled to the full faith and credit of the United States and that, other than United States Treasury Bills, provide for the periodic payment of interest and the full payment of principal at maturity or call for redemption.

Voting Period shall have the meaning as set forth in Section 2.6(b)(i).

Voting Stock means, with respect to any specified Person that is a corporation as of any date, the capital stock of such Person that is at the time entitled to vote generally in the election of the directors of such Person.

1.2 Interpretation. The headings preceding the text of Articles and Sections included in this Certificate of Designation are for convenience only and shall not be deemed part of this Certificate of Designation or be given any effect in interpreting this Certificate of Designation. The use of the masculine, feminine or neuter gender or the singular or plural form of words herein shall not limit any provision of this Certificate of Designation. The use of the terms including or include shall in all cases herein mean including, without limitation or include, without limitation, respectively. Reference to any Person includes such Person s successors and assigns to the extent such successors and assigns are permitted by the terms of any applicable agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually. Reference to any agreement (including this Certificate of Designation), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof. Except as otherwise expressly set forth herein, reference to any law means such law as amended, modified, codified, replaced or re-enacted, in whole or in part, including rules, regulations, enforcement procedures and any interpretations promulgated thereunder. Underscored references to Articles or Sections shall refer to those portions of this Certificate of Designation. The use of the terms hereunder, hereof, hereto and words of similar import shall refer to this Certificate of Designation as a whole and not to any particular Article, Section or clause of this Certificate of Designation.

2.1 Number of Shares; Ranking.

(a) A series of 1,150,000 shares of Preferred Stock is hereby designated as the % Series A Cumulative Term Preferred Stock (the ***Series A Term Preferred Stock***). Each share of Series A Term Preferred Stock shall have such preferences, voting powers, restrictions, limitations as to dividends and distributions, qualifications and terms and conditions of redemption, in addition to those required by applicable law and those that are expressly set forth in the Certificate of Incorporation, as are set forth in this Certificate of Designation. The Series A Term Preferred Stock shall constitute a separate series of Capital Stock and each share of Series A Term Preferred Stock shall be identical. No fractional shares of Series A Term Preferred Stock shall be issued.

(b) The Series A Term Preferred Stock shall rank on parity with shares of any other series of Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Corporation. The Series A Term Preferred Stock shall have preference with respect to the payment of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Corporation over the Common Stock as set forth herein.

(c) No Holder of shares of Series A Term Preferred Stock shall have, solely by reason of being such a Holder, any preemptive or other right to acquire, purchase or subscribe for any share of Series A Term Preferred Stock or shares of Common Stock or other securities of the Corporation that it may hereafter issue or sell.

2.2 Dividends and Distributions.

(a) The Holders of shares of Series A Term Preferred Stock shall be entitled to receive, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds legally available therefor and in preference to dividends and distributions on the Common Stock, cumulative cash dividends and distributions on each share of Series A Term Preferred Stock, calculated separately for each Dividend Period for the Series A Term Preferred Stock at the Dividend Rate in effect from time to time for the Series A Term Preferred Stock during such Dividend Period, computed on the basis of a 360-day year consisting of twelve 30-day months, on an amount equal to the Liquidation Preference for a share of the Series A Term Preferred Stock, and no more. Dividends and distributions on the Series A Term Preferred Stock shall accumulate from the Date of Original Issue and shall be payable monthly in arrears as provided in Section 2.2(f). Dividends payable on the Series A Term Preferred Stock for any period of less than a full monthly Dividend Period (including the period of less than a full calendar month included in the first Dividend Period) or upon any redemption of such shares on any Redemption Date other than on a Dividend Payment Date, shall be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed for any period of less than one month.

(b) Dividends on shares of the Series A Term Preferred Stock with respect to any Dividend Period shall be declared to the Holders of record of such shares as their names shall appear on the registration books of the Corporation at the close of business on the applicable record date, which shall be such date designated by the Board of Directors that is not more than twenty (20) nor less than seven (7) calendar days prior to the Dividend Payment Date with respect to such Dividend Period, and shall be paid as provided further in Section 2.2(f) hereof; provided, however, that dividends with respect to the first Dividend Period of the Series A Term Preferred Stock will be paid on March 30, 2012 to holders of record of such Series A Term Preferred Stock as their names appear on the registration books of the Corporation at the close of business on March 22, 2012.

(c) (i) No full dividends and distributions shall be declared or paid on shares of the Series A Term Preferred Stock for any Dividend Period or part thereof unless full cumulative dividends and distributions due through the most recent dividend payment dates therefor for all outstanding shares of Preferred Stock have been or contemporaneously are declared and paid through the most recent dividend payment dates therefor. If full cumulative dividends and distributions due have not been declared and paid on all outstanding Preferred Stock of any series, any dividends and distributions being declared and paid on the Series A Term Preferred Stock will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on each such series of Preferred Stock on the relevant dividend payment date for such series. No Holders of shares of Series A Term Preferred Stock shall be entitled to any dividends and distributions, whether payable in cash, property or shares, in excess of full cumulative dividends and distributions as provided in this Section 2.2(c)(i) on the Series A Term Preferred Stock.

(ii) For so long as any shares of Series A Term Preferred Stock are Outstanding, the Corporation shall not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in shares of Common Stock) in respect of the Common Stock, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any Common Stock, or (z) pay any proceeds of the liquidation of the Corporation in respect of the Common Stock, unless, in each case, (A) immediately thereafter, the Corporation shall have 1940 Act Asset Coverage after deducting the amount of such dividend or distribution or redemption or purchase price or liquidation proceeds, (B) all cumulative dividends and distributions on all shares of Series A Term Preferred Stock and all other Preferred Stock ranking on a parity with the Series A Term Preferred Stock due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment thereof shall have been deposited irrevocably with the paying agent for such Preferred Stock) and (C) the Corporation shall have deposited Deposit Securities pursuant to and in accordance with the requirements of Section 2.5(e)(ii) hereof with respect to Outstanding shares of Series A Term Preferred Stock to be redeemed pursuant to Section 2.5(a), Section 2.5(b) or Section 2.5(d) hereof for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms hereof on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

(iii) Any dividend payment made on shares of Series A Term Preferred Stock shall first be credited against the dividends and distributions accumulated with respect to the earliest Dividend Period for which dividends and distributions have not been paid.

(d) Not later than 12:00 noon, New York City time, on the Dividend Payment Date, the Corporation shall deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on such date sufficient to pay the dividends and distributions that are payable on such Dividend Payment Date. The Corporation may direct the Redemption and Paying Agent with respect to the investment or reinvestment of any such Deposit Securities prior to the Dividend Payment Date, provided that such investment consists exclusively of Deposit Securities and provided further that the proceeds of any such investment will be available as same day funds at the opening of business on such Dividend Payment Date.

(e) All Deposit Securities paid to the Redemption and Paying Agent for the payment of dividends payable on the Series A Term Preferred Stock shall be held in trust for the payment of such dividends by the Redemption and Paying Agent for the benefit of the Holders entitled to the payment of such dividends pursuant to Section 2.2(f). Any moneys paid to the Redemption and Paying Agent in accordance with the foregoing but not applied by the Redemption and Paying Agent to the payment of dividends, including interest earned on such moneys while so held, will, to the extent permitted by law, be repaid to the Corporation as soon as possible after the date on which such moneys were to have been so applied, upon request of the Corporation.

(f) Dividends on shares of Series A Term Preferred Stock shall be paid on each Dividend Payment Date to the Holders of shares as their names appear on the registration books of the Corporation at the close of business on the applicable record date for such dividend, which record date shall be determined as set forth in Section 2.2(b). Dividends in arrears on shares of Series A Term Preferred Stock for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the Holders of shares as their names appear on the registration books of the Corporation on such date, not exceeding twenty (20) nor less than seven (7) calendar days preceding the payment date thereof, as may be fixed by the Board of Directors. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on shares of Series A Term Preferred Stock which may be in arrears.

(g) (i) The Dividend Rate on the Series A Term Preferred Stock shall be adjusted to the Default Rate (as defined below) in the following circumstances. Subject to the cure provisions below, a ***Default Period*** with respect to the Series A Term Preferred Stock shall commence on any date the Corporation fails to deposit with the Redemption and Paying Agent by 12:00 noon, New York City time, on (A) a Dividend Payment Date, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Dividend Payment Date sufficient to pay the full amount of any dividend payable on such Dividend Payment Date (a ***Dividend Default***) or (B) an applicable Redemption Date, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Redemption Date sufficient to pay the full amount of the Redemption Price payable in respect of such Series on such Redemption Date (a ***Redemption Default*** and together with a Dividend Default, hereinafter referred to as ***Default***). Subject to the cure provisions of Section 2.2(g)(ii) below, a Default Period with respect to a Dividend Default or a Redemption Default on the Series A Term Preferred Stock shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends and any unpaid Redemption Price shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of any Default on the Series A Term Preferred Stock, the Dividend Rate for each calendar day during the Default Period will be equal to the Default Rate. The ***Default Rate*** on the Series A Term Preferred Stock in respect of a Dividend Default for any calendar day shall be equal to nine percent (9%) per annum. The ***Default Rate*** in respect of a Redemption Default will be equal to eleven percent (11%) per annum.

(ii) No Default Period for the Series A Term Preferred Stock with respect to any Default on the Series A Term Preferred Stock shall be deemed to commence if the amount of any dividend or any Redemption Price due in respect of the Series A Term Preferred Stock (if such Default is not solely due to the willful failure of the Corporation) is deposited irrevocably in trust, in same-day funds, with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three (3) Business Days after the applicable Dividend Payment Date or Redemption Date with respect to which such Default occurred, together with an amount equal to the Default Rate applied to the amount and period of such non-payment based on the actual number of calendar days comprising such period divided by 360.

2.3 Liquidation Rights.

(a) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the Holders of shares of Series A Term Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to stockholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the Common Stock, a liquidation distribution equal to the Liquidation Preference for such shares, plus an amount equal to all unpaid dividends and distributions on such shares accumulated to (but excluding) the date fixed for such distribution or payment on such shares (whether or not earned or declared by the Corporation, but excluding interest thereon), and such Holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

(b) If, upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation available for distribution among the Holders of all Outstanding shares of

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Series A Term Preferred Stock and any other outstanding Preferred Stock shall be insufficient to permit the payment in full to such Holders of the Liquidation Preference of such shares of Series A Term Preferred Stock plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.3(a) above and the amounts due upon liquidation with respect to such other Preferred Stock, then such available assets shall be distributed among the Holders of such shares of Series A Term Preferred Stock and such other Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, unless and until the Liquidation Preference on each Outstanding share of Series A Term Preferred Stock plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.3(a) above have been paid in full to the Holders of such shares, no dividends, distributions or other payments will be made on, and no redemption, purchase or other acquisition by the Corporation will be made by the Corporation in respect of, shares of the Common Stock.

(c) Neither the sale of all or substantially all of the property or business of the Corporation, nor the merger, consolidation or reorganization of the Corporation into or with any other business or statutory trust, corporation or other entity, nor the merger, consolidation or reorganization of any other business or statutory trust, corporation or other entity into or with the Corporation shall be a dissolution, liquidation or winding up, whether voluntary or involuntary, for the purpose of this Section 2.3.

2.4 Coverage Test.

(a) **Asset Coverage Requirement**. For so long as any shares of Series A Term Preferred Stock are Outstanding, the Corporation shall have Asset Coverage of at least 200% as of the close of business on the last Business Day of a Calendar Quarter, such Asset Coverage to be determined exclusively by reference to the asset coverage ratio reported as of the last Business Day of such Calendar Quarter in the Corporation s SEC Report with respect to such Calendar Quarter. If the Corporation shall fail to maintain such Asset Coverage as of any time as of which such compliance is required to be determined as aforesaid, the provisions of Section 2.5(b)(i) shall be applicable, which provisions shall constitute the sole remedy for the Corporation s failure to comply with the provisions of this Section 2.4(a).

(b) **Calculation of Asset Coverage**. For purposes of determining whether the requirements of Section 2.4(a) are satisfied, (i) no Series A Term Preferred Stock or other Preferred Stock shall be deemed to be Outstanding for purposes of any computation required by Section 2.4(a) if, prior to or concurrently with such determination, either (x) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of the Series A Term Preferred Stock or other Preferred Stock) to pay the full redemption price for the Series A Term Preferred Stock or other Preferred Stock (or the portion thereof to be redeemed) shall have been deposited in trust with the paying agent for the Series A Term Preferred Stock or other Preferred Stock and the requisite notice of redemption for the Series A Term Preferred Stock or other Preferred Stock (or the portion thereof to be redeemed) shall have been given or (y) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of the Series A Term Preferred Stock or other Preferred Stock) to pay the full redemption price for the Series A Term Preferred Stock or other Preferred Stock (or the portion thereof to be redeemed) shall have been segregated by the Custodian and the Corporation from the assets of the Corporation, by means of appropriate identification on the Custodian s books and records or otherwise in accordance with the Custodian s normal procedures, and (ii) the Deposit Securities or other sufficient funds that shall have been deposited with the applicable paying agent and/or segregated by the Custodian, as applicable, as provided in clause (i) of this sentence shall not be included as assets of the Corporation for purposes of such computation.

2.5 Redemption. Shares of Series A Term Preferred Stock shall be subject to redemption by the Corporation as provided below:

(a) **Term Redemption**. The Corporation shall redeem all shares of Series A Term Preferred Stock on the Term Redemption Date, at a price per share equal to the Liquidation Preference per share plus an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the Term Redemption Date (whether or not earned or declared by the Corporation, but excluding interest thereon) (the ***Term Redemption Price***).

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(b) **Asset Coverage Mandatory Redemption**.

(i) If the Corporation fails to comply with the Asset Coverage requirement as provided in Section 2.4(a) as of the last Business Day of any Calendar Quarter and such failure is not cured as of the Asset Coverage Cure Date, the Corporation shall, to the extent permitted by the 1940 Act and Delaware law, by the close of business on such Asset Coverage Cure Date, fix a redemption date and proceed to redeem in accordance with the terms of such Preferred Stock, a sufficient number of shares of Preferred Stock, which at the Corporation s sole option (to the extent permitted by the 1940 Act and Delaware law) may include any number or proportion of the shares of Series A Term Preferred Stock, to enable it to meet the requirements of Section 2.5(b)(ii). In the event that any shares of Series A Term Preferred Stock then Outstanding are to be redeemed pursuant to this Section 2.5(b)(i), the Corporation shall redeem such shares at a price per share (the ***Mandatory Redemption Price***) equal to (y) the Liquidation Preference per share plus (z) an amount equal to all unpaid dividends and distributions on such share accumulated to (but excluding) the date fixed for such redemption by the Board of Directors (whether or not earned or declared by the Corporation, but excluding interest thereon).

(ii) On the Redemption Date for a redemption contemplated by Section 2.5(b)(i), the Corporation shall redeem, out of funds legally available therefor, such number of shares of Preferred Stock (which may include at the sole option of the Corporation any number or proportion of the shares of Series A Term Preferred Stock) as shall be equal to the lesser of (x) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in the Corporation having Asset Coverage on such Asset Coverage Cure Date of at least 200% (provided, however, that if there is no such minimum number of shares of Series A Term Preferred Stock and other shares of Preferred Stock the redemption or retirement of which would have such result, all shares of Series A Term Preferred Stock and other shares of Preferred Stock then outstanding shall be redeemed), and (y) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available therefor in accordance with the Certificate of Incorporation and applicable law, provided further, that in connection with redemption for failure to maintain such Asset Coverage requirement, the Corporation may at its sole option, but is not required to, redeem a sufficient number of shares of Series A Term Preferred Stock pursuant to this Section 2.5(b) that, when aggregated with other shares of Preferred Stock redeemed by the Corporation, would result, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, in the Corporation having Asset Coverage on such Asset Coverage Cure Date of up to and including 215%. The Corporation shall effect such redemption on the date fixed by the Corporation therefor, which date shall not be later than ninety (90) calendar days after such Asset Coverage Cure Date, except that if the Corporation does not have funds legally available for the redemption of all of the required number of shares of Series A Term Preferred Stock and other shares of Preferred Stock which have been designated to be redeemed or the Corporation otherwise is unable to effect such redemption on or prior to ninety (90) calendar days after such Asset Coverage Cure Date, the Corporation shall redeem those shares of Series A Term Preferred Stock and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption. If fewer than all of the Outstanding shares of Series A Term Preferred Stock are to be redeemed pursuant to this Section 2.5(b), the number of shares of Series A Term Preferred Stock to be redeemed shall be redeemed (A) pro rata among the Outstanding shares of Series A Term Preferred Stock, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable.

(c) **Optional Redemption**.

(i) Subject to the provisions of Section 2.5(c)(ii), on any Business Day following the expiration of the Non-Call Period for shares of Series A Term Preferred Stock (any such Business Day referred to in this sentence, an ***Optional Redemption Date***), the Corporation may redeem in whole or from time to time in part the Outstanding shares of Series A Term Preferred Stock, at a redemption price per share (the ***Optional Redemption Price***) equal to (y) the Liquidation Preference per share plus (z) an amount equal to all unpaid dividends and distributions on such share of Series A Term Preferred Stock accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by the Corporation, but excluding interest thereon).

(ii) If fewer than all of the outstanding shares of Series A Term Preferred Stock are to be redeemed pursuant to Section 2.5(c)(i), the shares of Series A Term Preferred Stock to be redeemed shall be selected either (A) pro rata, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable. Subject to the provisions of this Certificate of Designation and applicable law, the Board of Directors will have the full power and authority to prescribe the terms and conditions upon which shares of Series A Term Preferred Stock will be redeemed pursuant to this Section 2.5(c) from time to time.

(iii) The Corporation may not on any date deliver a Notice of Redemption pursuant to Section 2.5(e) in respect of a redemption contemplated to be effected pursuant to this Section 2.5(c) unless on such date the Corporation has available Deposit Securities for the Optional Redemption Date contemplated by such Notice of Redemption having a Market Value not less than the amount due to Holders of shares of Series A Term Preferred Stock by reason of the redemption of such shares of Series A Term Preferred Stock on such Optional Redemption Date.

(d) **Change of Control Redemption.** If a Change of Control Triggering Event occurs, unless the Corporation has exercised the option to redeem such Series A Term Preferred Stock pursuant to Section 2.5(c), the Corporation shall redeem all of the outstanding shares of Series A Term Preferred Stock on the Change of Control Redemption Date, at a price per share (the ***Change of Control Redemption Price***) equal to (y) the Liquidation Preference per share plus (z) an amount equal to all accumulated and unpaid dividends and distributions on such share up to (but excluding) the Change of Control Redemption Date (whether or not earned or declared by the Corporation, but excluding interest thereon) (the ***Change of Control Redemption***).

(e) **Procedures for Redemption**.

(i) If the Corporation shall determine or be required to redeem, in whole or in part, shares of Series A Term Preferred Stock pursuant to Section 2.5(a), (b), (c) or (d), the Corporation shall deliver a notice of redemption (the ***Notice of Redemption***), by overnight delivery, by first class mail, postage prepaid or by Electronic Means to Holders thereof, or request the Redemption and Paying Agent, on behalf of the Corporation, to promptly do so by overnight delivery, by first class mail, postage prepaid or by Electronic Means. A Notice of Redemption shall be provided not more than forty-five (45) calendar days prior to the date fixed for redemption in such Notice of Redemption (the ***Redemption Date***); provided, however, that, in the event of a Change of Control Redemption, the Notice of Redemption will, if mailed prior to the date of consummation of the Change of Control Triggering Event, state that the Change of Control Redemption is conditioned on the Change of Control Triggering Event occurring and, provided further, that if, by the date that is three (3) Business Days prior to the date fixed for redemption in such Notice of Redemption, the Change of Control Triggering Event shall not have occurred, the Redemption Date shall be extended until a date, to be selected by the Corporation, that is no more than three (3) Business Days after the date on which the Change of Control Triggering Event occurs. Each such Notice of Redemption shall state: (A) the Redemption Date; (B) the number of shares of Series A Term Preferred Stock to be redeemed; (C) the CUSIP number for shares of Series A Term Preferred Stock; (D) the applicable Redemption Price on a per share basis; (E) if applicable, the place or places where the certificate(s) for such shares (properly endorsed or assigned for transfer, if the Board of Directors requires and the Notice of Redemption states) are to be surrendered for payment of the Redemption Price; (F) that dividends on the shares of Series A Term Preferred Stock to be redeemed will cease to accumulate from and after such Redemption Date; and (G) the provisions of this Certificate of Designation under which such redemption is made. If fewer than all shares of Series A Term Preferred Stock held by any Holder are to be redeemed, the Notice of Redemption delivered to such Holder shall also specify the number of shares of Series A Term Preferred Stock to be redeemed from such Holder or the method of determining such number. The Corporation may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to this Certificate of Designation that such redemption is subject to one or more conditions precedent and that the Corporation shall not be required to effect such redemption unless each such condition has been satisfied at the time or times and in the manner specified in such Notice of Redemption. No defect in the Notice of Redemption or delivery thereof shall affect the validity of redemption proceedings, except as required by applicable law.

(ii) If the Corporation shall give a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by the Corporation), the Corporation shall (A) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on the date thereof no less than the Redemption Price of the shares of Series A Term Preferred Stock to be redeemed on the Redemption Date and (B) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable Redemption Price to the Holders of the shares of Series A Term Preferred Stock called for redemption on the Redemption Date. The Corporation may direct the Redemption and Paying Agent with respect to the investment of any Deposit Securities consisting of cash so deposited prior to the Redemption Date, provided that the proceeds of any such investment shall be available at the opening of business on the Redemption Date as same day funds.

(iii) Upon the date of the deposit of such Deposit Securities, all rights of the Holders of the shares of Series A Term Preferred Stock so called for redemption shall cease and terminate except the right of the Holders thereof to receive the Redemption Price thereof and such shares of Series A Term Preferred Stock shall no longer be deemed Outstanding for any purpose whatsoever (other than (A) the transfer thereof prior to the applicable Redemption Date and (B) the accumulation of dividends thereon in accordance with the terms hereof up to (but excluding) the applicable Redemption Date, which accumulated dividends, unless previously or contemporaneously declared and paid as contemplated by the last sentence of Section 2.5(e)(vi) below, shall be payable only as part of the applicable Redemption Price on the Redemption Date). The Corporation shall be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of the shares of Series A Term Preferred Stock called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of ninety (90) calendar days from the Redemption Date shall, to the extent permitted by law, be repaid to the Corporation, after which the Holders of the shares of Series A Term Preferred Stock so called for redemption shall look only to the Corporation for payment of the Redemption Price thereof. The Corporation shall be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

(iv) On or after the Redemption Date, each Holder of shares of Series A Term Preferred Stock in certificated form (if any) that are subject to redemption shall surrender the certificate(s) evidencing such shares of Series A Term Preferred Stock to the Corporation at the place designated in the Notice of Redemption and shall then be entitled to receive the Redemption Price for such shares of Series A Term Preferred Stock, without interest, and in the case of a redemption of fewer than all the shares of Series A Term Preferred Stock represented by such certificate(s), a new certificate representing the shares of Series A Term Preferred Stock that were not redeemed.

(v) Notwithstanding the other provisions of this Section 2.5, except as otherwise required by law, the Corporation shall not redeem any shares of Series A Term Preferred Stock unless all accumulated and unpaid dividends and distributions on all Outstanding shares of Series A Term Preferred Stock and other series of Preferred Stock ranking on a parity with the Series A Term Preferred Stock with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Corporation) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent for such Preferred Stock in accordance with the terms of such Preferred Stock, provided, however, that the foregoing shall not prevent the purchase or acquisition of Outstanding shares of Series A Term Preferred Stock pursuant to an otherwise lawful purchase or exchange offer made on the same terms to Holders of all Outstanding shares of Series A Term Preferred Stock and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

(vi) To the extent that any redemption for which Notice of Redemption has been provided is not made by reason of the absence of legally available funds therefor in accordance with the Certificate of Incorporation and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default shall be deemed to have occurred if the Corporation shall fail to deposit in trust with the Redemption and Paying Agent the Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any shares of Series A Term Preferred Stock, dividends may be declared and paid on the shares of Series A Term Preferred Stock in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such shares of Series A Term Preferred Stock shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

(f) **Redemption and Paying Agent as Trustee of Redemption Payments by Corporation**. All Deposit Securities transferred to the Redemption and Paying Agent for payment of the Redemption Price of the shares of Series A Term Preferred Stock called for redemption shall be held in trust by the Redemption and Paying Agent for the benefit of Holders of shares of Series A Term Preferred Stock so to be redeemed until paid to such Holders in accordance with the terms hereof or returned to the Corporation in accordance with the provisions of Section 2.5(e)(iii) above.

(g) **Compliance With Applicable Law**. In effecting any redemption pursuant to this Section 2.5, the Corporation shall use its best efforts to comply with all applicable conditions precedent to effecting such redemption under the 1940 Act and any applicable Delaware law, but shall effect no redemption except in accordance with the 1940 Act and any applicable Delaware law.

(h) **Modification of Redemption Procedures**. Notwithstanding the foregoing provisions of this Section 2.5, the Corporation may, in its sole discretion and without a stockholder vote, modify the procedures set forth above with respect to notification of redemption for the shares of Series A Term Preferred Stock, provided that such modification does not materially and adversely affect the Holders of the shares of Series A Term Preferred Stock or cause the Corporation to violate any applicable law, rule or regulation; and provided further that no such modification shall in any way alter the rights or obligations of the Redemption and Paying Agent without its prior consent.

2.6 Voting Rights.

(a) **One Vote Per Share of Series A Term Preferred Stock**. Except as otherwise provided in the Certificate of Incorporation or as otherwise required by law, (i) each Holder of shares of Series A Term Preferred Stock shall be entitled to one vote for each share of Series A Term Preferred Stock held by such Holder on each matter submitted to a vote of stockholders of the Corporation, and (ii) the holders of outstanding shares of Preferred Stock, including Outstanding shares of Series A Term Preferred Stock, and of outstanding shares of Common Stock shall vote together as a single class; provided, however, that the holders of outstanding shares of Preferred Stock, including Outstanding shares of Series A Term Preferred Stock, shall be entitled, as a class, to the exclusion of the Holders of all other securities and classes of Capital Stock of the Corporation, to elect two Directors of the Corporation at all times. Subject to Section 2.6(b), the Holders of outstanding shares of Common Stock and Preferred Stock, including shares of Series A Term Preferred Stock, voting together as a single class, shall elect the balance of the Directors.

(b) **Voting For Additional Directors**.

(i) **Voting Period**. During any period in which any one or more of the conditions described in clauses (A) or (B) of this Section 2.6(b)(i) shall exist (such period being referred to herein as a ***Voting Period***), the number of Directors constituting the Board of Directors shall be automatically increased by the smallest number that, when added to the two Directors elected exclusively by the Holders of Preferred Stock, including shares of Series A Term Preferred Stock, would constitute a majority of the Board of Directors as so increased by such smallest number; and the Holders of Preferred Stock, including Series A Term Preferred Stock, shall be entitled, voting as a class on a one-vote-per-share basis (to the exclusion of the Holders of all other securities and classes of capital stock of the Corporation), to elect such smallest number

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of additional Directors, together with the two Directors that such Holders are in any event entitled to elect. A Voting Period shall commence:

(A) if, at the close of business on any dividend payment date for any outstanding Preferred Stock including any Outstanding shares of Series A Term Preferred Stock, accumulated dividends (whether or not earned or declared) on such outstanding share of Preferred Stock equal to at least two (2) full years dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or

(B) if at any time Holders of shares of Preferred Stock are otherwise entitled under the 1940 Act to elect a majority of the Board of Directors.

Upon the termination of a Voting Period, the voting rights described in this Section 2.6(b)(i) shall cease, subject always, however, to the revesting of such voting rights in the Holders of shares of Preferred Stock upon the further occurrence of any of the events described in this Section 2.6(b)(i).

(ii) **Notice of Special Meeting**. As soon as practicable after the accrual of any right of the Holders of shares of Preferred Stock to elect additional Directors as described in Section 2.6(b)(i), the Corporation shall call a special meeting of such Holders and notify the Redemption and Paying Agent and/or such other Person as is specified in the terms of such Preferred Stock to receive notice (i) by mailing or delivery by Electronic Means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such Holders, such meeting to be held not less than ten (10) nor more than thirty (30) calendar days after the date of the delivery by Electronic Means or mailing of such notice. If the Corporation fails to call such a special meeting, it may be called at the expense of the Corporation by any such Holder on like notice. The record date for determining the Holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth (5th) Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of Holders of shares of Preferred Stock held during a Voting Period at which Directors are to be elected, such Holders, voting together as a class (to the exclusion of the Holders of all other securities and classes of capital stock of the Corporation), shall be entitled to elect the number of Directors prescribed in Section 2.6(b)(i) on a one-vote-per-share basis.

(iii) **Terms of Office of Existing Directors**. The terms of office of the incumbent Directors of the Corporation at the time of a special meeting of Holders of the shares of Preferred Stock to elect additional Directors in accordance with Section 2.6(b)(i) shall not be affected by the election at such meeting by the Holders of shares of Series A Term Preferred Stock and such other Holders of shares of Preferred Stock of the number of Directors that they are entitled to elect, and the Directors so elected by the Holders of shares of Series A Term Preferred Stock and such other Holders of shares of Preferred Stock, together with the two (2) Directors elected by the Holders of shares of Preferred Stock in accordance with Section 2.6(a) hereof and the remaining Directors elected by the holders of the shares of Common Stock and Preferred Stock, shall constitute the duly elected Directors of the Corporation.

(iv) **Terms of Office of Certain Directors to Terminate Upon Termination of Voting Period**. Simultaneously with the termination of a Voting Period, the terms of office of the additional Directors elected by the Holders of the shares of Preferred Stock pursuant to Section 2.6(b)(i) shall terminate, the remaining Directors shall constitute the Directors of the Corporation and the voting rights of the Holders of shares of Preferred Stock to elect additional Directors pursuant to Section 2.6(b)(i) shall cease, subject to the provisions of the last sentence of Section 2.6(b)(i).

(c) **Holders of Shares of Series A Term Preferred Stock to Vote on Certain Matters**.

(i) **Certain Amendments Requiring Approval of Series A Term Preferred Stock**. Except as otherwise permitted by the terms of this Certificate of Designation, so long as any shares of Series A Term Preferred Stock are Outstanding, the Corporation shall not, without the affirmative vote or consent of the Holders of at least two-thirds (2/3) of the shares of Series A Term Preferred Stock Outstanding at the time, voting together as a

separate class, amend, alter or repeal the provisions of the Certificate of Incorporation, or this Certificate of Designation, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of such shares of Series A Term Preferred Stock or the Holders thereof; provided, however, that (i) a change in the capitalization of the Corporation in accordance with Section 2.8 hereof shall not be considered to materially and adversely affect the rights and preferences of the Series A Term Preferred Stock, and (ii) a division of a share of Series A Term Preferred Stock shall be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the Holders of the shares of Series A Term Preferred Stock. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a share of Series A Term Preferred Stock or the Holder thereof unless such matter (i) alters or abolishes any preferential right of such share of Series A Term Preferred Stock, or (ii) creates, alters or abolishes any right in respect of redemption of such share of Series A Term Preferred Stock (other than as a result of a division of a share of Series A Term Preferred Stock). So long as any shares of Series A Term Preferred Stock are Outstanding, the Corporation shall not, without the affirmative vote or consent of at least 66 2/3% of the Holders of the shares of Series A Term Preferred Stock Outstanding at the time, voting as a separate class, file a voluntary application for relief under Federal bankruptcy law or any similar application under state law for so long as the Corporation is solvent and does not foresee becoming insolvent.

(ii) **1940 Act Matters**. Unless a higher percentage is provided for in the Certificate of Incorporation, the affirmative vote of the Holders of at least a majority of the outstanding shares of Preferred Stock, including shares of Series A Term Preferred Stock Outstanding at the time, voting as a separate class, shall be required (A) to approve the Corporation ceasing to be a Business Development Company, or to approve the Corporation s withdrawal of its election as a Business Development Company, or (B) to approve any plan of reorganization (as such term is used in the 1940 Act) adversely affecting such shares. For purposes of the foregoing, the vote of a majority of the outstanding shares of Preferred Stock means the vote at an annual or special meeting duly called of (i) sixty-seven percent (67%) or more of such shares present at a meeting, if the Holders of more than fifty percent (50%) of such shares are present or represented by proxy at such meeting, or (ii) more than fifty percent (50%) of such shares, whichever is less.

(d) **Voting Rights Set Forth Herein Are Sole Voting Rights**. Unless otherwise required by law or the Certificate of Incorporation, the Holders of shares of Series A Term Preferred Stock shall not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in this Section 2.6.

(e) **No Cumulative Voting**. The Holders of shares of Series A Term Preferred Stock shall have no rights to cumulative voting.

(f) **Voting for Directors Sole Remedy for Corporation s Failure to Declare or Pay Dividends**. In the event that the Corporation fails to declare or pay any dividends on shares of Series A Term Preferred Stock on the Dividend Payment Date therefor, the exclusive remedy of the Holders of the shares of Series A Term Preferred Stock shall be the right to vote for Directors pursuant to the provisions of this Section 2.6. Nothing in this Section 2.6(f) shall be deemed to affect the obligation of the Corporation to accumulate and, if permitted by applicable law, the Certificate of Incorporation and this Certificate of Designation, pay dividends at the Default Rate in the circumstances contemplated by Section 2.2(g) hereof.

(g) **Holders Entitled to Vote**. For purposes of determining any rights of the Holders of shares of Series A Term Preferred Stock to vote on any matter, whether such right is created by this Certificate of Designation, by the Certificate of Incorporation, by statute or otherwise, no Holder of shares of Series A Term Preferred Stock shall be entitled to vote any share of Series A Term Preferred Stock and no share of Series A Term Preferred Stock shall be deemed to be Outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such shares of Series A Term Preferred Stock shall have been given in accordance with this Certificate of Designation and Deposit Securities for the payment of the Redemption Price of such share of Series A Term Preferred Stock shall have been deposited in trust with the Redemption and Paying Agent for that purpose. No share of Series A Term Preferred Stock held by the Corporation shall have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

2.7 Issuance of Additional Preferred Stock.

So long as any shares of Series A Term Preferred Stock are Outstanding, the Corporation may, without the vote or consent of the Holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of senior securities of the Corporation representing stock under Sections 18 and 61 of the 1940 Act, ranking on a parity with the Series A Term Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or the winding up of the affairs of the Corporation, in addition to then Outstanding shares of Series A Term Preferred Stock, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, including additional shares of Series A Term Preferred Stock, in each case in accordance with applicable law, provided that the Corporation shall, immediately after giving effect to the issuance of such additional shares of Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of shares of Preferred Stock with such proceeds, have Asset Coverage (calculated in the same manner as is contemplated by Section 2.4(b) hereof) of at least 200%.

2.8 Status of Redeemed or Repurchased Series A Term Preferred Stock.

Shares of Series A Term Preferred Stock that at any time have been redeemed or purchased by the Corporation shall, after such redemption or purchase, have the status of authorized but unissued shares of Capital Stock.

2.9 Global Certificate.

Prior to the commencement of a Voting Period, (i) all shares of Series A Term Preferred Stock Outstanding from time to time shall be represented by one global certificate registered in the name of the Securities Depository or its nominee and (ii) no registration of transfer of shares of such Series A Term Preferred Stock shall be made on the books of the Corporation to any Person other than the Securities Depository or its nominee. The foregoing restriction on registration of transfer shall be conspicuously noted on the face or back of the global certificates.

2.10 Notice.

All notices or communications hereunder, unless otherwise specified in this Certificate of Designation, shall be sufficiently given if in writing and delivered in person, by telecopier, by Electronic Means or by overnight mail or delivery or mailed by first-class mail, postage prepaid. Notices delivered pursuant to this Section 2.10 shall be deemed given on the date received or, if mailed by first class mail, on the date five (5) calendar days after which such notice is mailed.

2.11 Termination.

In the event that no shares of Series A Term Preferred Stock are Outstanding, all rights and preferences of the shares of Series A Term Preferred Stock established and designated hereunder shall cease and terminate, and all obligations of the Corporation under this Certificate of Designation with respect to such Series A Term Preferred Stock shall terminate.

2.12 Amendment.

The Board of Directors may, by resolution duly adopted, without stockholder approval (except as otherwise provided by this Certificate of Designation or required by applicable law) (1) amend this Certificate of Designation so as to reflect any amendments to the terms applicable to the Series A Term Preferred Stock, including an increase in the number of authorized shares of the Series A Term Preferred Stock.

2.13 Actions on Other than Business Days.

Unless otherwise provided herein, if the date for making any payment, performing any act or exercising any right, in each case as provided for in this Certificate of Designation, is not a Business Day, such payment shall be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done

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on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount shall accrue for the period between such nominal date and the date of payment.

2.14 Modification.

The Board of Directors, without the vote of the Holders of Series A Term Preferred Stock, may interpret, supplement or amend the provisions of this Certificate of Designation to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Capital Stock of the Corporation.

2.15 Information Rights

During any period in which the Corporation is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and any shares of Series A Term Preferred Stock are outstanding, the Corporation will provide holders of Series A Term Preferred Stock, without cost, copies of SEC Reports that the Corporation would have been required to file pursuant to Section 13 or 15(d) of the Exchange Act if the Corporation was subject to such provisions or, alternatively, the Corporation will voluntarily file SEC Reports as if the Corporation was subject to Section 13 or 15(d) of the Exchange Act.

2.16 No Additional Rights.

Unless otherwise required by law or the Certificate of Incorporation, the Holders of shares of Series A Term Preferred Stock shall not have any relative rights or preferences or other special rights other than those specifically set forth in this Certificate of Designation.

[Signature Page Begins on the Following Page]

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IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designation to be duly executed by its duly authorized officer as of this day of February, 2012.

GLADSTONE INVESTMENT CORPORATION

By:

Name: David Gladstone

Title: Chairman and Chief Executive Officer

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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 majority of our common stockholders, or (iii) under such other circumstances as the Securities and Exchange Commission may permit. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The Nasdaq Global Select Market under the symbol GAIN. As of September 8, 2011, the last reported sales price for our common stock was $6.42.

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

An investment in our Securities involves certain risks, including, among other things, risks relating to investments in securities of small, private and developing businesses. We describe some of these risks in the section entitled Risk Factors, which begins on page 9. Shares of closed-end investment companies frequently trade at a discount to their net asset value 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.

September 9, 2011

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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.

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PROSPECTUS SUMMARY

The following summary contains basic information about this offering. It likely does not contain all the information that is important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred. Except where the context suggests otherwise, the terms we, us, our, the Company and Gladstone Investment refer to Gladston 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 were primarily established for the purpose of investing in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. When we invest in buyouts we do so with the management team of the portfolio companies and with other buyout funds. We also sometimes invest in senior secured loans, common stock and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments. We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, which we refer to as the 1940 Act. For federal income tax purposes, we have elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, which we refer to as the Code.

Our Investment Adviser and Administrator

Our Adviser is our affiliate and investment adviser and is led by a management team which has extensive experience in our lines of business. Excluding our chief financial officer, all of our executive officers serve as either directors or executive officers, or both, of Gladstone Commercial, a publicly traded real estate investment trust; Gladstone Capital, a publicly traded BDC and RIC; our Adviser; and our Administrator. Our treasurer is also an executive officer of Gladstone Securities, a broker dealer registered with the Financial Industry Regulatory Authority, or FINRA. Our Administrator employs our chief financial officer, chief compliance officer, controller, treasurer, internal counsel and their respective staffs.

Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates Gladstone Commercial; Gladstone Capital; Gladstone Partners Fund, L.P., a private partnership fund formed primarily to co-invest with us and Gladstone Capital; Gladstone Land, a private agricultural real estate company owned by David Gladstone, our chairman and chief executive officer, and Gladstone Lending Corporation, a private corporation that has filed a registration statement on Form N-2 with the Securities and Exchange Commission, or SEC. 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. 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 New York, Illinois, Virginia and California.

Our Investment Strategy

We seek to achieve returns through current income generated from senior, subordinated and mezzanine debt, and capital gains from the sale of preferred stock, warrants to purchase common stock and common stock that we purchase in connection with buyouts and recapitalizations of small and mid-sized companies with established management teams. We seek to make investments that generally range between $10 million and $40 million each, although this investment size may vary proportionately as the size of our capital base changes. Typically, our investments mature in no more than seven years and accrue interest at fixed or variable rates with floors in place. We invest either by ourselves or jointly with other buyout 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 to be investing alone. Because we expect that the majority of our portfolio loans will consist of term debt of 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 of the debt securities we acquire will be unrated. We cannot accurately predict what ratings these loans might receive if they were rated, and thus cannot determine whether or not they could be considered investment grade quality. However, for loans that lack a rating by a credit rating agency, investors should assume that these loans will be below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds, and may be considered high risk compared to investment grade debt instruments.

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

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, 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 majority of our common stockholders, or (iii) under such other circumstances as the SEC may permit. If we were to sell shares of our common stock below our then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then current net asset value 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.

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

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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:

The Nasdaq Global Select Market Symbol	GAIN
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 and generally intend to continue to do so. The amount of the monthly distribution 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 elect to be treated for federal income tax purposes as a RIC. So long as we continue to qualify, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. Due to the current economic environment, there is a risk that in future quarters we may be unable to satisfy one or more of these requirements. See Material U.S. Federal Income Tax Considerations.
Trading at a Discount	Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value, although during the past three years, our common stock has traded consistently, and at times significantly, below net asset value.

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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 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	Currently, we do not meet the 50% threshold of the asset diversification test applicable to RICs under the Code. In addition, committed funding under our credit facility has been significantly reduced over the past two years. As a result, we have very limited ability to fund new investments and may become subject to corporate-level taxation. See Risk Factors 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 September 30, 2011, 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 In recent years, creditors have significantly curtailed their lending to business development companies, including us. Because of the limited amount of committed funding under our line of credit, we will have limited ability fund new investments if we are unable to expand the facility.

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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 June 30, 2011, and average net assets for the quarter ended June 30, 2011.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)	%
Dividend reinvestment plan expenses[1]	None
Annual expenses (as a percentage of net assets attributable to common stock):	
Management fees[2]	1.59%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)[3]	0.01%
Interest payments on borrowed funds[4]	0.48%
Other expenses[5]	1.42%
Total annual expenses[2][5]	3.50%

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

(2) Our annual base management fee is 2% (0.5% quarterly) of our average gross assets, which are defined as 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 June 30, 2011, 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 June 30, 2011, the waiver did not impact our expenses for that period, as reflected in the table above. See Management Certain Transactions Investment Advisory and Management Agreement and footnote 3 below.

(3) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide our Adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 2 above). The capital gains-based incentive fee equals 20% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year.

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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.

(4) Includes deferred financing costs. We entered into a revolving credit facility, effective April 13, 2010, under which our borrowing capacity is $50 million. We have drawn down on this credit facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of our senior securities. Assuming that we borrowed $50 million at an interest rate of 2% plus an additional fee related to borrowings of 4.5%, for an aggregate rate of 6.5%, interest payments and amortization of deferred financing costs on borrowed funds would have been 1.85% of our average net assets for the quarter ended June 30, 2011.

(5) 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 example demonstrates 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. In the event that securities to which this prospectus related are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

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	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 37	$ 112	$ 189	$ 391

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%. Additionally, 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 the above example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments. Additionally, because the capital gains-based incentive fee is calculated on a cumulative basis (computed net of all realized capital losses and unrealized capital depreciation) and because of the significant capital losses realized to date, we have assumed that we will not trigger the payment of any capital gains-based incentive fee in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses on a $1,000 investment, assuming a 5% annual return, consisting entirely of capital gains would be $46 for 1 year, $140 for 3 years, $234 for 5 years and $472 for 10 years. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, 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.

This example 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.

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 1-202-551-8090. 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 The Nasdaq Global Select Market 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.

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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 current state of the economy and the capital markets 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 and affect the industries in which we invest, which could, in turn, harm our operating results. Continued adversity in the capital markets could impact our ability to raise capital and reduce our volume of new investments.

Despite some signs of economic improvement and stabilization in both the equity and debt markets, conditions within the global credit markets generally continue to experience dislocation and stress. 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 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, as well as those companies that we evaluate for investment, are impacted by these economic conditions, and if these conditions persists it may affect their ability 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 our 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 line of credit or raise equity capital, thereby further reducing our ability to make new investments.

The unstable economic conditions have affected the availability of credit generally and we have seen a reduction in committed funding under our line of credit from $125.0 million to $50.0 million and the withdrawal of Deutsche Bank AG as a committed lender. Moreover, during the first quarter of fiscal year 2010, we were forced to sell 29 of the 32 senior syndicated loans that were held in our portfolio of investments at March 31, 2009 in order to repay amounts outstanding under our prior credit facility. The loans, in aggregate, had a cost value of approximately $104.2 million, or 29.9% of the cost value of our total investments, and an aggregate fair value of approximately $69.8 million, or 22.2% of the fair value of our total investments, at March 31, 2009. As a result of these sales, we received approximately $69.2 million in net cash proceeds and recorded a realized loss of approximately $34.6 million. Our current line of credit limits our distributions to stockholders and, as a result, beginning in fiscal year 2010, we decreased our monthly cash distribution rate by 50.0% as compared to the prior year period in an effort to more closely align our distributions to our net investment income. However, we have since increased our distributions by an aggregate of 25% from the distribution rate at March 31, 2011. We do not know when market conditions will fully 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.

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 manufacturing and consumer goods and services. 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

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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 our Adviser, particularly David Gladstone, George Stelljes III, Terry Lee Brubaker and David Dullum, and on the continued operations of our Adviser, for our future success.

We have no employees. Our chief executive officer, president and chief investment officer, chief operating officer and chief financial officer, and the employees of our Adviser, do not spend all of their time managing our activities and our investment portfolio. We are particularly dependent upon David Gladstone, George Stelljes III, Terry Lee Brubaker and David Dullum in this regard. Our executive officers and the employees of our 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 our 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 our 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 our Adviser and that discontinuation of its operations could have a material adverse effect on our ability to achieve our investment objectives.

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

The management compensation structure that has been implemented under the Advisory Agreement may cause our Adviser to invest in high risk investments or take other risks. In addition to its management fee, our 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 our 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 our Adviser incentive compensation even if we incur a loss.

The Advisory Agreement entitles our 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 our 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 our Adviser, see Business Investment Advisory and Management Agreement and Administration Agreement Fees under the Investment Advisory and Management Agreement.

For example, during fiscal 2010, based on the Advisory Agreement, our Adviser was entitled to an incentive fee of $588,000 even though we incurred a loss of $4.4 million for the quarter ended December 31, 2009, resulting primarily from a decline in the value of our portfolio. The Adviser s board of directors subsequently irrevocably waived and credited $102,000 of the incentive fee, resulting in a net incentive fee for the fiscal year ended March 31, 2010 of $486,000.

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Our 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 our 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 our 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 our Adviser has substantial responsibilities under the Advisory Agreement. In order to grow, our 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 investment returns.

Our executive officers and directors, and the officers and directors of our Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman of the board and chief executive officer of our Adviser, Gladstone Capital and Gladstone Commercial and the sole stockholder of Gladstone Land. In addition, Mr. Brubaker, our co-vice chairman, chief operating officer and secretary is the vice chairman, chief operating officer and secretary of our Adviser, Gladstone Capital and Gladstone Commercial. Mr. Stelljes, our co-vice chairman and chief investment officer, is also the president and chief investment officer of our Adviser, Gladstone Capital and Gladstone Commercial. Mr. Dullum, our president and a director, is a senior managing director of our Adviser and a director of Gladstone Capital and Gladstone Commercial. Moreover, our Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with those of ours and accordingly may invest in, whether principally or secondarily, asset classes similar to those we target. For example, our Adviser filed a registration statement with the SEC for a proposed initial public offering of common stock of Gladstone Lending Corporation, a proposed fund that would primarily invest in first and second lien term loans. While our Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, our Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Gladstone affiliate with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of our Adviser may face conflicts in the allocation of investment opportunities to other entities managed by our Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other members of our Adviser and its affiliated companies or investment funds managed by investment managers affiliated with our Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of June 30, 2011, our Board of Directors has approved the following types of co-investment transactions:

Our affiliate, Gladstone Commercial, may lease property to portfolio companies that we do not control under certain circumstances. 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.

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Additionally, pursuant to an exemptive order granted by the Securities and Exchange Commission, our Adviser may sponsor a private investment fund to co-invest with us or Gladstone Capital in accordance with the terms and conditions of the order.

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

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

Our 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 our Adviser in the future. However, our 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 our 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.

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.

Risks Related to Our External Financing

In recent years, creditors have significantly curtailed their lending to business development companies, including us. Because of the limited amount of committed funding under our line of credit, we will have limited ability to fund new investments if we are unable to expand the facility.

On April 13, 2010, through Business Investment, we entered into a third amended and restated credit agreement providing for a $50.0 million revolving line of credit, which we refer to as the Credit Facility, arranged by Branch Banking and Trust Company, or BB&T, as administrative agent. Key Equipment Finance Company Inc. also joined the Credit Facility as a committed lender. Committed funding under the Credit Facility was reduced from the $125.0 million under our prior credit facility and Deutsche Bank AG, which was a committed lender under the prior credit facility, elected not to participate in the Credit Facility and withdrew its commitment. The Credit Facility may be expanded up to $125.0 million through the addition of other committed 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 line of credit. The Credit Facility matures on April 13, 2012, and if the facility is not renewed or extended by this date, all principal and interest will be due and payable within one year of maturity. Between the maturity date and April 13, 2013, our lenders have the right to apply all interest income to amounts outstanding under the Credit Facility. As of August 15, 2011, we had $43.9 million of borrowing capacity under the Credit Facility. There can be no guarantee that we will be able to renew, extend or replace the Credit Facility upon its maturity in 2012 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.

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

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 line of credit) and possibly preferred stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a business development company, to issue debt securities, and preferred stock, which we refer to collectively as senior securities, in amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of senior securities. As a result of issuing senior securities, 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 or incur additional indebtedness would be restricted if asset coverage is not at least twice our indebtedness. If the value of our assets declines, we might be unable to satisfy that test. If this happens, we may be required to liquidate a portion of our loan portfolio and repay a portion of our indebtedness at a time when a sale, to the extent possible given the limited market for many of our investments, may be disadvantageous. Furthermore, any amounts that we use to service our indebtedness will not be available for distributions to our stockholders.

Common Stock. Because we are constrained in our ability to issue debt 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 or senior securities convertible into or exchangeable for our common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our common stock may experience dilution. In addition, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below net asset value per 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. At our most recent annual meeting, our stockholders approved such an offering for a period of one year from August 4, 2011. If we were to sell shares of our common stock below our then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then current net asset value 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. For example,

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if we issue and sell an additional 10% of our common stock at a 5% discount from net asset value, a stockholder who does not participate in that offering for its proportionate interest will suffer net asset value dilution of up to 0.5% or $5 per $1,000 of net asset value. This imposes constraints on our ability to raise capital when our common stock is trading at below net asset value, as it has for more than three years.

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 June 30, 2011, our portfolio had approximately 66.4% of the total loans at cost at variable rates with floors and approximately 33.6% of the total loans at cost 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.

In addition to regulatory limitations on our ability to raise capital, our line of credit 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 loans. In order to maintain RIC status, we are required to distribute to our stockholders at least 90% of our ordinary income and short-term capital gains on an annual basis. Accordingly, such earnings will not be available to fund additional investments. Therefore, we entered into a Credit Facility, which provides us with a revolving credit line facility of $50.0 million, of which $43.9 million was available for borrowings as of August 15, 2011. The Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set out in the credit agreement. Current market conditions have forced us to write down the value of a portion of our assets as required by the 1940 Act and fair value accounting rules. These are not realized losses but constitute adjustment in asset values for purposes of financial reporting and for collateral value for the Credit Facility. As assets are marked down in value, the amount we can borrow on the Credit Facility decreases.

As a result of the Credit Facility, we are subject to certain limitations on the type of loan investments we make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, and average life. The credit agreement also requires us to comply with other financial and operational covenants, which require us to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum net worth. As of June 30, 2011, we were in compliance with these covenants; however, 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 valuation is subject to changing market conditions that remain very volatile, affects our ability to comply with these covenants.

During the year ended March 31, 2011, net unrealized depreciation on our investments was $23.2 million, which reflected the reversal of $21.9 million in unrealized appreciation resulting from our realized gains. Excluding reversals, we had $1.3 million in unrealized depreciation for the year ended March 31, 2011. During the year ended March 31, 2010, net unrealized appreciation on our investments was $14.3 million, which reflected the reversal of $35.7 million in unrealized depreciation resulting from our realized losses. Excluding reversals, we had $21.4 million in unrealized depreciation for the year ended March 31, 2010. Given the volatility in the capital markets, the cumulative unrealized depreciation in our portfolio may increase in future periods and threaten our ability to comply with the covenants under the Credit Facility. Accordingly, there are no assurances that we will continue to comply with these covenants. Under the Credit Facility, we are also required to maintain our status as a BDC under the 1940 Act and as a RIC under the Code. Because of changes in our asset portfolio, due to significant sales of Non-Control/Non-Affiliate investments during fiscal 2010, there is a significant possibility that we may not meet the asset diversification threshold under the Code s rules applicable to a RIC as of our next quarterly testing date, September 30, 2011. Although this failure alone, in our current situation, will not cause us to lose our RIC status, our 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 Regulated Investment Company Status. Our failure to satisfy these 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 line of credit 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.

Availability under the Credit Facility will terminate on April 13, 2012, and if the facility is not renewed or extended by such date, all principal and interest will be due and payable on April 13, 2013, one year after the date of maturity. Between the maturity date and April 13, 2013, our lenders have the right to apply all interest income to amounts outstanding under the Credit Facility. As of August 15, 2011, there was $3.5 million of borrowings outstanding under the Credit Facility. 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 current economic conditions affecting the credit markets. Consequently, 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 with regard to our ability to fund investments or maintain distributions to stockholders. If we are unable to secure replacement financing and we have borrowings outstanding under the Credit Facility, 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 line of credit. 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 and assets and voting interest in us.

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 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

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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 business development company. 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. Therefore, current unstable economic conditions, 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 is not readily available to them. 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, our Adviser and its employees 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

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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 net asset value.

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, or DCF, methodologies or indicative bid price, or 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, or 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. During April and May of 2009, we completed the sale of 29 of the 32 senior syndicated loans that were held in our portfolio of investments at March 31, 2009 to various investors in the syndicated loan market. As a result of these sales, we received approximately $69.2 million in net cash proceeds, which was approximately $34.6 million less than the cost value of such investments recorded as of December 31, 2008.

Our procedures also include provisions whereby our 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;

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- 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 net asset value 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, our 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 net asset value 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. This risk is heightened as a result of our sale of the majority of senior syndicated loans in the quarter ended June 30, 2009. As a result of these sales and other exits, the total number of portfolio companies in which we hold investments decreased from 46 at March 31, 2009 to 17 at June 30, 2011. Our five largest investments represented 56.5% of the fair value of our total portfolio at June 30, 2011, compared to 48.7% at March 31, 2009. 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 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.

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 that we make in our portfolio companies may be repaid prior to maturity. For the year ended March 31, 2011, we received principal payments prior to maturity of $ 59.0 million. We will first use any proceeds from prepayments to repay any borrowings outstanding on our line of credit. 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 elects 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 adverse effect of current unstable economic conditions 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 June 30, 2011, we had investments in 17 portfolio companies, of which there were five investments, Venyu Solutions, Inc., or Venyu, Acme Cryogenics, Inc., or Acme, Mitchell Rubber Products, Inc., or Mitchell, Cavert II Holdings Corp., or Cavert, and Noble Logistics, Inc., or Noble, that comprised approximately $93.3 million or 56.5% of our total investment portfolio, at fair value. Additionally, in August 2011, we made an investment in the aggregate amount of $28.1 million in SOG Specialty Knives and Tools, LLC, or SOG. 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 June 30, 2011, 23.5% of our total investments, at fair value, were invested in chemicals, plastics and rubber companies, 15.3% of our total investments, at fair value, were invested in containers, packaging and glass companies and 15.3% of our total investments, at fair value, were invested in electronics companies. 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.

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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, certain of our 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 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, 2011, and the three months ended June 30, 2011 we successfully achieved realized gains of $29.2 million, in aggregate, with the sales of A. Stucki Holding Corp., or A. Stucki, in June 2010 and Chase II Holding Corp., or Chase, in December 2010, and the recapitalization of Cavert, in April 2011. At the time of the recapitalization of Cavert, we also received $2.3 million in a partial redemption of our preferred stock and $0.7 million in preferred dividends, and we invested $5.7 million in new subordinated debt of Cavert. These transactions, however, were the first management-supported buyout liquidity events since the inception of our fund 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 fiscal 2011 should not be relied upon as being indicative of performance in future periods.

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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 business development company 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. Decreases in the market values or fair values of our investments will be recorded 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.

Hedging strategies can pose risks to us and our stockholders.

If one of our portfolio companies goes public in the future, we may undertake hedging strategies with regard to any equity interests that we may have in that company. We may seek to mitigate risks associated with the volatility of publicly traded securities by, for example, selling securities short or writing or buying call or put options. It is possible, however, that utilizing short-selling transactions, derivative instruments and hedging strategies of the type we may use might not perform as intended or expected, resulting in higher realized losses and unforeseen cash needs. In addition, these transactions depend on the performance of various counterparties. Due to the challenging conditions in the financial markets, these counterparties may fail to perform, thus rendering our transactions ineffective, which would likely result in significant losses. In addition, hedging transactions would also limit our opportunity to gain from an increase in the value of our investment in the public company.

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 September 30, 2011, 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 April and May 2009, due to the Syndicated Loan Sales, we fell below the 50% threshold. At June 30, 2011, as with each quarterly measurement date following 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 June 30, 2011 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 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 enter into such a transaction on reasonable terms, if at all. Failure to meet this threshold alone does not result in loss of our 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 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 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 September 30, 2011 or as of subsequent quarterly measurement dates.

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If we were to make a new or additional investment before regaining compliance with the 50% threshold, and we did not regain 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 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. 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, 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 short-term capital gains 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 Business Competitive Advantages Leverage and Material U.S. Federal Income Tax Considerations Regulated Investment Company 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 a private letter ruling from the Internal Revenue Service, or the IRS, related to our tax treatment for success fees. In the ruling, executed by our consent on January 3, 2011, we, in effect, 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 will be treated as ordinary income. Prior to January 1, 2011, we had treated the success fee amount as a realized gain for tax characterization purposes. The private letter ruling 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 will be 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 Business Regulation as a Business Development Company and Material U.S. Federal Income Tax Considerations Regulated Investment Company Status.

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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 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.

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. On an annual basis, we intend to distribute net long-term capital gains, after giving effect to any prior year realized losses that are carried forward, by paying a one-time distribution. However, our Board of Directors may determine in certain cases to retain net realized long-term capital gains through a deemed distribution to supplement our equity capital and support the growth of our portfolio In addition, our line of credit 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 by us 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

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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 may fluctuate substantially. The extreme volatility and disruption that have affected the capital and credit markets for over two years have reached unprecedented levels in recent months and we have experienced significant 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, business development companies 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 business development companies;
- loss of business development company status;
- loss of RIC status;
- changes in our earnings or variations in our operating results;
- 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 business development companies 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.

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The issuance of subscription rights to our existing stockholders may dilute the ownership and voting powers by existing stockholders in our common stock, dilute the net asset value 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 determined to raise equity in this manner primarily because of the capital raising constraints applicable to us under the 1940 Act when our stock is trading below its net asset value per share, as it was at the time of the 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 net asset value per share, our stockholders are likely to experience an immediate dilution of the per share net asset value 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 net asset value.

Shares of closed-end investment companies frequently trade at a discount from net asset value. Since our inception, our common stock has at times traded above and below net asset value. During the past three years, our common stock has traded consistently, and at times significantly, below net asset value. Subsequent to June 30, 2011, our stock has traded at discounts of up to 27.6% of our net asset value per share, which was $9.06 as of June 30, 2011. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our net asset value 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 net asset value, 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 net asset value. Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below net asset value per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our stockholders and our independent directors. Additionally, at times when our stock is trading below its net asset value 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 net asset value 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 net asset value 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 were previously unable to as a result of restrictions that apply to business development companies under the 1940 Act. Specifically, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of one year, provided 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 such sale. During the past three years, our common stock has traded consistently, and at times significantly, below net asset value. Any decision to sell shares of our common stock below the then current net asset value 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.

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If we were to sell shares of our common stock below net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then current net asset value 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 net asset value 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 net asset value, a stockholder who did not participate in that offering for its proportionate interest would suffer net asset value dilution of up to 0.5% or $5 per $1,000 of net asset value.

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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus or 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, provided, anticipate, futur growth, plan, intend, expect, should, would, if, seek, possible, potential, likely or the negative of such terms or comparable forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (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, George Stelljes III 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 sections of this prospectus and any accompanying prospectus supplement. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus.

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 line facility currently accrues interest at the rate of approximately 6.5% and matures on April 13, 2012. 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 Form 1099 DIV. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of record of common stock, all cash distributions can be reinvested automatically under our dividend reinvestment plan in additional whole and fractional shares. A stockholder whose shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in our dividend reinvestment plan on the stockholder s behalf. See Risk Factors We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations.

Our common stock is quoted on The Nasdaq Global Select Market under the symbol GAIN. Our common stock has historically traded at prices both above and below its net asset value. There can be no assurance, however, that any premium to net asset value will be attained or maintained. As of August 15, 2011, we had 30 stockholders of record.

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The following table sets forth the range of high and low closing sales prices of our common stock as reported on the Nasdaq Global Select Market and the dividends declared by us for the last two completed fiscal years and the current fiscal year through September 8, 2011.

SHARE PRICE DATA

	Net Asset Value Per Share(1)	Closing Sales Price High	Dividend Declared	Discount of High Sales Price to Net Asset Value(2)	Discount of Low Sales Price to Net Asset Value(2)