TURKCELL ILETISIM HIZMETLERI A S
Form 6-K
May 20, 2009

**FORM 6-K**

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**Report of Foreign Issuer**
**Pursuant to Rule 13a-16 or 15d-16 of**
**the Securities Exchange Act of 1934**

For the month of **May 2009**

Commission File Number **001-15092**

# TURKCELL ILETISIM HIZMETLERI A.S.

(Translation of registrant's name into English)

**Turkcell Plaza**
**Mesrutiyet Caddesi No. 153**
**34430 Tepebasi**
**Istanbul, Turkey**
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F

**Form 20-F:** ý Form 40-F: o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

**Note:** Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

**EXHIBIT INDEX**

| | |
|---|---|
| 99.1 | Press Release dated May 13, 2009 (Turkcell Iletism Hizmetleri A.S. First Quarter 2009 Results - "Technology Leadership, Efficiency and Customer Focus Produce Solid Results") |
| 99.2 | Turkcell Iletisim Hizmetleri A.S. Consolidated Interim Financial Statements As at 31 March 2009 |

**EXHIBIT 99.1**

# TURKCELL ILETISIM HIZMETLERI A.S.

# FIRST QUARTER 2009 RESULTS

## "Technology Leadership, Efficiency and Customer Focus Produce Solid Results"

Istanbul, Turkey, May 13, 2009 – Turkcell (NYSE:TKC, ISE:TCELL), the leading provider of mobile communications services in Turkey, today announced results for the first quarter ended March 31, 2009. All financial results in this press release are unaudited, prepared in accordance with International Financial Reporting Standards ("IFRS") and expressed in US$.

Please note that all financial data is consolidated and comprises Turkcell Iletisim Hizmetleri A.S., (the “Company”, or “Turkcell”) and its subsidiaries and its associates (together referred to as the “Group”). All non-financial data is unconsolidated and comprises Turkcell only. The terms "we", "us", and "our" in this press release refer only to the Company, except in discussions of financial data, where such terms refer to the Group, and where context otherwise requires.

## Highlights of the quarter

- Turkcell recorded strong financial results despite the global economic downturn, which became more visible in Turkey since the fourth quarter of 2008, leading to a 38% year on year depreciation of TRY against US$ on average
- Revenue increased by 12.3% to TRY2,103 million (TRY1,873 million) and net income slightly decreased to TRY563 million (TRY583 million) year on year
- EBITDA* increased by 12.6% to TRY774 million (TRY687 million) compared to Q1 2008.
- EBITDA margin in 1Q 2009 improved by 3.8 pp compared to the previous quarter due to effective cost management
- Revenue decreased by 18.5% to US$1,283 million (US$1,574 million), EBITDA decreased by 18.2% to US$472 million (US$577 million), and net income decreased by 29.3% to US$344 million (US$487 million) in US$ terms compared to Q1 2008 mainly due to the impact of the depreciation of the TRY
- Group subscribers annually increased by 9% to 61.4 million with 1.3 million new subscriptions from Turkcell Turkey and 2.1 million from Astelit
- Turkcell decided to distribute TRY1,098 million (approximately US$706 million as of May 13, 2009) as cash dividends, representing a 69% increase compared to the previous year

**EBITDA is a non-GAAP financial measure. See pages 14-15 for the reconciliation of EBITDA to net cash from operating activities.*

In this press release, a year on year comparison of our key indicators is provided and figures in parentheses following the operational and financial results for the first quarter 2009 refer to the same item in the first quarter of 2008. For further details, please refer to our consolidated financial statements and notes as at and for the quarter ended March 31, 2009 which can be accessed via our web site in the investor relations section (www.turkcell.com.tr).

## Comments from the CEO, Sureyya Ciliv

"I am very pleased that Turkcell's technology leadership, improved efficiency and customer focus resulted in solid financial results in the first quarter of 2009 despite the global economic downturn. Revenues increased by 12.3% to TRY2,103 million, EBITDA increased by 12.6% to TRY774 million and Net Income slightly decreased by 3.5% to TRY563 million compared to last year. EBITDA margin improved by 3.8 points from the previous quarter to 37%. VAS revenues for the quarter grew 26%, to 16% of our consolidated revenues up from 14% in the first quarter of 2008. We also announced a record cash dividend distribution of TRY1,098 million to our shareholders.

We plan to build on our strengths in technology, efficiency, and customer service. We are particularly excited about launching 3G services in Turkey within 3 months. We see this as a major opportunity to further differentiate Turkcell from competition through innovative services.

I would like to thank all of our employees, customers, business partners and shareholders for their enormous contribution in helping create a winning culture in Turkcell and their continuing support. For this reason, we are very excited and confident about the future."

## OVERVIEW OF THE QUARTER

The first quarter of 2009 has been another challenging period during which the impact of the global macroeconomic volatility on Turkey's financial markets became more evident.

In addition, as expected, competition intensified while operators continued to focus on lower flat rate packages and offered unlimited schemes for the first time.

Turkcell focused on maintaining ARPU by increasing average monthly minutes of use per subscriber. We succeeded in growing our postpaid subscriber base, and put a priority on ensuring the retention of value subscribers. We continued to promote on-net usage with new, attractive campaigns and a simplified tariff structure. We successfully promoted usage of value added services; VAS revenues improved by 26% in TRY terms compared to a year ago and, constituted 16% of our consolidated revenue in the first quarter of 2009.

On November 9$^{th}$ 2008, the Mobile Number Portability began in our market. We believe, as a leading player, we have been managing the process successfully. As we have predicted before, the mobile number portability implementation did not have a major impact on market balances in Turkey, thanks to level of satisfaction and loyalty of our subscriber base.

During the quarter, we continued to underline our strong value propositions, enhancing our activities to our mass customer base besides our youth and corporate club members. As a result, during the quarter, we maintained our leading position with 56% subscriber market share and further sustained our share of traffic and revenue.

**Macro environment Information**

| | Q1 2008 | Q4 2008 | Q1 2009 | Q1 2009-Q1 2008 % Chg | Q1 2009-Q4 2008 % Chg |
|---|---|---|---|---|---|
| **TRY / US$ rate** | | | | | |
| Closing Rate | 1.2765 | 1.5123 | 1.6880 | 32.2% | 11.6% |
| Average Rate | 1.1898 | 1.4769 | 1.6407 | 37.9% | 11.1% |
| **INFLATION** | | | | | |
| Consumer Price Index | 3.1% | 3.0% | 1.0% | (2.1)pp | (2.0)pp |
| GDP Growth | 7.3% | (6.2%) | n/a | - | - |

The TRY deteriorated sharply against the USD by 37.9 % year on year and 11.1% compared to the previous quarter, impacting our USD financial results. GDP contracted 6.2% during the fourth quarter of 2008. The global crisis has also adversely affected the Ukrainian and the Belarusian economies. In the first quarter of 2009 the Ukranian Hrvinia devalued by 52% against USD and Belarus devalued its currency by 26% against USD year on year.

While determining our business plans, we will continue to closely monitor and take into consideration the potential impact of global volatility on the economies in which we operate.

**Financial and Operational Review of the First Quarter 2009**

The following discussion focuses principally on the developments and trends in our business in the first quarter of 2009. Selected financial information for the first quarter of 2008, fourth quarter of 2008 and first quarter of 2009 is also included at the end of this press release.

For your convenience, selected financial information in TRY prepared in line with the Capital Markets Board of Turkey's standards is also included at the end of this press release.

**Financial Review**

| | (million US$) | | | | | (million TRY) | | |
|---|---|---|---|---|---|---|---|---|
| **Profit & Loss Statement** | **Q108** | **Q408** | **Q109** | **Q109-Q108** | **Q109-Q408** | **Q109** | **Q109-Q108** | **Q109-Q408** |
| **(million US$)** | | | | **% Chg** | **% Chg** | | **% Chg** | **% Chg** |
| **Total Revenue** | **1,574.4** | **1,585.0** | 1,283.1 | **(18.5%)** | **(19.0%)** | 2,103.4 | **12.3%** | **(9.8%)** |
| Direct cost of revenues | (825.1) | (801.4) | (630.7) | (23.6%) | (21.3%) | (1,033.6) | 5.3% | (12.4%) |
| Depreciation and amortization | (192.5) | (142.9) | (118.3) | (38.5%) | (17.2%) | (193.8) | (15.3%) | (8.1%) |
| Administrative expenses | (72.2) | (75.8) | (59.9) | (17.0%) | (21.0%) | (98.2) | 14.3% | (12.0%) |
| Selling and marketing expenses | (292.7) | (326.2) | (238.7) | (18.4%) | (26.8%) | (391.8) | 12.7% | (18.5%) |
| **EBITDA** | **577.0** | **524.5** | 472.2 | **(18.2%)** | **(10.0%)** | 773.6 | **12.6%** | **0.4%** |
| **EBITDA Margin** | **36.6%** | **33.1%** | 36.8% | **0.2 pp** | **3.7 pp** | 36.8% | **0.1 pp** | **3.8 pp** |
| Net financial income / expense) | 209.4 | (41.5) | 108.5 | (48.2%) | 361.4% | 177.4 | (29.7%) | (347.8%) |
| Financial expense | (15.9) | (88.8) | (33.6) | 111.3% | (62.2%) | (55.5) | 172.1% | (65.5%) |
| Financial income | 225.3 | 47.3 | 142.1 | (36.9%) | 200.4% | 232.9 | (14.6%) | 160.5% |
| Share of profit of associates | 19.9 | 28.6 | 9.6 | (51.8%) | (66.4%) | 15.1 | (42.4%) | (62.4%) |
| Income tax expense | (126.3) | (144.3) | (120.1) | (4.9%) | (16.8%) | (196.9) | 28.9% | (5.3%) |
| **Net Income** | **486.8** | **319.8** | 344.2 | **(29.3%)** | **7.6%** | 562.6 | **(3.5%)** | **21.7%** |

**Revenue:** Despite the continuing challenges due to the macroeconomic environment, the increase in Turkcell's subscriber base, the partial effect of the increase in usage and upward price adjustments contributed positively to our revenue compared to a year ago. In TRY terms, revenue increased by 12.3% to TRY 2,103.4 million compared to a year ago, although Turkcell recorded revenue of US$1,283.1 million for the first quarter, down 18.5% mainly due to the depreciation of TRY against USD.

Quarter on quarter, revenue decreased by 19.0%, driven by the worsened macroeconomic environment and lower subscriber base and decreasing contribution from our consolidated subsidiaries as well as depreciation of TRY against USD.

**Direct cost of revenues:** Direct cost of revenues including depreciation and amortization decreased by 23.6% to US$630.7 million in the first quarter of 2009 and the share in total revenues decreased to 49.2% from 52.4% compared to a year ago. This was mainly due to lower depreciation and amortization expenses (3.0 pp), wages and salaries (0.7 pp) and interconnect costs (1.2 pp) - and despite an increase in network related costs (0.5 pp) and handset costs given as part of our loyalty programs (1.1 pp) as a percent of revenues.

Compared to a quarter ago, direct cost of revenues including depreciation and amortization decreased by 21.3% and as a proportion of revenues it decreased by 1.4 pp primarily due to a decrease in handset costs given as part of our loyalty programs (1.4 pp) due to the i-Phone campaign launched in the fourth quarter, lower network related expenses (0.6 pp), and roaming expenses (0.4 pp) despite higher interconnect costs (0.8 pp) as a percent of revenues.

**Selling and marketing expenses:** Selling and marketing expenses remained flat at 18.6% as a percentage of revenue in the first quarter of the year and when compared to a year ago decreased by 18.4% in nominal terms to US$238.7 million mainly due to the depreciation of TRY against USD.

Compared to the previous quarter, selling and marketing expenses decreased by 26.8% including the currency depreciation effect and its share in revenue decreased by 2.0 pp as a result of lower advertising expenses and lower subscriber acquisitions, although the frequency usage fees increased as a percentage of revenues due to the increase in prepaid subscriber base and fee per subscriber.

**Administrative expenses:** General and administrative expenses as a percentage of revenue remained broadly flat year on year at 4.7% as the decrease in wages and salaries was offset by higher bad debt expense.

Compared to the previous quarter, general and administrative expenses decreased by 21.0% in nominal terms and remained almost flat as a percentage of revenue.

**Share of profit of equity accounted investees:** In the first quarter of 2009, our share in net income of unconsolidated investees, consisting of the net income/(expense) impact of Fintur and A-Tel, decreased by 51.8% to US$9.6 million including the negative effect of exchange rate fluctuations.

The results of our 50% owned subsidiary A-Tel impacted two items in our financial statements. A-Tel’s revenue generated from Turkcell, amounting to US$8.4 million, is netted off from the selling and marketing expenses in our consolidated financial statements. The difference between the total net impact of A-Tel and the amount netted off from selling and marketing expenses amounted to US$1.3 million and is recorded in the ‘share of profit of equity accounted investees’ line of our financial statements.

**Net finance income/(expense):** We recorded net financial income of US$108.5 million compared to US$209.4 million in the same quarter of 2008. During the quarter, we recorded translation gain from exchange rate fluctuations between TRY versus USD and Euro on Turkcell’s long foreign exchange position which were partly offset by the translation loss recognized on the deferred payment for the Belarussian Telecom acquisition.

The absence of the translation loss from Astelit was the main driver behind recording net financial income as opposed to a net financial expense of US$41.5 million in the previous quarter.

**Income tax expense:** The total taxation charge in the first quarter of 2009 decreased to US$120.1 million from US$126.3 million in the same quarter of last year.

Out of the total tax charge, US$85.3 million was related to current tax charges and a deferred tax expense of US$34.8 million was realized during the quarter.

| | **Q108** | **Q408** | **Q109** | **Q109-Q108 % Chg** | **Q109-Q408 % Chg** |
|---|---|---|---|---|---|
| Current tax expense | (146.9) | (135.2) | (85.3) | (41.9%) | (36.9%) |
| Deferred Tax income / (expense) | 20.6 | (9.1) | (34.8) | (268.9%) | 282.4% |
| **Income Tax expense** | **(126.3)** | **(144.3)** | **(120.1)** | **(4.9%)** | **(16.8%)** |

**EBITDA[1]:** EBITDA, in nominal terms, declined by 18.2% to US$472.2 million while the EBITDA margin broadly maintained at 36.8%.

EBITDA in TRY terms increased by 12.6% to TRY 773.6 million compared to a year ago as a result of higher revenue and maintained operational efficiency.

Compared to the fourth quarter of 2008, EBITDA margin improved by 3.8 pp, driven by the decrease in our cost base mainly due to lower MNP related activities and lower subscriber acquisitions.

**Net income:** Net income declined by 29.3% year on year to US$344.2 million, negatively impacted by the exchange rate fluctuations. Net income margin was 26.8% with a 4.1 pp year on year decline primarily due to the lower translation gain recorded.

The quarter on quarter increase of 7.6% in net income was mainly due to the decrease in costs as a percentage of revenue along with a translation gain as opposed to the translation loss recorded in the previous quarter. As a result, compared to the previous quarter, net income margin improved by 6.6 pp.

**Total Debt:** Consolidated debt amounted to US$776.9 million as of March 31, 2009. US$544.6 million of this was related to Turkcell’s Ukrainian operations. All of our consolidated debt is at a floating rate and US$605.6 million will mature in less than a year. Despite having a strong balance sheet with a solid cash position and debt/annual EBITDA of 41%, we may consider rolling over Astelit’s $390 million debt in 2009.

[1] EBITDA is a non-GAAP financial measure. See pages 13-14 for the reconciliation of EBITDA to net cash from operating activities.

| Consolidated Cash Flow (million US$) | Q108 | Q408 | Q109 |
|---|---|---|---|
| EBITDA | 577.0 | 524.5 | 472.2 |
| LESS: | | | |
| Capex and License | (192.5) | (210.6) | (252.0) |
| Turkcell | (97.8) | (111.0) | (181.6) |
| Ukraine* | (55.5) | 5.2 | (42.2) |
| Investment & Marketable Securities | (25.0) | 46.6 | (76.4) |
| Net Interest Income/Expense | 83.6 | 74.7 | 61.1 |
| Other | (456.5) | (369.9) | (617.4) |
| Net Change in Debt | 7.5 | 37.7 | (4.1) |
| Cash Generated | (5.9) | 103.0 | (416.6) |
| Cash Balance | 3,089.4 | 3,259.8 | 2,843.2 |

(*)The devaluation of local currency against USD is included in this line.

**Cash Flow Analysis:** Capital expenditures in the first quarter of 2009 amounted to US$252.0 million of which US$42.2 million was related to the Ukrainian operations.

Turkcell recorded free cash flow (cash flow from operating activities minus capital expenditure) of (US$216.4) million, compared to (US$30.1) million a year ago primarily due to increase in capital expenditures and decrease in EBITDA.

Other items were mainly composed of frequency usage fee payment for prepaid subscribers amounting to US$157 million and temporary tax payment amounting to US$108 million.

Recently we paid 3G license fee of US$453 million excluding VAT and we are going to pay a record dividend of TRY1.098.2 million. Therefore, our cash balance will decrease further in the coming days.

**Operational Review**

| Summary of Operational Data | Q108 | Q408 | Q109 | Q109-Q108 % Chg | Q109-Q408 % Chg |
|---|---|---|---|---|---|
| Number of total subscribers (million) | 35.1 | 37.0 | 36.4 | 3.7% | (1.6%) |
| Number of postpaid subscribers (million) | 6.6 | 7.5 | 7.8 | 18.2% | 4.0% |
| Number of prepaid subscribers (million) | 28.6 | 29.5 | 28.6 | 0.0% | (3.1%) |
| ARPU (Average Monthly Revenue per User), blended (US$) | 13.2 | 12.6 | 10.4 | (21.2%) | (17.5%) |
| ARPU, postpaid (US$) | 37.4 | 30.7 | 25.3 | (32.4%) | (17.6%) |
| ARPU, prepaid (US$) | 7.8 | 8.1 | 6.5 | (16.7%) | (19.8%) |
| ARPU, blended (TRY) | 15.7 | 18.6 | 17.1 | 8.9% | (8.1%) |
| ARPU, postpaid (TRY) | 44.5 | 45.2 | 41.4 | (7.0%) | (8.4%) |
| ARPU, prepaid (TRY) | 9.2 | 11.9 | 10.6 | 15.2% | (10.9%) |
| Churn (%) | 7.2% | 6.2% | 8.2% | 1.0 pp | 2.0 pp |
| MOU (Average Monthly Minutes of usage per subscriber), blended | 73.6 | 108.2 | 107.1 | 45.5% | (1.0%) |

**Subscribers:** As of March 31, 2009, our subscriber base totaled 36.4 million, increasing 3.7% compared to the first quarter of 2008. Our value focused subscriber acquisition approach continued in the first quarter of 2009, and we recorded the highest gross postpaid acquisition ever. Our postpaid subscriber base continued its upward trend, reaching 7.8 million, a 18.2% year on year increase. In a highly competitive market due to MNP implementation, which contributed to higher churn, our prepaid subscriber base remained at last year’s level with 28.6 million. On a quarterly basis, we recorded a net subscriber loss of 595,000, yet managed to increase our postpaid subscriber base by 329,000. Of the total subscribers, the share of postpaid improved to 21.4% from 18.8% a year ago in line with our value focused subscriber acquisition approach.

Although we cannot quantify the impact of the macro economic developments in our market, we observe that the influence becomes more pronounced as the economic growth slows down, negatively reflecting on subscriptions and usage trends. So far, the impact has been limited.

Accordingly, we expect the mobile line penetration to remain at the 2008 level of 92% in 2009 and thus, expect some contraction in our subscriber base.

**Churn Rate:** Churn refers to voluntarily and involuntarily disconnected subscribers. In the first quarter of 2009, our churn rate increased to 8.2% from 7.2% a year ago. This was due to the aggressive competitive environment in the initial stages of MNP implementation and economic downturn in the Turkish market. The majority of the churners were low ARPU generating prepaid and postpaid subscribers, also resulting in a contraction in our subscriber base.

**MoU:** In the first quarter of 2009, our blended minutes of usage per subscriber ("MoU") increased to 107.1 minutes, up by 45.5% compared to last year when the regulatory developments regarding retail pricing led to a slowdown in our mass offers. The effective communication of our usage incentives both for the postpaid and prepaid subscribes enabled us to sustain strong MoU in the first quarter of 2009 despite the economic slowdown, which adversely affected consumer spending in Turkey.

**ARPU:** In the first quarter of 2009, our blended average revenue per user ("ARPU") decreased by 21.2% to US$10.4 mainly due to the 38% depreciation of TRY against US$. ARPU in TRY terms increased by 8.9% to TRY17.1 compared to the same quarter in 2008 despite lower MTRs. The increase in year on year ARPU was partially due to the positive impact of value added services and the usage incentives provided in the first quarter of 2009 as well as customer loyalty programs. This contrasts with last year when the regulatory developments regarding retail pricing as described above led to slowdown in revenue-triggering mass offers and thus lower ARPU levels.

Post paid ARPU in TRY terms was TRY41.4 with a 7.0% year on year decrease, mainly due to worsened macroeconomic environment and an increase in subscriptions to tariffs in the form of minute packages and higher postpaid subscriber base.

Prepaid ARPU in TRY terms increased by 15.2% to TRY10.6 in the first quarter of 2009, mainly due to the effects of new tariffs and campaigns.

## Dividend Distribution

Turkcell's general dividend policy is to pay dividends to shareholders in line with the company's financial conditions. On May 8, 2009, the Turkcell Board of Directors' dividend distribution proposal was approved at the Ordinary General Assembly of Shareholders. The distribution of cash dividends in an amount of approximately TRY1,098.2 million (approximately US$706.2 million as of May 13, 2009) represents a 69% increase compared to the previous year.

This corresponds to 50% of Turkcell's distributable net income of 2008 and represents a net and gross cash dividend of TRY0.4991787 (approximately US$0.3210152 as of May 13, 2009) per ordinary share with a nominal value of TRY1 and approximately TRY1.2479475 (approximately US$0.8025386 as of May 13, 2009) per ADR.

## Regulatory Environment

On April 10, 2009, Information and Communication Technologies Authority ("ICTA") revised termination rates for the Turkish Market effective May 1, 2009. This resulted in a reduction in Turkcell's MTR by 28% to TRY0.0655, following the 33% reduction in 2008. Currently, Turkcell's MTRs are 70% below the EU averages whereas the fixed line termination rates remained unchanged and above the EU averages. Additionally, recent rates announced by ICTA kept the asymmetry between the mobile operators. The asymmetry between Turkcell and Avea changed from 23% to 18% and between Turkcell and Vodafone from 4% to 3%.

Additionally, ICTA has set a lower limit to on-net retail tariffs of Turkcell only, and has decreased the price cap for all GSM operators. The lower limit applies to each of Turkcell's retail tariff packages by mandating that the weighted average on-net price of a tariff package shall not be less than Turkcell's weighted average call termination rate. ICTA decision also reduces the current price cap from 0.80 TRY/min (VAT, SCT incl.), which pertains to general tariff packages, to 0.64 TRY/min. The Resolution has also set such price as an upper limit for special tariff packages.

We believe that some of ICTA's decisions constitute interference with our retail pricing and may be in conflict with our license agreement and fair competition laws. Therefore, we are evaluating legal actions to protect our rights. However, currently we do not foresee any changes to our guidance in 2009 due to these developments.

Following the 3G tender process conducted by ICTA in November 2008 for the issue of four separate licenses regarding the authorization for providing IMT 2000/UMTS services and infrastructure, Turkcell won the A type 3G license, for a consideration of EUR358 million (excluding VAT). The approval process was completed and the license agreement was signed on April 30, 2009. The implementation of 3G in the Turkish market is expected within 3 months. Regarding the establishment of 3G infrastructure throughout Turkey, we signed contracts with Ericsson Telekomunikasyon A.S. and Huawei International Pte.Ltd.

The issuance of the Fixed Telephony Service licenses and Fixed Number Portability implementation are expected in 2009. The liberalization in Turkey is scheduled to start on May 10. However, several regulatory authorizations has to be taken in order ensure market practice in line with liberalization objectives. The acceleration in the liberalization process in the Turkish Market will help ensure a more fair competitive environment in the longer term we believe will be beneficial to business environment in Turkey.

## International Operations

### Fintur

Turkcell holds a 41.45% stake in Fintur and through Fintur has interests in GSM operations in Kazakhstan, Azerbaijan, Moldova, and Georgia.

| FINTUR | Q108 | Q408 | Q109 | Q109-Q108 % Chg | Q109-Q408 % Chg |
|---|---|---|---|---|---|
| **Subscriber (million)** | | | | | |
| Kazakhstan | 6.5 | 7.1 | 7.1 | 9.2% | - |
| Azerbaijan | 3.2 | 3.5 | 3.6 | 12.5% | 2.9% |
| Moldova | 0.5 | 0.6 | 0.6 | 20.0% | - |
| Georgia | 1.4 | 1.6 | 1.6 | 14.3% | - |
| **TOTAL** | **11.6** | **12.8** | **12.8** | **10.3%** | **-** |
| **Revenue** | | | | | |
| Kazakhstan | 224 | 269 | 198 | (11.6%) | (26.4%) |
| Azerbaijan | 117 | 138 | 119 | 1.7% | (13.8%) |
| Moldova | 14 | 16 | 14 | - | (12.5%) |
| Georgia | 48 | 49 | 43 | (10.4%) | (12.2%) |
| Other* | 1 | 1 | (1) | n.a. | n.a. |
| **TOTAL** | **404** | **473** | **373** | (7.7%) | (21.1%) |

(*) includes intersegment eliminations

Fintur maintained its positions in the markets in which it operates despite the deepening economic downturn especially in Kazakhstan, Azerbaijan and Georgia, and its total subscriber base grew to 12.8 million. However, consolidated revenue decreased by 8% on an annual basis to US$373 million in the first quarter of 2009..

We account for our investment in Fintur using the equity pick up method. Fintur's contribution to income decreased to US$18.1 million in the first quarter of 2009 as economic downturn became more evident.

### Astelit

Astelit, in which we hold a 55% stake through Euroasia, has operated in Ukraine since February 2005 under the brand "life:)".

- Along with a worsening economic and political macro-economic environment in Ukraine, the Hrvinia depreciated by around 52% against USD as of March 31, 2009 compared to a year ago although remained stable compared to the previous quarter.
- Astelit's revenue declined by 12.3% year on year to US$79.1 million mainly due to the depreciation effect of the local currency against the US$.
- Astelit recorded a positive EBITDA[2] of US$3.6 million during the first quarter. The decline compared to the previous quarter was mainly due to decrease in revenues.

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[2] EBITDA is a non-GAAP financial measure. See page 14-15 for the reconciliation of Euroasia's EBITDA to net cash from operating activities. Euroasia holds 100% stake in Astelit.

- Astelit's subscribers reached 11.5 million with a market share of 21.1% and growth of 22.3% on an annual basis. In the first quarter of 2009:
  - 3 month active subscriber base grew 37.9% year on year and reached 70% of the total subscriber base and market share improved to 16.1%.
  - 3 month active ARPU decreased by 35.2% on an annual basis.
- Astelit spent US$42.2 million in the first quarter of the year in capital expenditure.

As a long term committed shareholder we are pleased with the performance of Astelit and we believe that the macroeconomic challenges will be overcome with minimum impact.

| **Summary Data for Astelit** | **Q108** | **Q408** | **Q109** | **Q109-Q108 % Chg** | **Q109-Q408 % Chg** |
|---|---|---|---|---|---|
| Number of subscribers (million) | | | | | |
| Total | 9.4 | 11.2 | 11.5 | 22.3% | 2.7% |
| *Active (3 months)*[1] | *5.8* | *7.1* | *8.0* | 37.9% | 12.7% |
| Average Revenue per User (ARPU) in US$ | | | | | |
| Total | 3.3 | 3.4 | 2.3 | (30.3%) | (32.4%) |
| *Active (3 months)* | *5.4* | *5.7* | *3.5* | (35.2%) | (38.6%) |
| Revenue | 90.2 | 110.7 | 79.1 | (12.3%) | (28.5%) |
| EBITDA | 2.1 | 15.3 | 3.6 | 71.4% | (76.5%) |
| Net Loss | (32.4) | (251.2) | (24.4) | (24.7%) | (90.3%) |
| Capex | 55.5 | (5.2) | 42.2 | (24.0%) | 911.5% |

[3] Active subscribers are those who in the past three months made a transaction which brought revenue to the Company.

**Reconciliation of Non-GAAP Financial Measures**

*We believe that EBITDA is a measure commonly used by companies, analysts and investors in the telecommunications industry, which enhances the understanding of our cash generation ability and liquidity position and assists in the evaluation of our capacity to meet our financial obligations. We also use EBITDA as an internal measurement tool and, accordingly, we believe that the presentation of EBITDA provides useful and relevant information to analysts and investors.*

*Beginning from the 2006 fiscal year, we have revised the definition of EBITDA which we use and we report EBITDA using this new definition starting from the first quarter of 2006 results announcement to provide a new measure to reflect solely cash flow from operations.*

*The EBITDA definition used in our previous press releases and announcements had included Revenue, Direct Cost of Revenue excluding depreciation and amortization, Selling and Marketing expenses, Administrative expenses, translation gain/(loss), financial income, share of profit of equity accounted investees, gain on sale of investments, income/(loss) from related parties, minority interest and other income/(expense). Our new EBITDA definition includes Revenue, Direct Cost of Revenue excluding depreciation and amortization, Selling and Marketing expenses and Administrative expenses, but excludes translation gain/(loss), financial income, share of profit of equity accounted investees, gain on sale of investments, income/(loss) from related parties, minority interest and other income/(expense).*

*EBITDA is not a measure of financial performance under IFRS and should not be construed as a substitute for net earnings (loss) as a measure of performance or cash flow from operations as a measure of liquidity.*

*The following table provides a reconciliation of EBITDA, which is a non-GAAP financial measure, to net cash from operating activities, which we believe is the most directly comparable financial measure calculated and presented in accordance with IFRS.*

| **TURKCELL**<br>**US$ million** | **Q108** | **Q408** | **Q109** | **Q109-Q108**<br>**% Chg** | **Q109-Q408**<br>**% Chg** |
|---|---|---|---|---|---|
| EBITDA | 577.0 | 524.5 | 472.2 | (18.2%) | (10.0%) |
| Income Tax Expense | (126.3) | (144.3) | (120.1) | (4.9%) | (16.8%) |
| Other operating income/(expense) | 1.4 | (1.1) | 1.2 | (14.3%) | (209.1%) |
| Financial income | 1.4 | 9.3 | 1.8 | 28.6% | (80.6%) |
| Financial expense | (13.0) | (31.7) | (32.9) | 153.1% | 3.8% |
| Net increase/(decrease) | (280.6) | 238.9 | (286.7) | 2.2% | (220.0%) |

| | | | | | |
|---|---|---|---|---|---|
| in assets and liabilities | | | | | |
| **Net cash from operating activities** | 159.9 | 595.6 | 35.6 | (77.7%) | (94.0%) |

| **EUROASIA (Astelit)**<br><br>**US$ million** | **Q108** | **Q408** | **Q109** | **Q109-Q108**<br><br>**% Chg** | **Q109-Q408**<br><br>**% Chg** |
|---|---|---|---|---|---|
| EBITDA | 2.1 | 15.3 | 3.6 | 71.4% | (76.5%) |
| Other operating income/(expense) | 0.1 | (0.4) | 0.9 | 800.0% | (325.0%) |
| Financial income | 0.8 | 1.7 | 0.6 | (25.0%) | (64.7%) |
| Financial expense | (9.1) | (12.9) | (11.7) | 28.6% | (9.3%) |
| Net increase/(decrease) in assets and liabilities | 26.6 | (55.9) | 16.1 | (39.5%) | (128.8%) |
| **Net cash from operating activities** | 20.5 | (52.2) | 9.5 | (53.7%) | (118.2%) |

**Turkcell Group Subscribers**

We had approximately 61.4 million GSM subscribers as of March 31, 2009. This figure is calculated by taking the number of GSM subscribers in Turkcell and each of our subsidiaries and unconsolidated investees. This figure includes the total number of GSM subscribers in Astelit, BeST, in our operations in the Turkish Republic of Northern Cyprus ("Northern Cyprus") and Fintur. In the past, when presenting our total group subscribers, we have presented this figure on a proportional basis, adjusted to reflect our ownership interest in each subsidiary. We believe that the method of calculation given above is a good indicator of our Group's reach and intend to use this new method of calculation going forward.

| **Turkcell Group Subscribers**<br><br>**(million)** | **Q108** | **Q408** | **Q109** | **Q109-Q108**<br><br>**% Chg** | **Q109-Q408**<br><br>**% Chg** |
|---|---|---|---|---|---|
| Turkcell | 35.1 | 37.0 | 36.4 | 3.7% | (1.6%) |
| Ukraine | 9.4 | 11.2 | 11.5 | 22.3% | 2.7% |
| Fintur | 11.6 | 12.8 | 12.8 | 10.3% | 0.0% |
| Northern Cyprus | 0.3 | 0.3 | 0.3 | 0.0% | 0.0% |
| Belarus | - | 0.2 | 0.4 | n.a. | 100.0% |
| **TURKCELL GROUP** | **56.4** | **61.5** | **61.4** | 8.9% | (0.2%) |

**Forward-Looking Statements**

*This release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this press release, including, without limitation, certain statements regarding our operations, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as, among others, "may," "will," "expect," "intend," "plan," "estimate," "anticipate," "believe" or "continue."*

*Although Turkcell believes that the expectations reflected in such forward-looking statements are reasonable at this time, it can give no assurance that such expectations will prove to be correct. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements particularly in the current operating and macro environment. All subsequent written and oral forward-looking statements attributable to us are expressly qualified in their entirety by reference to these cautionary statements.*

*For a discussion of certain factors that may affect the outcome of such forward looking statements, see our Annual Report on Form 20-F for 2007 filed with the U.S. Securities and Exchange Commission, and in particular the risk factor section therein.*

*We undertake no duty to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.*

www.turkcell.com.tr

**ABOUT TURKCELL**

Turkcell is the leading GSM operator in Turkey with 36.4 million postpaid and prepaid customers as of March 31, 2009 operating in a three player market with a market share of approximately 56% as of December 31, 2008 (Source: operators' announcements). In addition to high-quality wireless telephone services, Turkcell currently offers General Packet Radio Service ("GPRS") countrywide and Enhanced Data Rates for GSM Evolution ("EDGE") in dense areas, which provide for both improved data and voice services. Turkcell provides roaming with 614 operators in 202 countries as of April 22, 2009. Serving a large subscriber base in Turkey with its high-quality wireless telephone network, Turkcell reported US$1.3 billion net revenue for the quarter ended March 31, 2009 as per IFRS financial statements. Turkcell has interests in international GSM operations in Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Northern Cyprus and Ukraine. Turkcell has been listed on the NYSE ("New York Stock Exchange") and the ISE ("Istanbul Stock Exchange") since July 2000 and is the only NYSE listed company in Turkey. 51.00% of Turkcell's share capital is held by Turkcell Holding, 0.05% by Cukurova Group, 13.07% by Sonera Holding, 2.32% by M.V. Group and 0.08% by others while the remaining 33.48% is free float.

**For further information please contact Turkcell**

**Corporate Affairs**

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, Turkcell Iletisim Hizmetleri A.S. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TURKCELL ILETISIM HIZMETLERI A.S.**

Date: May 13, 2009

By: */s/ Nihat Narin*
Name: Nihat Narin
Title: Investor & Int. Media Relations - Division Head

**TURKCELL ILETISIM HIZMETLERI A.S.**

Date: May 13, 2009

By: */s/ Filiz Karagul Tuzun*
Name: Filiz Karagul Tuzun
Title: Corporate Communication - Division Head

**EXHIBIT 99.2**

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

**As at 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

| | Note | 31 March 2009 | 31 December 2008 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 11 | 2,021,760 | 2,096,070 |
| Intangible assets | 12 | 1,304,424 | 1,452,895 |
| Investments in equity accounted investees | 13 | 368,233 | 313,723 |
| Other investments | 14 | 31,002 | 34,614 |
| Due from related parties | 32 | 38,792 | 45,349 |
| Other non-current assets | 15 | 48,139 | 54,007 |
| Deferred tax assets | 16 | 1,403 | 1,144 |
| **Total non-current assets** | | **3,813,753** | **3,997,802** |
| Inventories | | 22,465 | 19,457 |
| Other investments | 14 | 77,785 | 689 |
| Due from related parties | 32 | 33,114 | 64,013 |
| Trade receivables and accrued income | 17 | 541,987 | 587,385 |
| Other current assets | 18 | 319,652 | 138,788 |
| Cash and cash equivalents | 19 | 2,843,187 | 3,259,792 |
| **Total current assets** | | **3,838,190** | **4,070,124** |
| **Total assets** | | **7,651,943** | **8,067,926** |
| **Equity** | | | |
| Share capital | 20 | 1,636,204 | 1,636,204 |
| Share premium | 20 | 434 | 434 |
| Capital contributions | 20 | 19,897 | 18,202 |
| Reserves | 20 | (1,244,367) | (706,384) |
| Retained earnings | 20 | 4,781,294 | 4,437,071 |
| **Total equity attributable to equity holders of Turkcell Iletisim Hizmetleri AS** | | **5,193,462** | **5,385,527** |
| **Minority interest** | 20 | **60,807** | **58,116** |
| **Total equity** | | **5,254,269** | **5,443,643** |
| **Liabilities** | | | |
| Loans and borrowings | 23 | 171,293 | 130,020 |

| | | | |
|---|---|---|---|
| Employee benefits | 24 | 21,821 | 26,717 |
| Provisions | 26 | 3,795 | 4,490 |
| Other non-current liabilities | 22 | 242,884 | 227,511 |
| Deferred tax liabilities | 16 | 153,028 | 130,491 |
| **Total non-current liabilities** | | **592,821** | **519,229** |
| Bank overdraft | 19 | 4,115 | 4,372 |
| Loans and borrowings | 23 | 605,560 | 655,909 |
| Income taxes payable | 10 | 81,912 | 126,585 |
| Trade and other payables | 27 | 836,963 | 964,421 |
| Due to related parties | 32 | 8,680 | 21,032 |
| Deferred income | 25 | 208,667 | 250,386 |
| Provisions | 26 | 58,956 | 82,349 |
| **Total current liabilities** | | **1,804,853** | **2,105,054** |
| **Total liabilities** | | **2,397,674** | **2,624,283** |

The notes on page 7 to 85 are an integral part of these consolidated interim financial statements.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**CONSOLIDATED INTERIM INCOME STATEMENT**

**For the three months ended 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

| | | Three months ended 31 March | |
|---|---|---|---|
| | **Note** | **2009** | **2008** |
| Revenue | 7 | 1,283,105 | 1,574,380 |
| Direct cost of revenue | | (630,655) | (825,102) |
| **Gross profit** | | **652,450** | **749,278** |
| Other income | | 4,786 | 2,250 |
| Selling and marketing expenses | | (238,674) | (292,638) |
| Administrative expenses | | (59,862) | (72,208) |
| Other expenses | | (3,469) | (868) |
| **Results from operating activities** | | **355,231** | **385,814** |
| Finance income | 9 | 142,130 | 225,349 |
| Finance expenses | 9 | (33,610) | (15,900) |
| **Net finance income** | | **108,520** | **209,449** |
| Share of profit of equity accounted investees | 13 | 9,634 | 19,867 |
| **Profit before income tax** | | **473,385** | **615,130** |
| Income tax expense | 10 | (120,139) | (126,352) |
| **Profit for the period** | | **353,246** | **488,778** |
| **Attributable to:** | | | |
| Equity holders of Turkcell Iletisim Hizmetleri AS | | 344,223 | 486,790 |
| Minority interest | | 9,023 | 1,988 |
| **Profit for the period** | | **353,246** | **488,778** |
| Basic and diluted earnings per share (in full USD) | 21 | 0.156465 | 0.221268 |

The notes on page 7 to 85 are an integral part of these consolidated interim financial statements.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**CONSOLIDATED INTERIM INCOME STATEMENT**

**For the three months ended 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

| | **Three months ended 31 March** | |
|---|---|---|
| | **2009** | **2008** |
| **Profit for the period** | 353,246 | 488,778 |
| | | |
| **Other comprehensive expense:** | | |
| Foreign currency translation differences | (538,390) | (468,450) |
| Net change in fair value of available-for-sale securities | 657 | (1,936) |
| Income tax on other comprehensive income | (486) | 1,213 |
| **Other comprehensive expense for the period, net of income tax** | **(538,219)** | **(469,173)** |
| | | |
| **Total comprehensive (expense)/income for the period** | **(184,973)** | **19,605** |
| | | |
| **Attributable to:** | | |
| Equity holders of Turkcell Iletisim Hizmetleri AS | (193,760) | 14,052 |
| Minority interest | 8,787 | 5,553 |
| **Total comprehensive (expense)/income for the period** | **(184,973)** | **19,605** |

The notes on page 7 to 85 are an integral part of these consolidated interim financial statements.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

**For the three months ended 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

| | **Attributable to equity holders of the Company** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share Capital** | **Capital Contribution** | **Share Premium** | **Legal Reserves** | **Fair Value Reserve** | **Reserve for Minority Put Option** | **Translation Reserve** | **Retained Earnings** | **Total** | **Minority Interest** | **Total Equity** |
| Balance at 1 January 2008 | 1,636,204 | - | 434 | 256,834 | 5,481 | - | 669,598 | 3,224,526 | 5,793,077 | 138,128 | 5,931,205 |
| Transfer to legal reserves | - | - | - | 121,945 | - | - | - | (121,945) | - | - | - |
| Total comprehensive income and expense | - | - | - | - | (5,360) | - | (1,467,960) | 1,836,824 | 363,504 | (72,168) | 291,336 |
| Dividends paid | - | - | - | - | - | - | - | (502,334) | (502,334) | (54,639) | (556,973) |
| Capital contribution granted | - | 18,202 | - | - | - | - | - | - | 18,202 | - | 18,202 |
| Change in reserve for minority put option | - | - | - | - | - | (286,922) | - | - | (286,922) | - | (286,922) |
| Change in minority interest | - | - | - | - | - | - | - | - | - | 46,795 | 46,795 |
| **Balance at 31 December 2008** | **1,636,204** | **18,202** | **434** | **378,779** | **121** | **(286,922)** | **(798,362)** | **4,437,071** | **5,385,527** | **58,116** | **5,443,643** |
| Balance at 1 January 2009 | 1,636,204 | 18,202 | 434 | 378,779 | 121 | (286,922) | (798,362) | 4,437,071 | 5,385,527 | 58,116 | 5,443,643 |
| Total comprehensive income and expense | - | - | - | - | 657 | - | (538,640) | 344,223 | (193,760) | 8,787 | (184,973) |
| Capital contribution granted | - | 1,695 | - | - | - | - | - | - | 1,695 | - | 1,695 |
| Change in minority interest | - | - | - | - | - | - | - | - | - | (6,096) | (6,096) |
| **Balance at 31 March 2009** | **1,636,204** | **19,897** | **434** | **378,779** | **778** | **(286,922)** | **(1,337,002)** | **4,781,294** | **5,193,462** | **60,807** | **5,254,269** |

The notes on page 7 to 85 are an integral part of these consolidated interim financial statements.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

**For the three months ended 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

| | | **Three months 31 March** | |
|---|---|---|---|
| | **Note** | **2009** | **2008** |
| **Cash flows from operating activities** | | | |
| **Profit for the period** | | **353,246** | **488,778** |
| **Adjustments for:** | | | |
| Depreciation | 11 | 70,898 | 123,371 |
| Amortization of intangibles | 12 | 47,393 | 69,172 |
| Net finance income | 9 | (130,751) | (209,933) |
| Income tax expense | 10 | 120,139 | 126,352 |
| Share of profit of equity accounted investees | | (18,011) | (30,997) |
| (Gain)/loss on sale of property, plant and equipment | | (154) | 1 |
| Translation reserve | | (29,832) | (42,338) |
| Deferred income | | (15,230) | 27,885 |
| | | **397,698** | **552,291** |
| Change in trade receivables | 17 | (11,275) | 22,555 |
| Change in due from related parties | 32 | 32,540 | 15,415 |
| Change in inventories | | (5,035) | 3,071 |
| Change in other current assets | 18 | (199,668) | (208,265) |
| Change in other non-current assets | 15 | (213) | (4,430) |
| Change in due to related parties | 32 | (11,455) | (6,603) |
| Change in trade and other payables | | 22,658 | (10,849) |
| Change in other current liabilities | | (88,739) | (30,248) |
| Change in other non-current liabilities | 22 | 39,055 | 304 |
| Change in employee benefits | 24 | (2,115) | 3,830 |
| Change in provisions | 26 | (17,474) | (31,147) |
| | | **155,977** | **305,924** |
| Interest paid | | (8,107) | (11,252) |
| Income tax paid | | (112,317) | (134,774) |
| Dividend received | 13 | - | - |
| **Net cash from operating activities** | | **35,553** | **159,898** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property plant and equipment | | 1,299 | 1,725 |
| Proceeds from currency option contracts | | 1,621 | 3,188 |
| Proceeds from sale of available-for-sale financial assets | | - | 5,988 |
| Interest received | | 94,215 | 97,868 |
| Acquisition of property, plant and equipment | 11 | (207,868) | (140,371) |
| Acquisition of intangibles | 12 | (44,112) | (49,597) |
| Payment of currency option contracts premium | | - | (2,027) |
| Acquisition of available-for-sale financial assets | | (76,426) | (30,900) |
| **Net cash used in investing activities** | | **(231,271)** | **(114,126)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of loans and borrowings | | 3,415 | 7,500 |
| Repayment of borrowings | | (7,500) | - |
| Change in minority interest | | - | 43,143 |
| Proceeds from capital contribution | | 1,695 | - |
| **Net cash used in financing activities** | | **(2,390)** | **50,643** |
| **Effects of foreign exchange rate fluctuations on statement of financial position items** | | **(265,620)** | **(233,579)** |

| | | |
|---|---|---|
| **Net increase in cash and cash equivalents** | **(463,728)** | **(137,164)** |
| **Cash and cash equivalents at 1 January** | **3,255,420** | **3,093,175** |
| Effect of exchange rate fluctuations on cash and cash equivalents | 47,380 | 127,130 |
| **Cash and cash equivalents at 31 December** | **2,839,072** | **3,083,141** |

The notes on page 7 to 85 are an integral part of these consolidated interim financial statements.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the three months ended 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

**Notes to the consolidated interim financial statements**

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the three months ended 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

**1. Reporting entity**

Turkcell Iletisim Hizmetleri Anonim Sirketi (the Company ) was incorporated in Turkey on 5 October 1993 and commenced its operations in 1994. The address of the Company s registered office is Turkcell Plaza, Mesrutiyet caddesi No. 71, 34430 Tepebasi/Istanbul. It is engaged in establishing and operating a Global System for Mobile Communications ( GSM ) network in Turkey and regional states.

In April 1998, the Company signed a license agreement (the License ) with the Ministry of Transportation and Communications of Turkey (the Turkish Ministry ), under which it was granted a 25 year GSM license in exchange for a license fee of $500,000. The License permits the Company to operate as a stand-alone GSM operator and releases it from some of the operating constraints in the Revenue Sharing Agreement, which was in effect prior to the License. Under the License, the Company collects all of the revenue generated from the operations of its GSM network and pays the Undersecretariat of Treasury (the Turkish Treasury ) an ongoing license fee equal to 15% of its gross revenue from Turkish GSM operations. The Company continues to build and operate its GSM network and is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers. Following the 3G tender held by the Information Technologies and Communications Authority ( ICTA ) regarding the authorization for providing IMT-2000/UMTS services and infrastructure, the Company has been granted the A-Type license providing the widest frequency band, at a consideration of EUR 358 million (excluding Value Added Tax ( VAT )). Payment of the 3G license was made in cash, following the necessary approvals, on 30 April 2009.

On 25 June 2005, the Turkish government declared that GSM operators are required to pay 10% of their existing monthly ongoing license fee to the Turkish Ministry as a universal service fund contribution in accordance with Law No: 5369. As a result, starting from 30 June 2005, the Company pays 90% of the ongoing license fee to the Turkish Treasury and 10% to the Turkish Ministry as universal service fund.

In July 2000, the Company completed an initial public offering with the listing of its ordinary shares on the Istanbul Stock Exchange and American Depositary Shares, or ADSs, on the New York Stock Exchange.

As at 31 March 2009, two significant founding shareholders, Sonera Holding BV and Cukurova Group, directly and indirectly, own approximately 37.1% and 13.8%, respectively of the Company s share capital and are ultimate counterparties to a number of transactions that are discussed in the related party footnote. On the basis of publicly available information, Alfa Group, which previously held, indirectly through Cukurova Telecom Holdings Limited and Turkcell Holding A.S., 13.2% of Company s shares, has reduced its stake to 4.99% following litigation with Telenor ASA ( Telenor Group ). It has been understood that Alfa Group sold 62.2% of its holdings in Alfa Telecom Turkey Limited ( ATTL ) to Visor Group affiliate Nadash International Holdings Inc. ( Nadash ) and Alexander Mamut s Henri Services Limited ( HSL ) which now own indirectly 4.26% and 3.97%, respectively, of Company s share capital.

The consolidated interim financial statements of the Company as at and for the three months ended 31 March 2009 comprise the Company and its subsidiaries (together referred to as the Group ) and the Group s interest in one associate and one joint venture. Subsidiaries of the Company, their locations and their business are given in note 33. The Company s and each of its subsidiaries , associate s and joint venture s interim financial statements are prepared as at and for the three months ended 31 March 2009.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the three months ended 31 March 2009**

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

**2. Basis of preparation**

**(a) Statement of compliance**

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRSs ) as issued by the International Accounting Standards Board ( IASB ) for interim financial statements.

The Group s consolidated interim financial statements were approved by the Board of Directors on 13 May 2009.

**(b) Basis of measurement**

The accompanying consolidated interim financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRSs as issued by the IASB. They are prepared on the historical cost basis adjusted for the effects of inflation during the hyperinflationary period lasted by 31 December 2005, except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale. The methods used to measure fair value are further discussed in note 4.

**(c) Functional and presentation currency**

The consolidated interim financial statements are presented in US Dollars ( USD ), rounded to the nearest thousand. Moreover, all financial information expressed in Turkish Lira ( TRY ), Euro ( EUR ) and Swedish Krona ( SEK ) have been rounded to the nearest thousand. The functional currency of the Company and its consolidated subsidiaries located in Turkey and Turkish Republic of Northern Cyprus is TRY. The functional currency of Euroasia Telecommunications Holding BV ( Euroasia ) and Financell BV ( Financell ) is USD. The functional currency of East Asian Consortium BV ( Eastasia ), Beltur BV and Surtur BV is EUR. The functional currency of LLC Astelit ( Astelit ), Global Bilgi LLC ( Global LLC ) and UkrTower LLC ( UkrTower ) is Ukrainian Hryvnia ( HRV ). The functional currency of Belarussian Telecommunications Network ( Belarussian Telecom ) is Belarussian Roubles ( BYR ).

According to the Article No:33 of the Ministry of State, it has been decided to change the name of New Turkish Lira as Turkish Lira removing the phrase New which is executed on 1 January 2009 in accordance with the first item of Law No: 5083.

**(d) Use of estimates and judgments**

The preparation of interim financial statements in conformity with International Accounting Standards No.34 (IAS 34) *Interim Financial Reporting* ( IAS 34 ) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated interim financial statements are described in notes 4 and 31 and detailed analysis with respect to accounting estimates and critical judgments of bad debts, useful lives or expected patterns of consumption of the future economic benefits embodied in depreciable assets, income taxes and revenue recognition are provided below:

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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**2. Basis of preparation (continued)**
**(d) Use of estimates and judgments (continued)**
**Key sources of estimation uncertainty**

In note 28, detailed analysis is provided for the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

**Critical accounting judgments in applying the Group s accounting policies**

Certain critical accounting judgments in applying the Group s accounting policies are described below:

***Allowance for doubtful receivables***

The impairment losses in trade and other receivables are based on management s evaluation of the volume of the receivables outstanding, historical collection trends and general economic conditions. Should economic conditions, collection trends or any specific industry trend worsen compared to management estimates, allowance for doubtful receivables recognised in consolidated interim financial statements may not be sufficient to cover bad debts.

***Useful lives of assets***

The useful economic lives of the Group s assets are determined by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group defines useful life of its assets in terms of the assets expected utility to the Group. This judgment is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also follows technical and/or commercial obsolescence arising on changes or improvements from a change in the market. The useful life of the licenses are based on duration of the sold license agreement.

The GSM license that is held by Belarussian Telecom, newly acquired consolidated subsidiary, expires in 2015. According to the Share Purchase Agreement signed, the State Committee on Property of the Republic of Belarus committed to grant the license from the acquisition date of 26 August 2008 for a period of 10 years and such license shall be extended for an additional 10 years for an insignificant consideration. In the consolidated interim financial statements, amortization charge is recorded on the assumption that the license will be extended.

***Commission fees***

Commission fees relate to services performed in relation to betting games where the Group acts as an agent in the transaction rather than as a principal. In the absence of specific guidance under IFRSs on distinguishing between an agent and a principal, management considered the following factors:

The Group does not take the responsibility for fulfilment of the games.

The Group does not collect the proceeds from the final customer and it does not bear the credit risk.

The Group earns a stated percentage of the total turnover.

***Revenue recognition***

In arrangements which include multiple elements, the Group considers the elements to be separate units of accounting in the arrangement. Deliverables are accounted separately where a market for each deliverable exists and if the recognition criterion is met individually. The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables.

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**2. Basis of preparation (continued)**
**(d) Use of estimates and judgments (continued)**
**Critical accounting judgments in applying the Company s accounting policies (continued)**

***Income taxes***

The calculation of income taxes involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through formal legal process.

As part of the process of preparing the consolidated interim financial statements, the Group is required to estimate the income taxes in each of the jurisdictions and countries in which they operate. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue and reserves for tax and accounting purposes. The Company management assesses the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent the recovery is not considered probable the deferred asset is adjusted accordingly.

The recognition of deferred tax assets is based upon whether it is probable that future taxable profits will be available, against which the temporary differences can be utilized. Recognition, therefore, involves judgment regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognized.

**3. Significant accounting policies**
The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by the Group entities.

**(a) Basis of consolidation**
*(i) Subsidiaries*
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or convertible are taken into account. The interim financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed as necessary to align them with the policies adopted by the Group.

Losses that exceed the minority interest in the equity of a subsidiary may create a debit balance on minority interests only if the minority has a binding obligation to fund the losses and is able to make an additional investment to cover the losses. Unless this is the case, the losses are attributed to the Company s majority interest within the profit for the period. If the subsidiary subsequently reports profits then these profits are allocated to the parent until the share of losses absorbed previously by the parent has been recovered.

*(ii) Acquisition from entities under common control*
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are excluded from the scope of International Financial Reporting Standards No. 3 ( IFRS 3 ) *Business Combinations* and are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired from entities under common control are recognised at the carrying amounts recognised previously in the Group s controlling shareholder s consolidated interim financial statements. The components of equity of the acquired entities are added to

the same components within the Group equity.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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**3. Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

*(iii) Associates and jointly controlled entities (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities (equity accounted investees) are accounted for using the equity method and are initially recognised at cost. The Group s investment includes goodwill identified on acquisition, net of any accumulated impairment loss. The consolidated interim financial statements include the Group s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. The Group s equity accounted investees as at 31 March 2009 are Fintur Holdings BV ( Fintur ) and A-Tel Pazarlama ve Servis Hizmetleri AS ( A-Tel ).

*(iv) Transactions eliminated on consolidation*

Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated interim financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*(v) Minority interests*

Where a put option is granted by the Group to the minority shareholders in existing subsidiaries that provides for settlement in cash or in another financial asset, the Group recognised a liability for the present value of the estimated exercise price of the option. The interests of the minority shareholders that hold such put options are derecognised when the financial liability is recognised. The corresponding interests attributable to the holder of the puttable minority interests are presented as attributable to the equity holders of the parent and not as attributable to those minority shareholders. The difference between the put option liability recognised and the amount of minority interest derecognised is recorded under equity. Subsequent changes in the fair value of the put options granted to the minority shareholders in existing subsidiaries are also recognised in equity, except the imputed interest on the liability is recognised in the consolidated interim income statement.

**(b) Foreign currency**

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation of foreign currency transactions are recognised in the income statement. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

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**3. Significant accounting policies (continued)**

**(b) Foreign currency (continued)**

*(i) Foreign currency transactions (continued)*

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity.

*(ii) Foreign operations*

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to USD from the functional currency of the foreign operation at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences arising on retranslation are recognized directly in the foreign currency translation reserve, as a separate component of equity. Since 1 January 2005, the Group s date of transition to IFRSs, such differences have been recognized in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

*(iii) Translation from functional to presentation currency*

Items included in the interim financial statements of each entity are measured using the currency of the primary economic environment in which the entities operate, normally under their local currencies.

The consolidated interim financial statements are presented in USD, which is the presentation currency of the Group. The Group uses USD as the presentation currency for the convenience of investor and analyst community.

Assets and liabilities for each statement of financial position presented (including comparatives) are translated to USD at exchange rates at the statement of financial position date. Income and expenses for each income statement (including comparatives) are translated to USD at monthly average exchange rates.

Foreign currency differences arising on retranslation are recognised directly in a separate component of equity.

*(iv) Net investment in foreign operations*

Foreign currency differences arising from the translation of the net investment in foreign operations are recognized in foreign currency translation reserve. They are transferred to the income statement upon disposal of the foreign operations.

**(c) Financial instruments**

*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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**As at and for the three months ended 31 March 2009**

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**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

*(i) Non-derivative financial instruments (continued)*

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(m).

*Held-to-maturity investments*

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

*Available-for-sale financial assets*

The Group s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)(i)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

*Financial assets at fair value through profit or loss*

An instrument is classified as financial asset at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group s risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*Estimated exercise price of put options*

Under the terms of certain agreements, the Group is committed to acquire the interests owned by minority shareholders in consolidated subsidiaries, if these minority interests wish to sell their share of interests.

As the Group has unconditional obligation to fulfil its liabilities under these agreements, International Accounting Standards No: 32 ( IAS 32 ) *Financial instruments: Disclosure and Presentation* , requires the value of such put option to be presented as a financial liability on the statement of financial position for the present value of the estimated option redemption amount. The Group accounted such transactions under the anticipated acquisition method and the interests of minority shareholders that hold such put option are derecognised when the financial liability is recognised. The Group accounted the difference between the amount recognised initially for the exercise price of the put option and the carrying amount of minority in equity.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

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**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

*(ii) Derivative financial instruments*

The Group holds derivative financial instruments to hedge its foreign currency risk exposures arising from operational, financing and investing activities. In accordance with its treasury policy, the Group engages in forward and option contracts. However, these derivatives do not qualify for hedge accounting and are accounted for as trading instruments.

Embedded derivatives are separated from the host contract and accounted for separately if a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and c) the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

**(d) Property, plant and equipment**

*(i) Recognition and measurement*

Items of property, plant and equipment are stated at cost adjusted for the effects of inflation during the hyperinflationary period lasted by 31 December 2005 less accumulated depreciation (see below) and accumulated impairment losses (see note 3(h)(ii)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, if any. Borrowing costs related to the acquisition or constructions of qualifying assets are capitalized during the period.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains/losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income or other expenses in profit or loss.

*(ii) Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced item is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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**3. Significant accounting policies (continued)**
**(d) Property, plant and equipment (continued)**
*(iii Depreciation*
Depreciation is recognized in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Buildings | 21 50 years |
| Network infrastructure | 3 8 years |
| Equipment, fixtures and fittings | 4 5 years |
| Motor vehicles | 4 5 years |
| Central betting terminals | 10 years |
| Leasehold improvements | 5 years |

Depreciation methods, useful lives and residual values are reviewed at least annually unless there is a triggering event.

**(e) Intangible assets**
Intangible assets that are acquired by the Group which have finite useful lives are measured at cost adjusted for the effects of inflation during the hyperinflationary period lasted by 31 December 2005 less accumulated amortization (see below) and accumulated impairment losses (see note 3(h)(ii)).

*(i) Goodwill*
Goodwill or negative goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquire. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

*(ii) Subsequent expenditure*
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset (that is purchased from independent third parties) to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred. Capitalized costs generally relate to the application of development stage; any other costs incurred during the pre and post-implementation stages, such as repair, maintenance or training, are expensed as incurred. Subsequent expenditures of the Company do not relate to research and development activities.

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**3. Significant accounting policies (continued)**

**(e) Intangible assets (continued)**

*(iii) Amortization*

Amortization is recognized in the profit or loss on a straight line basis over the estimated useful lives of intangible assets unless such useful lives are indefinite from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

| | | |
|---|---|---|
| Computer software | 3 8 | years |
| GSM and other telecommunications license | 3 25 | years |
| Transmission lines | 10 | years |
| Central betting system operating right | 10 | years |
| Customer base | 2 8 | years |
| Brand name | 10 | years |
| Customs duty and VAT exemption right | 4.4 | years |

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized on the Group s statement of financial position.

**(g) Inventories**

Inventories are measured at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. The cost of inventory is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. As at 31 March 2009, inventories mainly consist of simcards, scratch cards and handsets.

**(h) Impairment**

*(i) Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

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**3. Significant accounting policies (continued)**

**(h) Impairment (continued)**

*(i) Financial assets (continued)*

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

*(ii) Non-financial assets*

The carrying amounts of the Group s non-financial assets, other than inventories, and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the cash-generating unit ).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

**(i) Employee benefits**

*(i) Retirement pay liability*

In accordance with existing labor law in Turkey, the Company and its subsidiaries in Turkey are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days pay maximum full TRY 2,260 as at 31 March 2009 (equivalent to full $1,339 as at 31 March 2009), which is effective from 1 January 2009, per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated interim financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Company and its subsidiaries in Turkey arising from the retirement of the employees.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**3. Significant accounting policies (continued)**

**(i) Employee benefits (continued)**

*(ii) Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due.

The assets of the plan are held separately from the consolidated interim financial statements of the Group. The Company and other consolidated companies that initiated defined contribution retirement plan are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the companies with respect to the retirement plan is to make the specified contributions.

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

*Onerous contracts*

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract. The Company did not recognize any provision for onerous contracts as at 31 March 2009.

*Site restoration*

In accordance with one of the Group s subsidiary published environmental policy and applicable legal requirements, a provision for site restoration at base stations locations and future dismantling costs of base station equipment is provided.

**(k) Revenue**

Revenues are recognized as the fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Communication fees include postpaid revenues from incoming and outgoing calls, additional services, prepaid revenues, interconnect revenues and roaming revenues. Communication fees are recognized at the time the services are rendered.

With respect to prepaid revenues, the Group generally collects cash in advance by selling scratch cards to distributors. In such cases, the Group does not recognize revenue until the subscribers use the telecommunications services. Deferred income is recorded under current liabilities.

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**3. Significant accounting policies (continued)**

**(k) Revenue (continued)**

In connection with campaigns, both postpaid and prepaid services may be bundled with handset or other goods / services and these bundled services and products involve consideration in the form of fixed fee or a fixed fee coupled with continuing payment stream. Loyalty programs for both postpaid and prepaid services may be bundled with other services. Deliverables are accounted separately where a market for each deliverable exists and if the recognition criterion is met individually. Costs associated with each deliverable are recognized at the time of revenue recognized. The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables.

Revenues allocated to handsets given in connection with campaigns, which is included in other revenue, is recognised when the significant risks and rewards of ownership have been transferred to the buyer, collection is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Commission fees mainly comprised of net takings earned to a maximum of 7% of gross takings, as a head agent of fixed odds betting games starting from 15 March 2007 (until 15 March 2007, commission rate is 12% of gross takings) and 4.3% commission recognized based on the para-mutual and fixed odds betting games operated on Central Betting System.

In relation to the new contract signed with Spor Toto Teskilat Mudurlugu ( Spor Toto ) on 29 August 2008, commission rate applicable decreased to 1.4% effective from 1 March 2009. Commission revenues are recognized at the time all the services related with the games are fully rendered. Under the head agency agreement, Inteltek Internet Teknoloji Yatirim ve Danismanlik AS ( Inteltek ) is obliged to undertake any excess payout, which is presented on net basis with the commission fees.

Monthly fixed fees represent a fixed amount charged to postpaid subscribers on a monthly basis without regard to the level of usage. Fixed fees are recognized on a monthly basis when billed.

Simcard sales are recognized upfront upon delivery to subscribers, net of returns, discounts and rebates. Simcard costs are also recognized upfront upon sale of the simcard to the subscriber.

Call center revenues are recognized at the time services are rendered.

The revenue recognition policy for other revenues is to recognise revenue as services are provided.

**(l) Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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**3. Significant accounting policies (continued)**

**(m) Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for sale financial assets), late payment interest income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and gains on derivative instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are recognised in profit or loss or capitalized are accounted using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**(n) Transactions with related parties**

A related party is essentially any party that controls or can significantly influence the financial or operating decisions of the Group to the extent that the Group may be prevented from fully pursuing its own interests. For reporting purposes, investee companies and their shareholders, key management personnel, shareholders of the Group and the companies that the shareholders have a relationship with are considered to be related parties.

**(o) Income taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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**3. Significant accounting policies (continued)**

**(p) Earnings per share**

The Group presents basic earnings per share ( EPS ) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is equal to basic EPS because the Group does not have any convertible notes or share options granted to employees.

**(q) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group identified Turkcell, Euroasia and Belarussian Telecom as operating segments.

**(r) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective at 31 March 2009, and have not been applied in preparing these consolidated interim financial statements:

*Revised IFRS 3 Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group s operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.

- Transaction costs, other than share and debt issue costs, will be expensed as incurred.

- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.

- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group s 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group s 2010 consolidated financial statements.

*Amended IAS 27 Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group s 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

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**3. Significant accounting policies (continued)**

**(r) New standards and interpretations not yet adopted (continued)**

*Eligible Hedged Items (amendment to IAS 39 Financial Instruments: Recognition and Measurement )* introduces application guidance to illustrate how the principles underlying hedge accounting should be applied in the designation of i) a one-sided risk in a hedged item and ii) inflation in a financial hedged item. The amendment is effective, with retrospective application, for annual periods beginning on or after 1 July 2009 and is not expected to have any effect on the consolidated financial statements.

*IFRIC 17, Distributions of Non-cash Assets to Owners* , requires entities to recognise certain distributions of non-cash assets at fair value, and to recognise in profit or loss the difference between the fair value of the assets distributed and their carrying amounts. IFRIC 17 provides guidance on when and how a liability for certain distributions of non-cash assets is recognised and measured, and how to account for settlement of that liability. Transactions within its scope will need to be measured at fair value. IFRIC 17 is effective for annual periods beginning on or after July 2009; earlier application is permitted only if IFRS 3 Business Combinations (2008), IAS 27 Consolidated and Separate Financial Statements (2008) and the related amendments to IFRS 5 are applied at the same time.

*IFRIC 18 Transfers of Assets from Customers* provides guidance on transfers of property, plant and equipment (or cash to acquire it) for entities that receive such contributions from their customers. IFRIC 18 applies prospectively to transfers of assets from customers received on or after July 2009; earlier application is permitted provided that the necessary valuations and other information were obtained at the time that those transfers occurred. The interpretation is not expected to have significant effect on the consolidated financial statements.

Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value through profit or loss category. When the fair value of an embedded derivative that would be separated cannot be measured reliably, the reclassification of the hybrid (combined) financial asset out of the fair value through profit or loss category is not permitted. The amendments are applicable for annual periods ending on or after 30 June 2009 and are not expected to have significant effect on the consolidated financial statements.

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**4. Determination of fair values**

A number of the Group s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(i) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

**(ii) Intangible assets**

The fair value of the brand acquired in the Superonline Uluslararasi Elektronik Bilgilendirme Telekomunikasyon ve Haberlesme Hizmetleri AS ( Superonline ) business combination is based on the discounted estimated royalty payments that have been avoided as a result of the brand being owned. The fair value of customer base acquired in the Superonline business combination are valued using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of custom duty and VAT exemption agreement in the Belarussian Telecom business combination is based on the incremental cash flows method (cost saving approach) and this was used for the valuation analysis.

The fair value of mobile telephony licenses (GSM&UMTS) in the Belarussian Telecom business combination is based on the Greenfield (build-out) method, which is estimated to be appropriate and commonly used for the valuation of licenses, and this was used for the valuation analysis.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**(iii) Investments in equity and debt securities**

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price or over the counter market price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

**(iv) Trade and other receivables / due from related parties**

The fair values of trade and other receivables and due from related parties are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(v) Derivatives**

The fair value of forward exchange contracts and option contracts are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds) or option pricing models.

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**4. Determination of fair values (continued)**

**(vi) Non-derivative financial liabilities**
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

**(vii) Exercise price of financial liability related to minority share put option**
The Group measures the estimated exercise price of the financial liability originating from put options granted to minorities as the present value of estimated option redemption amount. Present value of the estimated option redemption amount is based on the fair value of estimation for the company subject to the put option.

The Company has estimated a value based on multiple approaches including income approach (discounted cash flows) and market approach (comparable market multiples). The average of the values determined as of 31 August 2013, which the exercise date of the put option, is then discounted back to 31 March 2009.

**5. Financial risk management**
The Group has exposure to the following risks from its use of financial instruments:

Credit risks

Liquidity risks

Market risk

This note presents information about the Group s exposure to each of the above risks, the Group s objectives, policies and processes for measuring and managing risk, and the Group s management of capital.

The Company management has overall responsibility for the establishment and oversight of the Group s risk management framework.

The Group s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group s activities.

The instant impact of the global turmoil across global financial markets came out to be a sharp increase in foreign currency exchange rates in Turkey. Consequently, the depreciation of TRY against USD and EUR was 29.8% and 25.2%, respectively and the depreciation of HRV against USD was 52% as at 31 December 2008 when compared to the exchange rates as at 31 December 2007. Subsequently, TRY further depreciated against USD and EUR by 11.6% and 4.0%, respectively and HRV/USD parity remained stable as at 31 March 2009 when compared to the exchange rates as at 31 December 2008. Please refer to note 28 for additional information on the Group s exposure to this turmoil.

**Credit risk**

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group s receivables from customers and investment securities.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group may require collateral in respect of financial assets. Also, the Group may demand letters of guarantee from third parties related to certain projects or contracts. The Group may also demand certain pledges from counterparties if necessary in return for the credit support it gives related to certain financings.

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**5. Financial risk management (continued)**
**Credit risk (continued)**

In monitoring customer credit risk, customers are grouped according to whether they are an individual or legal entity, ageing profile, maturity and existence of previous financial difficulties. Trade receivables and accrued service income are mainly related to the Group s subscribers. The Group exposure to credit risk on trade receivables is influenced mainly by the individual payment characteristics of postpaid subscribers.

Investments are preferred to be in liquid securities and mostly with counterparties that have a credit rating equal or better than the Group. Some of the collection banks have credit ratings that are lower than the Group s, or they may not be rated at all, however, policies are in place to review the paid-in capital and rating of counterparties periodically to ensure credit worthiness.

Transactions involving derivatives are with counterparties with whom the Group has signed agreements and which have sound credit ratings.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The Group establishes an allowance for doubtful receivables that represents its estimate of incurred losses in respect of receivables from subscribers. This allowance includes the specific loss component that relates to individual subscribers exposures, and adjusted for a general provision which is determined based on historical data of payment statistics. Impairment loss as a percentage of revenues represented 1.1% of revenues for the year ended 31 March 2009. If impairment loss as a percentage of revenues increased to 1.5% of revenues, the impairment loss would have been increased by $4,740, negatively impacting profit for the three months ended 31 March 2009.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group s reputation. Typically, the Group ensures that it has sufficient cash and cash equivalents to meet expected operational expenses, including financial obligations.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Currency risk**

The Group is exposed to currency risk on certain revenues such as roaming revenues, purchases and certain operating costs such as roaming expenses and network related costs and resulting receivables and payables, borrowings, deferred payments related to the acquisition of Belarussian Telecom and financial liability in relation to put option for the acquisition of minority shares of Belarussian Telecom that are denominated in a currency other than the respective functional currencies of Group entities, primarily TRY for operations conducted in Turkey. The currencies in which these transactions are primarily denominated are EUR, USD and SEK.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**5. Financial risk management (continued)**
**Currency risk (continued)**

Derivative financial instruments such as forward contracts and options are used to hedge exposure to fluctuations in foreign exchange rates. The Group uses forward exchange contracts to hedge its currency risk.

The Group s investments in its equity accounted investee Fintur and its subsidiaries in Ukraine and Republic of Belarus are not hedged with respect to the currency risk arising from the net assets as those net investments are considered to be long-term in nature.

**Interest rate risk**

The Group has not entered into any type of derivative instrument in order to hedge interest rate risk as at 31 March 2009.

**6. Segment reporting**
The Group has three reportable segments, as described below, which are based on the dominant source and nature of the Group s risk and returns as well as the Group s internal reporting structure. These strategic segments offer same types of services, however they are managed separately because they operate in different geographical locations and are affected by different economical conditions.

The Group comprises the following main operating segments: Turkcell, Euroasia and Belarussian Telecom, all of which are GSM operators in their countries.

Other operations mainly include companies operating in telecommunication and betting businesses and companies provide call center and value added services.

Information regarding the operations of each reportable segment is included below. Adjusted EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The accounting policies of operating segments are the same as those described in the summary of significant accounting policies.

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**6. Segment reporting (continued)**

| | Three months ended 31 March | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Belarussian | | | | | |
| | Turkcell | | Euroasia | | Telecom | | Other | | Total | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Total external revenues | 1,136,235 | 1,390,520 | 79,141 | 90,018 | 1,038 | - | 66,691 | 93,842 | 1,283,105 | 1,574,380 |
| Intersegment revenue | 6,411 | 9,989 | 9 | 149 | 2 | - | 64,084 | 65,066 | 70,506 | 75,204 |
| Adjusted EBITDA | 438,749 | 522,875 | 3,605 | 2,120 | (6,369) | - | 41,047 | 51,737 | 477,032 | 576,732 |
| Finance income | 187,450 | 216,808 | 646 | 807 | 180 | - | 17,311 | 25,157 | 205,587 | 242,772 |
| Finance expense | (57,248) | (4,752) | (11,783) | (9,590) | (2,844) | - | (29,959) | (22,490) | (101,834) | (36,832) |
| Depreciation and amortisation | 85,409 | 156,350 | 17,409 | 25,489 | 5,265 | - | 10,208 | 10,703 | 118,291 | 192,542 |
| Share of profit of equity accounted investees | | | | | | | 9,634 | 19,867 | 9,634 | 19,867 |
| Capital expenditure | 181,567 | 97,801 | 42,182 | 55,482 | 8,980 | - | 19,251 | 39,222 | 251,980 | 192,505 |

| | As at 31 March 2009 and 31 December 2008 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Belarussian | | | | | |
| | Turkcell | | Euroasia | | Telecom | | Other | | Total | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Reportable segment assets | 2,775,582 | 2,801,251 | 603,494 | 592,035 | 503,024 | 586,242 | 427,119 | 448,036 | 4,309,219 | 4,427,564 |
| Investment in associates | | | | | | | 368,233 | 313,723 | 368,233 | 313,723 |
| Reportable segment liabilities | 1,159,341 | 1,330,075 | 146,648 | 121,835 | 6,458 | 9,827 | 69,319 | 115,169 | 1,381,766 | 1,576,906 |

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**6. Segment reporting (continued)**
**Reconciliations of reportable segment revenues, adjusted EBITDA, assets and liabilities and other material items:**

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | **2008** |
| **Revenues** | | |
| Total revenue for reportable segments | 1,222,836 | 1,490,676 |
| Other revenue | 130,775 | 158,908 |
| Elimination of inter-segment revenue | (70,506) | (75,204) |
| Consolidated revenue | **1,283,105** | **1,574,380** |

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | **2008** |
| **Adjusted EBITDA** | | |
| Total adjusted EBITDA for reportable segments | 435,985 | 524,995 |
| Other adjusted EBITDA | 41,047 | 51,737 |
| Elimination of inter-segment adjusted EBITDA | (4,827) | 242 |
| Consolidated adjusted EBITDA | **472,205** | **576,974** |
| Finance income | 142,130 | 225,349 |
| Finance expense | (33,610) | (15,900) |
| Other income | 4,786 | 2,250 |
| Other expense | (3,469) | (868) |
| Share of profit of equity accounted investees | 9,634 | 19,867 |
| Depreciation and amortization | (118,291) | (192,542) |
| Consolidated profit before income tax | **473,385** | **615,130** |

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**6. Segment reporting (continued)**

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | **2008** |
| **Finance income** | | |
| Total finance income for reportable segments | 188,276 | 217,615 |
| Other finance income | 17,311 | 25,157 |
| Elimination of inter-segment finance income | (63,457) | (17,423) |
| Consolidated finance income | **142,130** | **225,349** |

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | **2008** |
| **Finance expense** | | |
| Total finance expense for reportable segments | 71,875 | 14,342 |
| Other finance expense | 29,959 | 22,490 |
| Elimination of inter-segment finance expense | (68,224) | (20,932) |
| Consolidated finance expense | **33,610** | **15,900** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total Common Shares Outstanding | 1,000,000 | 1,050,000 | 5.00% | 1,100,000 | 10.00% | 1,250,000 | 25.00% |
| NAV per Common Share | $ 10.00 | $ 9.98 | (0.20)% | $ 9.91 | (0.90)% | $ 9.50 | 5.00% |
| ***Dilution to Stockholder*** | | | | | | | |
| Common Shares Held by Stockholder | 10,000 | 10,000 | | 10,000 | | 10,000 | |
| Percentage Held by Common Stockholder | 1.0% | 0.95% | (4.76)% | 0.91% | (9.09)% | 0.83% | (16.67)% |
| **Total Asset Values** | | | | | | | |
| Total NAV Held by Common Stockholder | $ 100,000 | $ 99,800 | (0.20)% | $ 99,100 | (0.90)% | $ 95,000 | (5.00)% |
| Total Investment by Common Stockholder (Assumed to be $10.00 per Common Share) | $ 100,000 | $ 100,000 | | $ 100,000 | | $ 100,000 | |
| Total Dilution to Common Stockholder (Total NAV Less Total Investment) | | $ (200) | | $ (900) | | $ 5,000 | |
| **Per Share Amounts** | | | | | | | |
| NAV Per Share Held by Common Stockholder | | $ 9.98 | | $ 9.91 | | $ 9.50 | |

| | | | | |
|---|---|---|---|---|
| Investment per Share Held by Common Stockholder (Assumed to be $10.00 per Common Share on Common Shares Held prior to Sale) | $ 10.00 | $ 10.00 | $ 10.00 | $ 10.00 |
| Dilution per Common Share Held by Stockholder (NAV per Common Share Less Investment per Share) | | $ (0.02) | $ (0.09) | $ (0.50) |
| Percentage Dilution to Common Stockholder (Dilution per Common Share Divided by Investment per Common Share) | | (0.20)% | (0.90)% | (5.00)% |

**Impact on Existing Stockholders Who Do Participate in an Offering**

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

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The following chart illustrates the level of dilution and accretion in the hypothetical 25% discount offering from the prior chart for a common stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 1,250 shares, which is 0.50% of the offering 250,000 common shares rather than its 1% proportionate share) and (2) 150% of such percentage (i.e., 3,750 shares, which is 1.50% of an offering of 250,000 common shares rather than its 1% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per common share. It is not possible to predict the level of market price decline that may occur.

| | | 50% Participation | | 150% Participation | |
|---|---|---|---|---|---|
| | **Prior to Sale Below NAV** | **Following Sale** | **% Change** | **Following Sale** | **% Change** |
| ***Offering Price*** | | | | | |
| Price per Common Share to Public | | $ 7.90 | | $ 7.90 | |
| Net Proceeds per Common Share to Issuer | | $ 7.50 | | $ 7.50 | |
| ***Increases in Shares and Decrease to NAV*** | | | | | |
| Total Common Shares Outstanding | 1,000,000 | 1,250,000 | 25.00% | 1,250,000 | 25.00% |
| NAV per Common Share | $ 10.00 | $ 9.50 | 5.00% | $ 9.50 | 5.00% |
| ***Dilution/Accretion to Common Stockholder*** | | | | | |
| Common Shares Held by Stockholder | 10,000 | 11,250 | 12.50% | 13,750 | 37.50% |
| Percentage Held by Common Stockholder | 1.0% | 0.90% | 10.00% | 1.10% | 10.00% |
| **Total Asset Values** | | | | | |
| Total NAV Held by Common Stockholder | $ 100,000 | $ 106,875 | 6.88% | $ 130,625 | 30.63% |
| Total Investment by Common Stockholder (Assumed to be $10.00 per Common Share on Common Shares Held prior to Sale) | $ 100,000 | $ 109,875 | | $ 129,625 | |
| Total Dilution/Accretion to Common Stockholder (Total NAV Less Total Investment) | | 3,000 | | $ 1,000 | |
| **Per Common Share Amounts** | | | | | |
| NAV Per Common Share Held by Stockholder | | $ 9.50 | | $ 9.50 | |
| Investment per Common Share Held by Stockholder (Assumed to be $10.00 per Common Share on Common Shares Held prior to Sale) | $ 10.00 | $ 9.77 | 2.33% | $ 9.43 | 5.73% |
| Dilution/Accretion per Common Share Held by Stockholder (NAV per Common Share Less Investment per Common Share) | | $ 0.27 | | $ 0.07 | |
| Percentage Dilution/Accretion to Stockholder (Dilution/Accretion per Common Share Divided by Investment per Common Share) | | | 2.73% | | 0.77% |

**Impact on New Investors**

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

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same 5%, 10% and 25% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (1%) of the common shares in the offering as the common stockholder in the prior examples held immediately prior to the offering, The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of common shares in such offering and the actual discount from the most recently determined NAV per common share. It is not possible to predict the level of market price decline that may occur.

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| | | Example 1 | | Example 2 | | Example 3 | |
|---|---|---|---|---|---|---|---|
| | | 5% Offering at 5% Discount | | 10% Offering at 10% Discount | | 25% Offering at 25% Discount | |
| | **Prior to Sale Below NAV** | **Following Sale** | **% Change** | **Following Sale** | **% Change** | **Following Sale** | **% Change** |
| ***Offering Price*** | | | | | | | |
| Price per Common Share to Public | | $ 10.00 | | $ 9.47 | | $ 7.90 | |
| Net Proceeds per Common Share to Issuer | | $ 9.50 | | $ 9.00 | | $ 7.50 | |
| ***Decrease to NAV*** | | | | | | | |
| Total Common Shares Outstanding | 1,000,000 | 1,050,000 | 5.00% | 1,100,000 | 10.00% | 1,250,000 | 25.00% |
| NAV per Common Share | $ 10.00 | $ 9.98 | (0.20)% | $ 9.91 | (0.90)% | $ 9.50 | 5.00% |
| ***Dilution/Accretion to Common Stockholder*** | | | | | | | |
| Common Shares Held by Stockholder | | 500 | | 1,000 | | 2,500 | |
| Percentage Held by Common Stockholder | 0.0% | 0.05% | | 0.09% | | 0.20% | |
| **Total Asset Values** | | | | | | | |
| Total NAV Held by Common Stockholder | | $ 4,990 | | $ 9,910 | | $ 23,750 | |
| Total Investment by Common Stockholder | | $ 5,000 | | $ 9,470 | | $ 19,750 | |
| Total Dilution/Accretion to Common Stockholder (Total NAV Less Total Investment) | | $ (10) | | $ 440 | | $ 4,000 | |
| **Per Common Share Amounts** | | | | | | | |
| NAV Per Common Share Held by Common Stockholder | | $ 9.98 | | $ 9.91 | | $ 9.50 | |
| Investment per Share Held by Common Stockholder | | $ 10.00 | | $ 9.47 | | $ 7.90 | |
| Dilution/Accretion per Common Share Held by Common Stockholder (NAV per Common Share Less Investment per Common Share) | | $ (0.02) | | $ 0.44 | | $ 1.60 | |
| Percentage Dilution/Accretion to Common Stockholder (Dilution/Accretion per Common Share Divided by Investment per Common Share) | | | (0.20)% | | 4.65% | | 20.25% |

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## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of March 31, 2014, (the end of our fiscal year of operations) and for the years indicated in the table, unless otherwise noted. The annual information has been derived from our audited financial statements for each respective period, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. PricewaterhouseCoopers LLP s report on the senior securities table as of March 31, 2014 is attached as an exhibit to the registration statement of which this prospectus is a part.

| Class and Year | Total Amount Outstanding Exclusive of Treasury Securities (1) | Asset Coverage Per Unit (2) | Involuntary Liquidating Preference Per Unit (3) | Average Market Value Per Unit (4) |
|---|---|---|---|---|
| 7.125% Series A Cumulative Term Preferred Stock | | | | |
| March 31, 2014 | $ 40,000,000 | $ 2,978 | $ 25.00 | $ 26.53 |
| March 31, 2013 | 40,000,000 | 2,725 | 25.00 | 26.92 |
| March 31, 2012 | 40,000,000 | 2,676 | 25.00 | 24.97 |
| Revolving credit facilities | | | | |
| March 31, 2014 | 61,250,000 | 2,978 | | N/A |
| March 31, 2013 | 31,000,000 | 2,725 | | N/A |
| March 31, 2012 | | N/A | | N/A |
| March 31, 2011 | | N/A | | N/A |
| March 31, 2010 | 27,800,000 | 2,814 | | N/A |
| March 31, 2009 | 110,265,000 | 2,930 | | N/A |
| March 31, 2008 | 144,835,000 | 2,422 | | N/A |
| March 31, 2007 | 100,000,000 | 3,228 | | N/A |
| Short-term loan | | | | |
| March 31, 2014 | | 2,978 | | N/A |
| March 31, 2013 | 58,016,000 | 2,725 | | N/A |
| March 31, 2012 | 76,005,000 | 2,676 | | N/A |
| March 31, 2011 | 40,000,000 | 5,344 | | N/A |
| March 31, 2010 | 75,000,000 | 2,814 | | N/A |
| Secured borrowings (5) | | | | |
| March 31, 2014 | 5,000,000 | 2,978 | | N/A |
| March 31, 2013 | 5,000,000 | 2,725 | | N/A |

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

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

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

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

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

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## BUSINESS

### Overview

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

#### *Investment Objectives and Strategy*

Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $5 million to $30 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We expect that our investment mix over time will consist of approximately 80% in debt securities and 20% in equity securities. However, as of June 30, 2014, our investment mix is approximately 73% in debt securities and 27% in equity securities, at cost. We may change our investment objectives without approval of the majority of holders of our securities.

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

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

From our initial public offering in 2005 to June 2014, we have invested in over 107 different companies, while making 109 consecutive monthly distributions to common stockholders.

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

*Senior Debt Securities:* We seek to invest a portion of our assets in senior debt securities also known as senior loans, senior term loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses senior debt to cover a substantial portion of the funding needs of the business. The senior debt security usually takes the form of first priority liens on the assets of the business. Senior debt securities may include our participation and investment in the syndicated loan market, though we have none in our investment portfolio at this time.

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

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

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

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

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated below what is today considered investment grade quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered high risk, as compared to investment-grade debt instruments. In addition, many of our debt securities we hold typically do not amortize prior to maturity.

*Investment Concentrations*

As of June 30, 2014, our investment portfolio consisted of investments in 28 portfolio companies located in 14 states across 14 different industries with an aggregate fair value of $321.8 million, of which our investments in Acme Cryogenics, Inc. ( Acme ), SOG Specialty K&T, LLC ( SOG ), and Galaxy Tool Holdings Corp. ( Galaxy ), our three largest portfolio investments at fair value, collectively comprised $74.9 million, or 23.3%, of our total investment portfolio at fair value. The following table summarizes our investments by security type as of June 30 and March 31, 2014:

| | June 30, 2014 | | | | March 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | Fair Value | | Cost | | Fair Value | |
| Senior debt | **$ 197,053** | **51.1%** | **$ 177,599** | **55.2%** | $ 196,293 | 51.2% | $ 169,870 | 54.0% |
| Senior subordinated debt | **83,377** | **21.6** | **70,382** | **21.9** | 82,348 | 21.5 | 70,827 | 22.5 |
| Total debt | **280,430** | **72.7** | **247,981** | **77.1** | 278,641 | 72.7 | 240,697 | 76.5 |
| Preferred equity | **98,289** | **25.5** | **60,934** | **18.9** | 98,099 | 25.6 | 62,901 | 20.0 |
| Common equity/equivalents | **6,797** | **1.8** | **12,917** | **4.0** | 6,797 | 1.7 | 10,795 | 3.5 |
| Total equity/equivalents | **105,086** | **27.3** | **73,851** | **22.9** | 104,896 | 27.3 | 73,696 | 23.5 |
| **Total Investments** | **$ 385,516** | **100.0%** | **$ 321,832** | **100.0%** | $ 383,537 | 100.0% | $ 314,393 | 100.0% |

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Investments at fair value consisted of the following industry classifications as of June 30 and March 31, 2014:

| | June 30, 2014 | | March 31, 2014 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Diversified/Conglomerate Manufacturing | **$ 53,998** | **16.8%** | $ 54,845 | 17.4% |
| Chemicals, Plastics, and Rubber | **53,223** | **16.5** | 52,753 | 16.8 |
| Leisure, Amusement, Motion Pictures, Entertainment | **38,468** | **12.0** | 39,867 | 12.7 |
| Machinery (Non-agriculture, Non-construction, Non-electronic) | **26,118** | **8.1** | 25,917 | 8.2 |
| Automobile | **25,670** | **8.0** | 25,735 | 8.2 |
| Farming and Agriculture | **24,462** | **7.6** | 20,557 | 6.5 |
| Aerospace and Defense | **22,186** | **6.9** | 18,512 | 5.9 |
| Home and Office Furnishings, Housewares, and Durable Consumer Products | **19,072** | **5.9** | 21,188 | 6.7 |
| Containers, Packaging, and Glass | **17,240** | **5.4** | 17,889 | 5.7 |
| Cargo Transport | **12,262** | **3.8** | 6,500 | 2.1 |
| Beverage Food and Tobacco | **11,206** | **3.5** | 13,050 | 4.2 |
| Personal and Non-Durable Consumer Products (Manufacturing Only) | **10,363** | **3.2** | 10,005 | 3.2 |
| Buildings and Real Estate | **7,564** | **2.3** | 7,575 | 2.4 |
| **Total Investments** | **$ 321,832** | **100.0%** | $ 314,393 | 100.0% |

Investments at fair value were included in the following geographic regions of the U.S. as of June 30 and March 31, 2014:

| | June 30, 2014 | | March 31, 2014 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| West | **$ 115,853** | **36.0%** | $ 117,781 | 37.5% |
| South | **96,097** | **29.9** | 89,915 | 28.6 |
| Northeast | **66,990** | **20.8** | 67,862 | 21.6 |
| Midwest | **42,892** | **13.3** | 38,835 | 12.3 |
| **Total Investments** | **$ 321,832** | **100.0%** | $ 314,393 | 100.0% |

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

*Investment Principal Repayments*

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2014:

| | | Amount |
|---|---|---|
| For the remaining nine months ending March 31: | 2015 | $ 47,463 |

| | | |
|---|---|---|
| For the fiscal year ending March 31: | 2016 | 40,623 |
| | 2017 | 24,915 |
| | 2018 | 70,632 |
| | 2019 | 89,181 |
| | Thereafter | 7,616 |
| | **Total contractual repayments** | **$ 280,430** |
| | Investments in equity securities | 105,086 |
| | **Total cost basis of investments held at June 30, 2014:** | **$ 385,516** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of June 30 and March 31, 2014, we had gross receivables from portfolio companies of $0.6 million and $0.9 million, respectively. The allowance for uncollectible receivables was $163 as of each of June 30 and March 31, 2014.

**Our Investment Adviser and Administrator**

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

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

We have been externally managed by the Adviser pursuant to an investment advisory and management agreement and our Administrator has provided administration services to us under an administration agreement since June 22, 2005. The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C., and the Advisor also has offices in several other states.

**Investment Process**

***Overview of Investment and Approval Process***

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

***Prospective Portfolio Company Characteristics***

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

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

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

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

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

***Extensive Due Diligence***

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

- a review of the prospective portfolio company s historical and projected financial information, including a quality of earnings analysis;
- visits to the prospective portfolio company s business site(s);
- interviews with the prospective portfolio company s management, employees, customers and vendors;
- review of loan documents and material contracts;
- background checks and a management capabilities assessment on the prospective portfolio company s management team; and
- research on the prospective portfolio company s products, services or particular industry and its competitive position therein.

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

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

***Investment Structure***

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

- making investments with an expected total return (including both interest and potential equity appreciation) that it believes compensates us for the credit risk of the investment;

- seeking collateral or superior positions in the portfolio company s capital structure where possible;
- incorporating put rights and call protection into the investment structure where possible;
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility as possible in managing their businesses, consistent with preserving our capital; and
- holding board seats or securing board observation rights at the portfolio company.

We expect to hold most of our investments in senior debt and senior and junior subordinated debt until maturity or repayment, but may sell our investments (including our equity investments) earlier if a liquidity event takes place, such as the sale or recapitalization

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of a portfolio company or, in the case of an equity investment in a company, its initial public offering. Occasionally, we may sell some or all of our investment interests in a portfolio company to a third party, such as an existing investor in the portfolio company, in a privately negotiated transaction.

**Competitive Advantages**

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

***Management Expertise***

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

***Increased Access to Investment Opportunities Developed Through Extensive Network of Contacts***

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

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

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

- focusing on companies with good market positions and cash flow;
- investing in businesses with experienced and established management teams;
- engaging in extensive due diligence from the perspective of a long-term investor;

investing at low price-to-cash flow multiples; and

adopting flexible transaction structures by drawing on the experience of the investment professionals of the Adviser and its affiliates.

*Longer Investment Horizon*

Unlike private equity and venture capital funds that are typically organized as finite-life partnerships, we are not subject to standard periodic capital return requirements. The partnership agreements of most private equity and venture capital funds typically provide that these funds may only invest investors capital once and must return all capital and realized gains to investors within a finite time period, often seven to ten years. These provisions often force private equity and venture capital funds to seek returns on their investments by causing their portfolio companies to pursue mergers, public equity offerings, or other liquidity events more quickly than might otherwise be optimal or desirable, potentially resulting in a lower overall return to investors and/or an adverse impact on their portfolio companies. In contrast, we are a corporation of perpetual duration and are exchange-traded. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles provides us with the opportunity to achieve greater long-term returns on invested capital.

*Flexible Transaction Structuring*

We believe our management team s broad expertise and its ability to draw upon many years of combined experience enables the Adviser to identify, assess, and structure investments successfully across all levels of a company s capital structure and manage potential risk and return at all stages of the economic cycle. We are not subject to many of the regulatory limitations that govern traditional lending institutions, such as banks. As a result, we are flexible in selecting and structuring investments, adjusting investment criteria and transaction structures and, in some cases, the types of securities in which we invest. We believe that this approach enables the Adviser to identify attractive investment opportunities that will continue to generate current income and capital gain potential throughout the economic cycle, including during turbulent periods in the capital markets.

*Leverage*

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

**Ongoing Management of Investments and Portfolio Company Relationships**

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

*Monitoring*

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

- monthly analysis of financial and operating performance;

assessment of the portfolio company s performance against its business plan and our investment expectations;

assessment of the investment s risks;

attendance at and participation in the portfolio company s board of directors or management meetings;

assessment of portfolio company management, sponsor, governance and strategic direction;

assessment of the portfolio company s industry and competitive environment; and

review and assessment of the portfolio company s operating outlook and financial projections.

**Relationship Management**

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

management;

boards of directors;

financial sponsors;

capital partners;

auditors; and

advisers and consultants.

***Managerial Assistance and Services***

As a BDC, we make available significant managerial assistance to our portfolio companies. Neither we, nor the Adviser, currently receive fees in connection with the managerial assistance we make available. The Adviser may also provide services other than managerial assistance to our portfolio companies and receive fees therefor. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from un-affiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. At the end of each quarter, 50% of certain of these fees and 100% of others historically were credited against the base management fee that we would otherwise be required to pay to our Adviser. Effective October 1, 2013, pursuant to a resolution at a meeting of our Board of Directors, 100% of all these fees are credited against the base management fee that we would otherwise be required to pay to our Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser.

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

***Valuation Process***

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

Quarterly, each portfolio company or investment is initially assessed by the Valuation Team s investment professionals responsible for the investment, using the Policy;

Preliminary valuation conclusions are then discussed with our management, and documented, along with any independent opinions of value provided by Standard & Poor s Securities Evaluations, Inc. ( SPSE ), for review by our Board of Directors;

Next, our Board of Directors reviews this documentation and discusses the information provided by the Valuation Team, and the opinions of value provided by SPSE to arrive at a determination that the Policy has been followed for determining the aggregate fair value of our portfolio of investments.

Our valuation policies, procedures and processes are more fully described under *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investment Valuation.*

***Investment Advisory and Management Agreement***

We entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement ). In accordance with the Advisory Agreement, we pay the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee. On July 15, 2014, our Board of Directors approved the annual renewal of the Advisory Agreement with the Adviser through August 31, 2015. Mr. Gladstone, our chairman and chief executive officer, controls the Adviser.

**Base Management Fee**

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2%. It is computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Although neither we nor our Adviser receive fees in connection with managerial assistance, the Adviser provides other services to our portfolio companies and receives fees for these other services. 50% of certain of these fees and 100% of others historically have been credited against the base management fee that we would otherwise be required to pay to our Adviser. Effective October 1, 2013, 100% of all these fees are credited against the base management fee that we would otherwise be required to pay to our Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees is retained by the Adviser in the form of reimbursement for certain tasks completed by personnel of the Adviser.

**Incentive Fee**

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

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

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

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

*Quarterly Incentive Fee Based on Net Investment Income*

Pre-incentive fee net investment income

(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income

allocated to income-related portion of incentive fee

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate net unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. Aggregate net unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate net unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital

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gains-based incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through June 30, 2014, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with accounting principles generally accepted in the U.S. ( GAAP ), a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded from our inception through June 30, 2014.

***Administration Agreement***

We have entered into an administration agreement (the Administration Agreement ) with the Administrator, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, general counsel and secretary, who also serves as the Administrator s president, and their respective staffs. Our allocable portion of administrative expenses is generally derived by multiplying the Administrator s total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies serviced by the Administrator under similar agreements. On July 15, 2014, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2015.

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**Staffing**

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of our Adviser or our Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. No employee of our Adviser and our Administrator will dedicate all of his or her time to us. However, we expect that 25-30 full time employees of our Adviser and our Administrator will spend substantial time on our matters during the remainder of calendar year 2014 and all of calendar year 2015. To the extent we acquire more investments, we anticipate that the number of employees of our Adviser and our Administrator who devote time to our matters will increase.

As of May 23, 2014, our Adviser and Administrator collectively had 61 full-time employees. A breakdown of these employees is summarized by functional area in the table below:

| Number of Individuals | Functional Area |
|---|---|
| 11 | Executive Management |
| 34 | Investment Management, Portfolio Management and Due Diligence |
| 15 | Administration, Accounting, Compliance, Human Resources, Legal and Treasury |

**Properties**

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

**Legal Proceedings**

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While we do not expect that the resolution of these matters if they arise would materially affect our business, financial condition or results of operations, resolution will be subject to various uncertainties and could result in the expenditure of significant financial and managerial resources.

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**PORTFOLIO COMPANIES**

The following table sets forth certain information as of June 30, 2014, regarding each portfolio company in which we had a debt or equity security as of such date. All such investments have been made in accordance with our investment policies and procedures described in this prospectus.

| Company[(A)] | Industry | Investment | Percentage of Class Held on a Fully Diluted Basis | Cost | Fair Value |
|---|---|---|---|---|---|
| | | | | (Dollar amounts in thousands) (unaudited) | |
| **CONTROL INVESTMENTS:** | | | | | |
| Galaxy Tool Holding Corp. | | | | | |
| 1111 Industrial Rd. | | | | | |
| Winfield, KS 67156 | Aerospace and Defense | Senior Subordinated Term Debt | $ | $ 15,520 | $ 15,520 |
| | | Preferred Stock | 74.7% | 11,464 | 6,666 |
| | | Common Stock | 55.0% | 48 | |
| | | | | 27,032 | 22,186 |
| **Total Control Investments (represents 6.9% of total investments at fair value)** | | | | **$ 27,032** | **$ 22,186** |
| **AFFILIATE INVESTMENTS:** | | | | | |
| Alloy Die Casting Corp. | | | | | |
| 6550 Caballero Blvd Buena Park, CA 90620 | Diversified/Conglomerate Manufacturing | Senior Term Debt | | 12,215 | 12,230 |
| | | Preferred Stock | 70% | 4,064 | 906 |
| | | Common Stock | 70% | 41 | |
| | | | | 16,320 | 13,136 |
| Behrens Manufacturing, LLC | | | | | |
| 1250 E 8th St. | | | | | |
| Winona, MN 55987 | Diversified/Conglomerate Manufacturing | Senior Term Debt | $ | $ 9,975 | $ 9,975 |
| | | Preferred Stock | 58.5% | 2,922 | 3,232 |
| | | | | 12,897 | 13,207 |
| Channel Technologies Group, LLC | | | | | |
| 879 Ward Drive | | | | | |
| Santa Barbara, CA 93111 | Diversified/Conglomerate Manufacturing | Preferred Stock | 7.9% | 2,864 | 2,353 |
| | | Common Stock | 7.5% | | |
| | | | | 2,864 | 2,353 |

| | | | | | |
|---|---|---|---|---|---|
| Danco Acquisition Corp.<br><br>950 George St.<br><br>Santa Clara, CA 95054 | Diversified/Conglomerate Manufacturing | Line of Credit, $700 available | | 3,850 | 578 |
| | | Senior Term Debt | | 2,575 | 386 |
| | | Senior Term Debt | | 8,795 | 1,319 |
| | | Senior Term Debt | | 1,150 | 173 |
| | | Preferred Stock | 59.5% | 2,500 | |
| | | Common Stock | 92.5% | 3 | |
| | | | | 18,873 | 2,456 |
| Edge Adhesives Holdings, Inc.<br><br>5117 Northeast Pkwy<br><br>Fort Worth, TX 76106 | Diversified/Conglomerate Manufacturing | Line of Credit, $705 available | | 795 | 1,156 |
| | | Senior Term Debt | | 9,300 | 9,335 |
| | | Senior Subordinated Term Debt | | 2,400 | 2,412 |
| | | Preferred Stock | 43.4% | 3,474 | 4,192 |
| | | | | 15,969 | 17,095 |
| Head Country Food Products, Inc.<br><br>2116 North Ash St.<br><br>Ponca City, OK 74601 | Beverage, Food and Tobacco | Line of Credit, $500 available | | | |
| | | Senior Term Debt | | 9,050 | 9,050 |
| | | Preferred Stock | 88.9% | 4,000 | 2,156 |
| | | | | 13,050 | 11,206 |
| Meridian Rack & Pinion, Inc.<br><br>6740 Cobra Way<br><br>San Diego, CA 92121 | Automobile | Senior Term Debt | | 9,660 | 9,684 |
| | | Preferred Stock | 54.4% | 3,381 | 3,552 |
| | | | | 13,041 | 13,236 |
| NDLI Inc.<br><br>11335 Clay Rd Ste. 100<br><br>Houston, TX 77041 | Cargo Transport | Line of Credit, $0 available | | 800 | 640 |
| | | Senior Term Debt | | 7,227 | 5,782 |
| | | Senior Term Debt | | 3,650 | 2,920 |
| | | Senior Term Debt | | 3,650 | 2,920 |
| | | Preferred Stock | 100% | 2,600 | |
| | | Common Stock | 100% | | |
| | | | | 17,927 | 12,262 |
| SOG Specialty K&T, LLC<br><br>6521 212th St. SW | Leisure, Amusement, Motion Pictures, Entertainment | Senior Term Debt | | 6,200 | 6,200 |

| | | | | | |
|---|---|---|---|---|---|
| Lynnwood, WA 98036 | | | | | |
| | | Senior Term Debt | | 12,199 | 12,199 |
| | | Preferred Stock | 70.9% | 9,749 | 6,987 |
| | | | | 28,148 | 25,386 |
| Tread Corp.<br><br>176 Eastpark Dr.<br><br>Roanoke, VA 24019 | Oil and Gas | Line of Credit, $779 available | | 3,221 | |
| | | Senior Subordinated Term Debt | | 5,000 | |
| | | Senior Subordinated Term Debt | | 2,750 | |
| | | Senior Subordinated Term Debt | | 1,000 | |
| | | Senior Subordinated Term Debt | | 510 | |
| | | Preferred Stock | 83.2% | 3,333 | |
| | | Common Stock | 89.7% | 501 | |
| | | Common Stock Warrants | 89.7% | 3 | |
| | | | | 16,318 | |
| **Total Affiliate Investments (represents 34.3% of total investments at fair value)** | | | | **$ 155,767** | **$ 110,337** |

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| Company[(A)] | Industry | Investment | Percentage of Class Held on a Fully Diluted Basis | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS:** | | | | | |
| Acme Cryogenics, Inc. | Chemicals, Plastics, and Rubber | Senior Subordinated Term Debt | $ | $ 14,500 | $ 14,500 |
| 2801 Mitchell Avenue | | Preferred Stock | 84.7% | 6,984 | 12,396 |
| Allentown, PA 18103 | | Common Stock | 69.5% | 1,045 | |
| | | Common Stock Warrants | 69.5% | 25 | |
| | | | | 22,554 | 27,322 |
| Auto Safety House, LLC | | | | | |
| 2630 W. Buckey Rd. | Automobile | Revolving Credit Facility, $1,000 available | | 5,000 | 4,919 |
| Phoenix, AZ 85009 | | Guaranty | | | |
| | | Guaranty | | | |
| | | | | 5,000 | 4,919 |
| B-Dry, LLC | Buildings and Real Estate | Line of Credit, $0 available | | 750 | 563 |
| 13876 Cravath Place | | Senior Term Debt | | 6,443 | 4,864 |
| Woodbridge, VA 22191 | | Senior Term Debt | | 2,840 | 2,137 |
| | | Common Stock Warrants | 5.5% | 300 | |
| | | | | 10,333 | 7,564 |
| Cavert II Holding Corp. | Containers, Packaging, and Glass | Preferred Stock | 87.9% | 1,845 | 3,081 |
| 620 Forum Parkway | | | | | |
| Rural Hall, NC 27045 | | | | 1,845 | 3,081 |
| Country Club Enterprises, LLC | Automobile | Senior Subordinated Term Debt | | 4,000 | 4,000 |
| 29 Tobey Rd. | | Preferred Stock | 59.9% | 7,725 | 3,515 |
| W. Wareham, MA 02576 | | Guaranty | | | |
| | | Guaranty | | | |
| | | | | 11,725 | 7,515 |
| Drew Foam Company, Inc. | Chemicals, Plastics, and Rubber | Senior Term Debt | | 10,913 | 10,913 |
| 1093 Highway 278 East | | Preferred Stock | 63.2% | 3,375 | 2,107 |
| Moticello, AR 71655 | | Common Stock | 53.7% | 63 | |
| | | | | 14,351 | 13,020 |
| Frontier Packaging, Inc. | Containers, Packaging, and Glass | Senior Term Debt | | 12,500 | 12,500 |
| 1201 Andover | | Preferred Stock | 67.8% | 1,373 | 1,551 |
| Park East, Suite 101 | | | | | |
| Tukwila, WA 98188 | | Common Stock | 57.6% | 152 | 108 |
| | | | | 14,025 | 14,159 |
| Funko, LLC | Personal and Non-Durable Consumer Products (Manufacturing | Senior Subordinated Term Debt | | 7,616 | 7,768 |

| | | | | | |
|---|---|---|---|---|---|
| 1202 Shuksan Way | Only) | | | | |
| Everett, WA 98203 | | Preferred Stock | 10% | 1,305 | 2,596 |
| | | | | 8,921 | 10,364 |
| Ginsey Home Solutions, Inc. | | | | | |
| 2078 Center Square Rd | Home and Office Furnishings, Housewares, and Durable | | | | |
| Swedesboro, NJ 08085 | Consumer Products | Senior Subordinate Term Debt | | 13,300 | 13,300 |
| | | Preferred Stock | 95.3% | 9,583 | 1,019 |
| | | Common Stock | 78.5% | 8 | |
| | | | | 22,891 | 14,319 |
| Jackrabbit, Inc. | Farming and Agriculture | | | | |
| 471 Industrial Ave. | | Senior Term Debt | | 11,000 | 11,000 |
| Rippon, CA 95366 | | Preferred Stock | 78.9% | 3,556 | 3,908 |
| | | Common Stock | 54.9% | 94 | 2,054 |
| | | | | 14,650 | 16,962 |
| Mathey Investments, Inc. | | | | | |
| 4344 S. Maybelle Ave. | | | | | |
| Tulsa, OK 74107 | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt | | 1,375 | 1,375 |
| | | Senior Term Debt | | 3,727 | 3,727 |
| | | Senior Term Debt | | 3,500 | 3,500 |
| | | Common Stock | 85% | 777 | 5,576 |
| | | | | 9,379 | 14,178 |
| Mitchell Rubber Products, Inc. | Chemicals, Plastics, and Rubber | Subordinated Term Debt | | 13,560 | 12,882 |
| 10220 San Sevane Way | | Preferred Stock | 31.7% | 2,790 | |
| Mira Loma, CA 91752 | | Common Stock | 31.7% | 28 | |
| | | | | 16,378 | 12,882 |

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| Company[A] | Industry | Investment | Percentage of Class Held on a Fully Diluted Basis | Cost | Fair Value |
|---|---|---|---|---|---|
| Precision Southeast, Inc. | | | | | |
| P.O. Box 50610 | Diversified/Conglomerate Manufacturing | Senior Term Debt | | 5,617 | 5,617 |
| 4900 Hwy 501 | | Preferred Stock | 90.9% | 1,909 | 134 |
| Myrtle Beach, SC 29579 | | Common Stock | 77.3% | 91 | |
| | | | | 7,617 | 5,751 |
| Quench Holdings Corp. | | | | | |
| 780 5th Ave., Ste, 110 | | | | | |
| Kings of Prussia, PA 19046 | Home and Office Furnishings, Housewares, and Durable Consumer Products | Common Stock | 3.3% | 3,397 | 4,753 |
| | | | | 3,397 | 5,056 |
| SBS, Industries, LLC | | | | | |
| 1843 N. 106th E. Ave | | | | | |
| Tulsa, OK 74116 | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt | | 11,355 | 11,355 |
| | | Preferred Stock | 90.9% | 1,994 | 584 |
| | | Common Stock | 76.2% | 221 | |
| | | | | 13,570 | 11,939 |
| Schylling Investments, LLC | | | | | |
| 306 Newburyport Tpke | Leisure, Amusement, Motion Pictures, Entertainment | Senior Term Debt | | 13,081 | 13,081 |
| Rowley, MA 01969 | | Preferred Stock | 72.7% | 4,000 | |
| | | | | 17,081 | 13,081 |
| Star Seed, Inc. | Farming and Agriculture | Senior Term Debt | | 7,500 | 7,500 |
| 101 N Industrial Ave | | Preferred Stock | 60.0% | 1,499 | |
| Osborne, KS 67473 | | Common Stock | 54.0% | 1 | |
| | | | | 9,000 | 7,500 |
| **Total Non-Control/Non-Affiliate Investments (represents 65.4% of total investments at fair value)** | | | | **$ 202,717** | **$ 189,309** |
| **TOTAL INVESTMENTS** | | | | **$ 383,516** | **$ 321,832** |

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

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**Significant Portfolio Companies**

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

**Acme Cryogenics, Inc.**

We currently hold investments, having an aggregate fair value of $27.3 million as of June 30, 2014, in Acme Cryogenics, Inc. and its affiliates, which we collectively refer to as Acme. Our investments in Acme consist of redeemable preferred stock, which we purchased for $7.0 million, common stock and warrants, which we purchased for $1.1 million and a subordinated loan to Acme for $14.5 million that matures on March 27, 2015.

Founded in 1969, Acme manufactures valves, fittings, and manifolds used in regulating the flow of industrial gasses at extremely low temperatures (cryogenic), manufactures vacuum insulated pipe used in the transmission of gasses that have been liquefied; provides on-site system installation, maintenance/inspection, upgrade and repair services; and, repairs cryogenic storage tanks and tank trailers used in storing and transporting liquid nitrogen, oxygen, helium, etc.

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

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

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

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**Galaxy Tool Holding Corporation**

We currently hold investments, having an aggregate fair value of $22.2 million as of June 30, 2014 in Galaxy Tool Holding Corporation and its affiliates, which we collectively refer to as Galaxy. Our investment in Galaxy includes a $15.5 million second lien term loan due August 2017 and $11.5 million in preferred and common stock.

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

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

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

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

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**SOG Specialty K&T, LLC**

We currently hold investments, having an aggregate fair value of $25.4 million as of June, 2014, in SOG Specialty K&T, LLC, which we refer to as SOG. Our investments in SOG include convertible preferred stock, which we purchased for $9.7 million, and two senior term loans with an aggregate principal amount outstanding of $18.4 million, each maturing on August 5, 2016.

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

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

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

One of our Adviser s directors, Kyle Largent, is a director of SOG. The principal executive offices of SOG are located at 6521 212th Street SW, Lynnwood, Washington 98036.

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## MA NAGEMENT

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

### Board of Directors

Under our certificate of incorporation, our directors are divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three year term. Holders of our common stock and preferred stock vote together as a class for the election of directors, except that the holders of our term preferred stock have the sole right to elect two of our directors. At each annual meeting of our stockholders, the successors to the class of directors whose term expires at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Information regarding our Board is as follows (the address for each director is c/o Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102):

| Name | Age | Position | Director Since | Expiration of Term |
|---|---|---|---|---|
| **Interested Directors** | | | | |
| David Gladstone | 72 | Chairman of the Board and Chief Executive Officer(1)(2)(6) | 2005 | 2016 |
| Terry L. Brubaker | 70 | Vice Chairman, Chief Operating Officer and Director(1)(2)(6) | 2005 | 2015 |
| David A. R. Dullum | 66 | President and Director(1) | 2005 | 2015 |
| **Independent Directors** | | | | |
| Paul W. Adelgren | 71 | Director(4)(5)(7) | 2005 | 2016 |
| Michela A. English | 64 | Director(3)(7) | 2005 | 2017 |
| John H. Outland | 68 | Director(3)(4)(5)(7) | 2005 | 2016 |
| Anthony W. Parker | 68 | Director(2)(3)(6)(7) | 2005 | 2017 |

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

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

***Independent Directors (in alphabetical order)***

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

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

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

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

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***Interested Directors***

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

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

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

**Executive Officers Who Are Not Directors**

Information regarding our executive officers who are not directors is as follows (the address for each executive officer is c/o Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102):

| Name | Age | Position |
|---|---|---|
| David Watson | 38 | Chief Financial Officer and Treasurer |

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

**Employment Agreements**

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

**Director Independence**

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

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

**Corporate Leadership Structure**

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

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

**Committees of Our Board of Directors**

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

*Audit Committee.* The members of the audit committee are Messrs. Parker and Outland and Ms. English, and Mr. Adelgren serves as an alternate member of the committee. The alternate member of the audit committee serves only in the event of an absence of a regular committee member. Mr. Parker serves as chairman of the audit committee. Each member and alternate member of the audit committee is an independent director as defined by NASDAQ rules and our own standards, and none of the members or alternate members of the audit committee are interested persons as defined in Section 2(a)(19) of the 1940 Act. The Board has unanimously determined that all members and alternate members of the audit committee are financially literate under current NASDAQ rules and that each of Messrs. Parker and Outland and Ms. English qualify as an audit committee financial expert within the meaning of the SEC rules and regulations. The audit committee operates pursuant to a written charter and is primarily responsible for oversight of our financial statements and controls, assessing and ensuring the independence, qualifications and performance of the independent registered public accounting firm, approving the independent registered public accounting firm services and fees and reviewing and approving our annual audited financial statements before issuance, subject to board approval. The audit committee met eight times during the last fiscal year. Mr. John D. Reilly, a prior independent director, was a member of the audit committee prior to his passing in August 2014 and Mr. Outland was then appointed to the audit committee to fill the resulting vacancy.

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

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

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

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

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

*Meetings.* During the fiscal year ended March 31, 2014, each Board member attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he or she served.

**Oversight of Risk Management**

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

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

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

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Compensation Committee: Our compensation committee oversees the management of risks relating to the fees paid to our Adviser and Administrator under the Advisory Agreement and the Administration Agreement, respectively. In fulfillment of this duty, the compensation committee meets at least annually to review these agreements. In addition, the compensation committee reviews the performance of our Adviser to determine whether the compensation paid to our Adviser was reasonable in relation to the nature and quality of services performed and whether the provisions of the Advisory Agreement were being satisfactorily performed.

Ethics, Nominating and Corporate Governance Committee: Our ethics, nominating and corporate governance committee manages risks associated with the independence of our Board and potential conflicts of interest.

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

**Summary of Compensation**

**Executive Compensation**

None of our executive officers receive direct compensation from us. We do not currently have any employees and do not expect to have any employees in the foreseeable future. The services necessary for the operation of our business are provided to us by our officers and the other employees of our Adviser and Administrator, pursuant to the terms of the Advisory and Administration Agreements, respectively.

Mr. Gladstone, our chairman and chief executive officer, Mr. Brubaker, our vice chairman, chief operating officer and assistant secretary and Mr. Dullum, our president and a director, are all employees of and compensated directly by our Adviser. Mr. Watson, our chief financial officer and treasurer is an employee of our Administrator. Under the Administration Agreement, we reimburse our Administrator for our allocable portion of Mr. Watson s salary. During our last fiscal year, our allocable portion of Mr. Watson s compensation paid by our Administrator was $46,049.63 of his salary, $13,906.35 of his bonus, and $7,898.48 of the cost of his benefits.

During the fiscal year ended March 31, 2014, we incurred total fees of approximately $7.9 million to our Adviser under the Advisory Agreement and $0.9 million to our Administrator under the Administration Agreement. For a discussion of the terms of our Advisory and Administration Agreement, see Certain Transactions.

**Compensation of Directors**

The following table shows, for the fiscal year ended March 31, 2014, compensation awarded to or paid to our directors and former directors who are not executive officers, which we refer to as our non-employee directors, for all services rendered to us during this period. No compensation is paid to directors who are our executive officers for their service on the Board of Directors.

| Name | Aggregate Compensation from Fund ($) | Total Compensation from Fund and Fund Complex Paid to Directors ($)(1) |
|---|---|---|
| Paul W. Adelgren | $ 33,000 | 132,000 |
| Terry Earhart(2) | 32,000 | 128,000 |
| Michela A. English | 30,000 | 124,000 |
| John H. Outland | 33,000 | 132,000 |
| Anthony W. Parker | 34,000 | 139,000 |
| John D. Reilly(3) | 31,000 | 127,000 |

(1) Includes compensation the director received from Gladstone Capital, as part of our Fund Complex. Also includes compensation the director received from Gladstone Commercial, our affiliate and a real estate investment trust, and Gladstone Land, our affiliate real estate investment company, although not part of our Fund Complex.

(2) Mr. Earhart passed away in February 2014.

(3) Mr. Reilly passed away in August 2014.

As compensation for serving on our Board, each of our independent directors receives an annual fee of $20,000, an additional $1,000 for each Board meeting attended, and an additional $1,000 for each committee meeting attended if such committee meeting takes place on a day other than when the full Board meets. In addition, the chairperson of the audit committee receives an annual fee of $3,000, and the chairpersons of each of the compensation and ethics, nominating and corporate governance committees receive annual fees of $1,000 for their additional services in these capacities. During the fiscal year ended March 31, 2014, the total cash compensation paid to non-employee directors was $206,000. We also reimburse our directors for their reasonable out-of-pocket expenses incurred in attending Board and committee meetings.

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

**Certain Transactions**

***Investment Advisory and Management Agreement***

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

The principal executive office of the Adviser is 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102.

*Management Services*

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

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio, and the manner of implementing such changes;

- identifies, evaluates, and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);

- closes and monitors the investments we make; and

- makes available on our behalf, and provides if requested, managerial assistance to our portfolio companies.

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

*Portfolio Management*

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

Mr. Gladstone has served as the chairman and the chief executive officer of the Adviser, since he founded the Adviser in 2002, along with Mr. Brubaker. Mr. Brubaker has served as the vice chairman, chief operating officer of the Adviser since 2002. Mr. Dullum has served as an executive managing director of the Adviser since 2008. For more complete biographical information on Messrs. Gladstone, Brubaker and Dullum, please see Management Interested Directors.

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

Our Adviser provides investment advisory services to other investment funds in the Gladstone Companies. As such, the Portfolio Managers also are primarily responsible for the day-to-day management of the portfolios of other pooled investment vehicles in the Gladstone Companies that are managed by the Adviser. As of the date hereof, Messrs. Gladstone and Brubaker are primarily responsible for the day-to-day management of the portfolios of Gladstone Capital, another publicly-traded business development company, Gladstone Commercial, a publicly-traded real estate investment trust, and Gladstone Land, a publicly-traded real estate investment company. As of June 30, 2014, the Adviser had an aggregate of approximately $1.4 billion in total assets under management.

*Possible Conflicts of Interest*

Our Portfolio Managers provide investment advisory services and serve as officers, directors or principals of certain of the other Gladstone Companies, which operate in the same or a related line of business as we do. Accordingly, they have corresponding obligations to investors in those entities. For example, Mr. Gladstone, our chairman and chief executive officer, is chairman of the board and chief executive officer of the Adviser, Gladstone Capital, Gladstone Commercial, and Gladstone Land with management responsibilities for the other affiliated Gladstone Companies, other than Gladstone Securities, where he sits on the board of managers as an outside non-employee manager. In addition, Mr. Brubaker, our vice chairman and chief operating officer, is vice chairman and chief operating officer of the Adviser, Gladstone Capital, Gladstone Commercial and Gladstone Land. Mr. Dullum, our president and a director, is also an executive managing director of the Adviser and a director of Gladstone Capital and Gladstone Commercial. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Gladstone affiliate with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of the Adviser may face conflicts in the allocation of investment opportunities to other entities managed by the Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, the prior approval of our Board of Directors. As of March 31, 2014, our Board of Directors has approved the following types of co-investment transactions:

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

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

Additionally, pursuant to an exemptive order granted by the SEC in July 2012, under certain circumstances, we may co-invest with Gladstone Capital and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund) or any combination of the foregoing subject to the conditions included therein.

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

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

*Portfolio Manager Compensation*

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

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

*Fees under the Investment Advisory and Management Agreement*

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

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

Since January 9, 2007, our Board of Directors has accepted from our Adviser unconditional and irrevocable voluntary waivers on a quarterly basis to reduce the annual 2% base management fee on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings under our credit facility were used to purchase such syndicated loan participations. These waivers were applied through March 31, 2014 and any waived fees may not be recouped by our Adviser in the future.

The Adviser may provide services to our portfolio companies, and receive fees for such services, other than managerial assistance, under other agreements, including, but not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from un-affiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. At the end of each quarter, we credit 100% of these fees against the base management fee that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser that are deemed to be fund expenses pursuant to the terms of the Advisory Agreement.

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

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

no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7% annualized);

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

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

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The second part of the incentive fee is a capital gains-based incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to our Adviser, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. Aggregate unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years.

During the fiscal years ended March 31, 2014, 2013 and 2012, we incurred total fees of approximately $7.9 million, $6.7 million and $3.2 million, respectively, to our Adviser under the Advisory Agreement.

*Duration and Termination*

Unless terminated earlier as described below, the Advisory Agreement will remain in effect from year to year if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. On July 15, 2014, we renewed the Advisory Agreement through August 31, 2015. The Advisory Agreement will automatically terminate in the event of its assignment. The Advisory Agreement may be terminated by either party without penalty upon 60 days written notice to the other. See Risk Factors We are dependent upon our key management personnel and the key management personnel of our Adviser, particularly David Gladstone, Terry Lee Brubaker and David Dullum, and on the continued operations of our Adviser, for our future success.

***Administration Agreement***

Pursuant to the Administration Agreement, our Administrator furnishes us with clerical, bookkeeping and record keeping services and our Administrator also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, our Administrator assists us in determining and publishing our NAV, oversees the preparation and filing of our tax returns, the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the Administration Agreement are generally equal to an amount based upon our allocable portion of our Administrator s overhead in performing its obligations under the Administration Agreement, including rent and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer, controller, treasurer, general counsel and secretary, who also serves as the president of our Administrator, and their respective staffs. On July 15, 2014, we renewed the Administration Agreement through August 31, 2015.

During the fiscal years ended March 31, 2014, 2013 and 2012, we incurred total fees of approximately $0.9 million, $0.8 million, and $0.7 million, respectively, to our Administrator under the Administration Agreement.

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

David Gladstone and Terry Lee Brubaker are both officers and directors, of our Adviser and our Administrator. David Gladstone controls the parent company of our Adviser and our Administrator. Although we believe that the terms of the Advisory Agreement Administration Agreement are no less favorable to us than those that could be obtained from unaffiliated third parties in arms length transactions, our Adviser and Administrator and their officers and directors have a material interest in the terms of these agreements.

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*Indemnification*

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

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

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## CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets forth, as of May 22, 2014 (unless otherwise indicated), the beneficial ownership of each current director, each of the executive officers, the executive officers and directors as a group and each stockholder known to our management to own beneficially more than 5% of the outstanding shares of common stock. None of our executive officers or directors own shares of our Series A Term Preferred Stock and, to our knowledge, no person beneficially owns more than 5% of our Series A Term Preferred Stock. Except as otherwise noted, the address of the individuals below is c/o Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 100, McLean, Virginia, 22102.

**Beneficial Ownership of Common Stock(1)(2)**

| Name and Address | Number of Shares | Percent of Total |
|---|---|---|
| **Directors:** | | |
| Paul Adelgren | 4,501 | * |
| Terry Lee Brubaker(3) | 170,014 | * |
| David A.R. Dullum(4) | 58,865 | * |
| Michela A. English | 1,388 | * |
| David Gladstone | 317,495 | 1.2% |
| John H. Outland | 2,519 | * |
| Anthony W. Parker | 9,109 | * |
| **Named Executive Officers (that are not also Directors):** | | |
| David Watson | 11,080 | * |
| All executive officers and directors as a group (8 persons) | 574,971 | 2.2% |
| **5% Stockholders:** | | |
| Van Berkom & Associates Inc.(5) | 2,281,286 | 8.62% |
| 1130 Sherbrooke Street West, Suite 1005<br><br>Montreal, Quebec H3A 2M8 | | |

* Less than 1%

(1) This table is based upon information supplied by officers, directors and principal stockholders. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and sole investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 26,475,958 shares outstanding on May 22, 2014.

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

(3) Includes 10,280 shares held by Mr. Brubaker s spouse.

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

(5) This information has been obtained from a Schedule 13G filed by Van Berkom & Associates Inc., or Van Berkom, on February 5, 2014, according to which Van Berkom has sole voting and sole investment powers with respect to all 2,281,286 shares reported as beneficially owned.

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The following table sets forth, as of May 22, 2014, the dollar range of equity securities that are beneficially owned by each of our directors in the Company and in Gladstone Capital, our affiliate and a business development company, which is also externally managed by our Adviser.

| Name | Dollar Range of Equity Securities of the Company Owned by Directors(1)(2) | Aggregate Dollar Range of Equity Securities in All Funds Overseen or to be Overseen by Director or Nominee in Family of Investment Companies(1)(2) |
|---|---|---|
| **Interested Directors:** | | |
| David Gladstone | Over $100,000 | Over $100,000 |
| Terry Lee Brubaker | Over $100,000 | Over $100,000 |
| David A.R. Dullum | Over $100,000 | Over $100,000 |
| **Independent Directors:** | | |
| Paul W. Adelgren | $10,001-$50,000 | $50,001-$100,000 |
| Michela A. English | $10,001-$50,000 | $10,001-$50,000 |
| John H. Outland | $10,001-$50,000 | $10,001-$50,000 |
| Anthony Parker | $50,001-$100,000 | $50,001-$100,000 |

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

(2) The dollar range of equity securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Select Market as of May 22, 2014, times the number of shares of the respective class so beneficially owned and aggregated accordingly.

Gladstone Commercial Corporation, our affiliate and a real estate investment trust, is also managed by our Adviser. The following table sets forth certain information regarding the ownership of the common and preferred stock of Gladstone Commercial as of May 22, 2014, by each independent director. None of our independent directors owns any class of stock of Gladstone Commercial Corporation, other than those classes listed below and none of our independent directors owns more than 1% of any respective class.

| Name | Number of Common Shares | Number of 7.125% Series C Cumulative Term Preferred Stock | Number of 7.5% Series B Cumulative Redeemable Preferred Stock | Number of 7.75% Series A Cumulative Redeemable Preferred Stock | Value of Securities($)(1) |
|---|---|---|---|---|---|
| **Independent Directors:** | | | | | |
| Paul W. Adelgren | 5,477 | 0 | 0 | 0 | $ 95,526 |
| Michela A. English | 2,111 | 0 | 0 | 0 | $ 36,817 |
| John H. Outland | 1,660 | 0 | 0 | 0 | $ 28,950 |
| Anthony Parker | 21,423 | 0 | 0 | 0 | $ 373,623 |

(1) Ownership calculated in accordance with Rule 16-1(a)(2) of the Exchange Act. The value of securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Select Market as of May 22, 2014, times the number of shares of the respective class so beneficially owned and aggregated accordingly.

Gladstone Land Corporation, our affiliate and a real estate investment company, is also managed by our Adviser. The following table sets forth certain information regarding the ownership of the common stock of Gladstone Land as of May 22, 2014, by each independent incumbent director and nominee.

| Name | Number of Common Shares | Percent of Class | Value of Securities($)(1) |
|---|---|---|---|
| **Independent Directors:** | | | |
| Paul W. Adelgren | 4,797 | * | $ 53,778 |
| Michela A. English | 1,030 | * | $ 11,547 |
| John H. Outland | 1,511 | * | $ 16,938 |
| Anthony Parker | 4,788 | * | $ 53,674 |

* Less than 1%

(1) Ownership calculated in accordance with Rule 16a-1(a)(2) of the Exchange Act. The value of securities beneficially owned is calculated by multiplying the closing price of the respective class as reported on The NASDAQ Global Market as of May 22, 2014, times the number of shares of the respective class so beneficially owned and aggregated accordingly.

**DIVIDEND REINVESTMENT PLAN**

Our transfer agency and services agreement with our transfer agent, Computershare, Inc., or Computershare, authorizes Computershare to provide a dividend reinvestment plan that allows for reinvestment of our distributions on behalf of our common stockholders upon their election as provided below. As a result, if our Board of Directors authorizes, and we declare, a cash dividend, then our common stockholders who have opted in to the dividend reinvestment plan will not receive cash dividends but, instead, such cash dividends will automatically be reinvested in additional shares of our common stock.

Pursuant to the dividend reinvestment plan, if your shares of our common stock are registered in your own name you can have all distributions reinvested in additional shares of our common stock by Computershare, as the plan agent, if you enroll in the dividend reinvestment plan by delivering an enrollment form to the plan agent prior to the corresponding dividend record date, available at *www.computershare.com/investor*. The plan agent will effect purchases of our common stock under the dividend reinvestment plan in the open market.

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If you do not elect to participate in the dividend reinvestment plan, you will receive all distributions in cash paid by check mailed directly to you (or if you hold your shares in street or other nominee name, then to your nominee) as of the relevant record date, by the plan agent, as our dividend disbursing agent. If your shares are held in the name of a broker or nominee, you can transfer the shares into your own name and then enroll in the dividend reinvestment plan or contact your broker or nominee to determine if they offer a dividend reinvestment plan.

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

Participants in the dividend reinvestment plan may withdraw from the dividend reinvestment plan at any time online at *www.computershare.com/investor*, via telephone or by mailing a request to Computershare or by selling or transferring all applicable shares. If the plan agent receives a request to withdraw near a dividend record date, the plan agent, in its sole discretion, may either distribute such dividends in cash or reinvest the shares on behalf of the withdrawing participant. If such dividends are reinvested, the plan agent will process the withdrawal as soon as practicable, but in no event later than five business days after the reinvestment is completed.

The plan agent will maintain each participant s account in the dividend reinvestment plan and will furnish periodic written confirmations of all transactions in such account, including information needed by the stockholder for personal and tax records. Common stock in the account of each dividend reinvestment plan participant will be held by the plan agent in non-certificated form in the name of such participant; however participants may request that such shares be certificated in their name. The plan agent will provide proxy materials relating to our stockholders meetings that will include those shares purchased through the plan agent, as well as shares held pursuant to the dividend reinvestment plan.

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

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

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

***RIC Status***

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

**BDC Status.** At all times during the taxable year, we must maintain our status as a BDC.

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

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

Due to the limited number of investments in our portfolio, our asset composition at times has affected our ability to satisfy the requirement in the Code that, as of the close of each quarter of our taxable year, at least 50% of the value of our assets consist of cash, cash items, U.S. government securities or certain other qualified securities (the 50% threshold ). During the fiscal year ended March 31, 2014, we were at times below the 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 our assets, including as a result of the sale of assets, we will still be deemed to have satisfied the 50% threshold and, therefore, maintain our RIC status, provided that we have not made any new investments, including additional investments in our existing portfolio companies (such as advances under outstanding lines of credit), since the time that we fell below the 50% threshold. As of June 30 and March 31, 2014, our asset composition satisfied the 50% threshold. Additionally, our asset composition satisfied the 50% threshold as of September 30 and December 31, 2013 without taking into account any short-term qualified securities, but as a precaution to ensure compliance, we purchased short-term qualified securities, which were funded through short-term loan agreements. Subsequent to each of those measurement dates, the short-term qualified securities matured and we repaid the short-term loans. See Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments *Short-Term Loan* for more information regarding these transactions.

Until the composition of our assets continuously satisfies the 50% threshold by a significant margin, we may continue to employ similar purchases of qualified securities using short-term loans that would ensure that we satisfy the 50% threshold. 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 Qualify as a RIC.* If we are unable to qualify for treatment as a RIC, we will be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make such distributions. Distributions would be taxable to our stockholders as dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder s adjusted tax basis, and then as a gain realized from the sale or exchange of property. If we fail to meet the RIC requirements for more than two consecutive years and then seek to requalify as a RIC, we generally would be subject to corporate-level tax on any unrealized appreciation that was recognized during the succeeding 10 years.

*Qualification as a RIC.* If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and gains we distribute to stockholders. We would, however, be subject to a 4% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gains in excess of capital losses for preceding years that were not distributed during such years. For the years ended December 31, 2013 and 2012, we incurred $0.3 million and $31, respectively, in excise taxes.

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

***Taxation of Our U.S. Stockholders***

*Distributions.* For any period during which we qualify as a RIC for federal income tax purposes, distributions to our stockholders attributable to our investment company taxable income generally will be taxable as ordinary income to stockholders to the extent of our current or accumulated earnings and profits. We first allocate our earnings and profits to distributions to our preferred stockholders and then to distributions to our common stockholders based on priority in our capital structure. Any distributions in excess of our earnings and profits will first be treated as a return of capital to the extent of the stockholder s adjusted basis in his or her shares of common stock and thereafter as gain from the sale of shares of our common stock. Distributions of our long-term capital gains, reported by us as such, will be taxable to stockholders as long-term capital gains regardless of the stockholder s holding period for its shares of our stock and whether the distributions are paid in cash or invested in additional shares of our stock. Corporate stockholders are generally eligible for the 70% dividends received deduction with respect to dividends received from us, other than capital gains dividends, to the extent such amount reported by us does not exceed the dividends received by us from domestic corporations. Any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it were paid by us and received by the stockholders on December 31 of the previous year. In addition, we may elect (in accordance with Section 855(a) of the Code) to relate a dividend back to the prior taxable year if we (1) declare such dividend prior to the later of the due date for filing our federal income tax return for that taxable year or the 15th day of the ninth month following the close of the taxable year, (2) make the election in that federal income tax return, and (3) distribute the amount in the 12-month period following the close of the taxable year but not later than the first regular dividend payment of the same type following the declaration. Any such election will not alter the general rule that a stockholder will be treated as receiving a dividend in the taxable year in which the distribution is made, subject to the October, November, December rule described above.

In general, the federal income tax rates applicable to our dividends other than dividends designated as capital gain dividends will be the rates applicable to ordinary income (currently up to 39.6%), and not the rates applicable to qualified dividend income (currently up to 20%). If we distribute dividends that are attributable to actual dividend income received by us that is eligible to be, and is, designated by us as qualified dividend income, such dividends would be eligible for such lower federal income tax rate. For this purpose, qualified dividend income means dividends received by us from United States corporations and qualifying foreign corporations, provided that both we and the stockholder recipient of our dividends satisfy certain holding period and other requirements in respect of our shares (in the case of our stockholder) and the stock of such corporations (in our case). However, we do not anticipate receiving or distributing a significant amount of qualified dividend income.

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

*Sale of Our Shares.* A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. Individual U.S. stockholders are subject to a maximum federal income tax rate of 20% on their net capital gain (i.e. the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our stock. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the same rates applied to their ordinary income (currently up to a maximum of 35%). Capital losses are subject to limitations on use for both corporate and non-corporate stockholders.

*Medicare Tax on Unearned Income*. Stockholders that are individuals, estates or trusts and that have taxable income in excess of certain thresholds are required to pay a 3.8% Medicare tax on net investment income, which includes, among other things, dividends on, and gains from the sale or other disposition of, shares of our stock. Prospective investors should consult their own tax advisors regarding the impact of this Medicare tax on an investment in our stock.

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

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The Foreign Account Tax Compliance Act imposes a federal withholding tax on certain types of payments made to foreign financial institutions and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligation requirements are satisfied. Under delayed effective dates provided for in the Treasury Regulations and other IRS guidance, such required withholding began on July 1, 2014 with respect to dividends on our stock, and will not begin until January 1, 2017 with respect to gross proceeds from a sale or other disposition of our stock.

## REGULATION AS A BUSINESS DEVELOPMENT COMPANY

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

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

### *Qualifying Assets*

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

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

(a) is organized under the laws of, and has its principal place of business in, any State or States in the United States;

(b) is not an investment company (other than a small business investment company wholly owned by the BDC or otherwise excluded from the definition of investment company); and

(c) satisfies one of the following:

(i) it does not have any class of securities with respect to which a broker or dealer may extend margin credit;

(ii) it is controlled by the BDC and for which an affiliate of the BDC serves as a director;

(iii) it has total assets of not more than $4 million and capital and surplus of not less than $2 million;

(iv) it does not have any class of securities listed on a national securities exchange; or

(v) it has a class of securities listed on a national securities exchange, with an aggregate market value of outstanding voting and non-voting equity of less than $250 million.

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

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

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***Asset Coverage***

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

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

***Significant Managerial Assistance***

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

***Investment Policies***

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

- We will at all times conduct our business so as to retain our status as a BDC. In order to retain that status, we must be operated for the purpose of investing in certain categories of qualifying assets. In addition, we may not acquire any assets (other than non-investment assets necessary and appropriate to our operations as a BDC or qualifying assets) if, after giving effect to such acquisition, the value of our qualifying assets is less than 70% of the value of our total assets. We anticipate that the securities we seek to acquire, as well as temporary investments, will generally be qualifying assets.

- We will at all times endeavor to conduct our business so as to retain our status as a RIC under the Code. To do so, we must meet income source, asset diversification and annual distribution requirements. We may issue senior securities, such as debt or preferred stock, to the extent permitted by the 1940 Act for the purpose of making investments, to fund share repurchases, or for temporary emergency or other purposes.

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

***Code of Ethics***

We and all of the Gladstone family of companies, have adopted a code of ethics and business conduct applicable to all of the officers, directors and employees of such companies that complies with the guidelines set forth in Item 406 of Regulation S-K of the Securities Act of 1933 (the Securities Act ) and Rule 17j-1 of the 1940 Act. As required by the 1940 Act, this code establishes procedures for personal investments, restricts certain transactions by such personnel and requires the reporting of certain transactions and holdings by such personnel. This code of ethics and business conduct is publicly available on our website under Corporate Governance at www.GladstoneInvestment.com. We intend to provide any required disclosure of any amendments to or waivers of the provisions of this code by posting information regarding any such amendment or waiver to our website within four days of its effectiveness in a Current Report on Form 8-K.

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***Compliance Policies and Procedures***

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

***Co-Investment***

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

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## DESCRIPTION OF OUR SECURITIES

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

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

### Common Stock

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

### Preferred Stock

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

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

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*Series A Cumulative Term Preferred Stock*

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

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

Dividend Rights

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

Voting Rights

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

Liquidation Rights

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

Redemption

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

**Subscription Rights**

***General***

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

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

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

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- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;

- the date on which the right to exercise such subscription rights shall commence, and the date on which such rights shall expire (subject to any extension);

- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities;

- if applicable, the material terms of any standby underwriting or other purchase arrangement that we may enter into in connection with the subscription rights offering; and

- any other terms of such subscription rights, including terms, procedures and limitations relating to the exchange and exercise of such subscription rights.

***Exercise of Subscription Rights***

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

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

**Warrants**

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

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

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

- the title of such warrants;

- the aggregate number of such warrants;

- the price or prices at which such warrants will be issued;

the currency or currencies, including composite currencies, in which the price of such warrants may be payable;

if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;

the number of shares of common stock purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;

the date on which the right to exercise such warrants shall commence and the date on which such right will expire;

whether such warrants will be issued in registered form or bearer form;

if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;

if applicable, the date on and after which such warrants and the related securities will be separately transferable;

information with respect to book-entry procedures, if any;

the terms of the securities issuable upon exercise of the warrants;

if applicable, a discussion of certain U.S. federal income tax considerations; and

any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.
We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

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

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

**Debt Securities**

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

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## CERTAIN PROVISIONS OF DELAWARE LAW AND OF OUR

## CERTIFICATE OF INCORPORATION AND BYLAWS

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

### Classified Board of Directors

Pursuant to our bylaws, as amended, our Board of Directors is divided into three classes of directors. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. The holders of outstanding shares of any preferred stock, including Term Preferred Stock, are entitled, as a class, to the exclusion of the holders of all other securities and classes of common stock, to elect two of our directors at all times (regardless of the total number of directors serving on the Board of Directors). We refer to these directors as the Preferred Directors. Michela A. English was elected as a Preferred Director at our annual meeting of stockholders on August 7, 2014 and will serve until our 2017 annual meeting. The other Preferred Directorship is currently vacant due to the unfortunate passing of John D. Reilly in August 2014 and we will nominate a candidate for election to this Preferred Directorship for election in 2015. The holders of outstanding shares of common stock and preferred stock, voting together as a single class, elect the balance of our directors. Any director elected to fill a vacancy shall serve for the remainder of the full term of the class in which the vacancy occurred and until a successor is elected and qualified. We believe that classification of our Board of Directors helps to assure the continuity and stability of our business strategies and policies as determined by our directors. Holders of shares of our stock have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of our stockholders, the holders of a majority of the combined shares of common stock and preferred stock are able to elect all of the successors to the class of directors whose term expires at such meeting (other than the Preferred Directors, who will be elected by the holders of a majority of the preferred stock).

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

### Removal of Directors

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

### Business Combinations

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

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

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

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

- Prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- The interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- On or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

**Merger; Amendment of Certificate of Incorporation**

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

**Term and Termination**

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

**Advance Notice of Director Nominations and New Business**

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

- pursuant to our notice of the meeting;

- by our Board of Directors; or

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

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

- pursuant to our notice of the meeting;

by our Board of Directors; or

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

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

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

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

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

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

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

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

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

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

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

**Conflict with 1940 Act**

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

## SHARE REPURCHASES

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

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

## PLAN OF DISTRIBUTION

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

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

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

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

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

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

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

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

**CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR**

Our securities are held under a custodian agreement with The Bank of New York Mellon Corp. The address of the custodian is: 500 Ross Street, Suite 625, Pittsburgh, PA 15262. Our assets are held under bank custodianship in compliance with the 1940 Act. Securities held through our wholly-owned subsidiary, Business Investment, are held under a custodian agreement with The Bank of New York Mellon Corp., which acts as collateral custodian pursuant to Business Investment s credit facility with BB&T and certain other parties. The address of the collateral custodian is 500 Ross Street, Suite 625, Pittsburgh, PA 15262. Computershare acts as our transfer and dividend paying agent and registrar. The principal business address of Computershare is 250 Royall Street, Canton, MA 02021, telephone number 781-575-2000. Computershare also maintains an internet web site at *www.computershare.com* and one specifically for shareholders at *www.computershare.com/investor.*

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## BROKERAGE ALLOCATION AND OTHER PRACTICES

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

## PROXY VOTING POLICIES AND PROCEDURES

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

### Introduction

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

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

### Proxy Policies

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

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

### Proxy Voting Records

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

Michael LiCalsi, General Counsel and Secretary

c/o Gladstone Investment Corporation

1521 Westbranch Dr., Suite 100

McLean, VA 22102

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## LEGAL MATTERS

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

## EXPERTS

The financial statements as of March 31, 2014 and March 31, 2013 and for each of the three years in the period ended March 31, 2014 and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Annual Report on Internal Control over Financial Reporting) as of March 31, 2014 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting. The address of PricewaterhouseCoopers LLP is 1800 Tysons Boulevard, McLean, Virginia 22102.

The financial statements of Danco Acquisition Corporation as of and for the years ended December 31, 2012 and 2011, included in this Prospectus have been so included in reliance on the report of Moss Adams LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Galaxy Tool Holding Corporation as of and for the years ended December 31, 2013, 2012 and 2011, included in this Prospectus have been so included in reliance on the reports of Allen, Gibbs & Houlik, L.C., independent auditors, given on the authority of said firm as experts in auditing and accounting.

The financial statements of SOG Specialty Knives and Tools, LLC as of and for the years ended December 31, 2013 and 2012, included in this Prospectus have been so included in reliance on the report of Moss Adams LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting.

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**GLADSTONE INVESTMENT CORPORATION**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Management s Annual Report on Internal Control over Financial Reporting**

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

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

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

Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of March 31, 2014, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework (1992)*. Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2014.

The effectiveness of our internal control over financial reporting as of March 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

May 13, 2014

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**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, and the related consolidated statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Gladstone Investment Corporation and its subsidiaries (the Company ) as of March 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2014 and the financial highlights for each of the five years in the period ended March 31, 2014, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule on page F-36 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. Our procedures included confirmation of securities as of March 31, 2014 by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

McLean, VA

May 13, 2014

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**GLADSTONE INVESTMENT CORPORATIO N**

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

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

| | March 31, 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Investments at fair value | | |
| Control investments (Cost of **$29,632** and $98,071 respectively) | **$ 21,104** | $ 98,515 |
| Affiliate investments (Cost of **$120,010** and $36,528, respectively) | **87,849** | 18,216 |
| Non-Control/Non-Affiliate investments (Cost of **$233,895** and $191,822, respectively) | **205,440** | 169,751 |
| Total investments at fair value (Cost of **$383,537** and $326,421, respectively) | **314,393** | 286,482 |
| Cash and cash equivalents | **4,553** | 85,904 |
| Restricted cash | **5,314** | 626 |
| Interest receivable | **1,289** | 1,309 |
| Due from custodian | **1,704** | 1,677 |
| Deferred financing costs | **2,355** | 2,336 |
| Other assets | **1,086** | 1,469 |
| **TOTAL ASSETS** | **$ 330,694** | $ 379,803 |
| **LIABILITIES** | | |
| Borrowings: | | |
| Short-term loan at fair value (Cost of **$0** and $58,016, respectively) | **$** | $ 58,016 |
| Line of credit at fair value (Cost of **$61,250** and $31,000, respectively) | **61,701** | 31,854 |
| Other secured borrowings | **5,000** | 5,000 |
| Total borrowings | **66,701** | 94,870 |
| Mandatorily redeemable preferred stock, $0.001 par value, $25 liquidation preference; 1,610,000 shares authorized, **1,600,000** shares issued and outstanding as of March 31, 2014 and 2013 | **40,000** | 40,000 |
| Accounts payable and accrued expenses | **665** | 1,069 |
| Fees due to Adviser[(A)] | **1,225** | 2,067 |
| Fee due to Administrator[(A)] | **224** | 221 |
| Other liabilities | **1,042** | 613 |
| **TOTAL LIABILITIES** | **109,857** | 138,840 |
| Commitments and contingencies[(B)] | | |
| **NET ASSETS** | **$ 220,837** | $ 240,963 |
| **ANALYSIS OF NET ASSETS** | | |
| Common stock, $0.001 par value per share, 100,000,000 shares authorized, **26,475,958** shares issued and outstanding as of March 31, 2014 and 2013, respectively | **$ 26** | $ 26 |
| Capital in excess of par value | **287,062** | 287,713 |
| Cumulative net unrealized depreciation of investments | **(69,144)** | (39,939) |
| Cumulative net unrealized depreciation of other | **(525)** | (883) |
| Net investment income in excess of distributions | **3,616** | 2,691 |
| Accumulated net realized loss | **(198)** | (8,645) |

| | | |
|---|---|---|
| **TOTAL NET ASSETS** | **$ 220,837** | $ 240,963 |
| **NET ASSET VALUE PER SHARE AT END OF YEAR** | **$ 8.34** | $ 9.10 |

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

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

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

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**GLADSTONE INVESTMENT CORPORATIO N**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

| | Year Ended March 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| **INVESTMENT INCOME** | | | |
| Interest income: | | | |
| Control investments | **$ 5,642** | $ 6,388 | $ 4,972 |
| Affiliate investments | **3,625** | 3,114 | 1,497 |
| Non-Control/Non-Affiliate investments | **21,190** | 15,292 | 13,112 |
| Cash and cash equivalents | **3** | 4 | 7 |
| Total interest income | **30,460** | 24,798 | 19,588 |
| Other income: | | | |
| Control investments | **3,295** | 4,106 | |
| Affiliate investments | **1,299** | | |
| Non-Control/Non-Affiliate investments | **1,210** | 1,634 | 1,654 |
| Total other income | **5,804** | 5,740 | 1,654 |
| Total investment income | **36,264** | 30,538 | 21,242 |
| **EXPENSES** | | | |
| Base management fee(A) | **6,207** | 5,412 | 4,386 |
| Loan servicing fee(A) | **4,326** | 3,724 | 3,031 |
| Incentive fee(A) | **3,983** | 2,585 | 19 |
| Administration fee(A) | **863** | 785 | 684 |
| Interest expense on borrowings | **2,075** | 1,127 | 768 |
| Dividends on mandatorily redeemable preferred stock | **2,850** | 2,850 | 198 |
| Amortization of deferred financing costs | **1,024** | 791 | 459 |
| Professional fees | **805** | 541 | 591 |
| Other general and administrative expenses | **1,459** | 1,287 | 1,554 |
| Expenses before credits from Adviser | **23,592** | 19,102 | 11,690 |
| Credit of loan servicing fee(A) | **(4,326)** | (3,724) | (3,031) |
| Other credits to fees(A) | **(2,309)** | (1,328) | (1,160) |
| Total expenses net of credits to fees | **16,957** | 14,050 | 7,499 |
| **NET INVESTMENT INCOME** | **$ 19,307** | $ 16,488 | $ 13,743 |
| **REALIZED AND UNREALIZED (LOSS) GAIN** | | | |
| Net realized gain: | | | |
| Control investments | **24,838** | (6) | (269) |
| Affiliate investments | **(1,763)** | | |
| Non-Control/Non-Affiliate investments | **(14,834)** | 849 | 5,360 |
| Other | **(29)** | (41) | (40) |
| Total net realized gain | **8,212** | 802 | 5,051 |

| | | | |
|---|---|---|---|
| Net unrealized (depreciation) appreciation: | | | |
| Control investments | **(21,343)** | 27,740 | 396 |
| Affiliate investments | **(1,481)** | (19,214) | 1,945 |
| Non-Control/Non-Affiliate investments | **(6,382)** | (7,722) | 822 |
| Other | **358** | (815) | 9 |
| Total net unrealized (depreciation) appreciation | **(28,848)** | (11) | 3,172 |
| Net realized and unrealized (loss) gain | **(20,636)** | 791 | 8,223 |
| **NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$ (1,329)** | $ 17,279 | $ 21,966 |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | |
| Net investment income | **$ 0.73** | $ 0.68 | $ 0.62 |
| Net (decrease) increase in net assets resulting from operations | **$ (0.05)** | $ 0.71 | $ 0.99 |
| **WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:** | | | |
| Basic and diluted | **26,475,958** | 24,189,148 | 22,080,133 |

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

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

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**GLADSTONE INVESTMENT CORPORATIO N**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**(IN THOUSANDS)**

| | Year Ended March 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| **OPERATIONS:** | | | |
| Net investment income | **$ 19,307** | $ 16,488 | $ 13,743 |
| Net realized gain on investments | **8,241** | 843 | 5,091 |
| Net realized loss on other | **(29)** | (41) | (40) |
| Net unrealized (depreciation) appreciation of investments | **(29,206)** | 804 | 3,163 |
| Net unrealized appreciation (depreciation) of other | **358** | (815) | 9 |
| Net (decrease) increase in net assets from operations | **(1,329)** | 17,279 | 21,966 |
| **EQUITY CAPITAL ACTIVITY:** | | | |
| Issuance of common stock | | 32,969 | |
| Shelf offering registration costs, net | | (1,954) | |
| Distributions to common stockholders from net investment income | **(18,797)** | (14,547) | (13,579) |
| Net (decrease) increase in net assets from equity capital activity | **(18,797)** | 16,468 | (13,579) |
| Total (decrease) increase in net assets | **(20,126)** | 33,747 | 8,387 |
| Net assets at beginning of year | **240,963** | 207,216 | 198,829 |
| Net assets at end of year | **$ 220,837** | $ 240,963 | $ 207,216 |

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

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**GLADSTONE INVESTMENT CORPORATIO N**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(IN THOUSANDS)**

| | Year Ended March 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net (decrease) increase in net assets resulting from operations | **$ (1,329)** | $ 17,279 | $ 21,966 |
| Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities: | | | |
| Purchase of investments | **(132,203)** | (87,607) | (91,298) |
| Principal repayments of investments | **51,828** | 25,243 | 19,154 |
| Proceeds from the sale of investments | **31,587** | 3,181 | 8,031 |
| Increase in investment balance due to paid in kind interest | **(88)** | | |
| Net realized gain on investments | **(8,241)** | (843) | (5,091) |
| Net realized loss on other | **29** | 41 | 40 |
| Net unrealized depreciation (appreciation) of investments | **29,206** | (804) | (3,163) |
| Net unrealized (appreciation) depreciation of other | **(358)** | 815 | (9) |
| Amortization of deferred financing costs | **1,024** | 791 | 459 |
| (Increase) decrease in restricted cash | **(4,688)** | 1,302 | 2,571 |
| Decrease (increase) in interest receivable | **20** | (59) | (513) |
| Increase in due from custodian | **(27)** | (150) | (668) |
| Decrease (increase) in other assets | **383** | (867) | 162 |
| (Decrease) increase in accounts payable and accrued expenses | **(345)** | 613 | 197 |
| (Decrease) increase in fees due to Adviser[(A)] | **(842)** | 1,571 | (3) |
| Increase in administration fee payable to Administrator[(A)] | **3** | 3 | 47 |
| Increase (decrease) in other liabilities | **429** | (243) | (553) |
| Net cash used in operating activities | **(33,612)** | (39,734) | (48,671) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of common stock, net of expenses | | 31,015 | |
| Proceeds from short-term loans | **56,514** | 250,063 | 254,507 |
| Repayments on short-term loans | **(114,530)** | (268,052) | (218,502) |
| Proceeds from Credit Facility | **145,350** | 144,000 | 59,200 |
| Repayments on Credit Facility | **(115,100)** | (113,000) | (59,200) |
| Proceeds from other secured borrowings | | 5,000 | |
| Proceeds from issuance of mandatorily redeemable preferred stock | | | 40,000 |
| Purchase of derivatives | **(75)** | | (29) |
| Payment of deferred financing costs | **(1,101)** | (387) | (2,760) |
| Distributions paid to common stockholders | **(18,797)** | (14,547) | (13,579) |
| Net cash (used in) provided by financing activities | **(47,739)** | 34,092 | 59,637 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(81,351)** | (5,642) | 10,966 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **85,904** | 91,546 | 80,580 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$ 4,553** | $ 85,904 | $ 91,546 |
| **CASH PAID DURING YEAR FOR INTEREST** | **$ 1,952** | $ 1,079 | $ 777 |

| | | | |
|---|---|---|---|
| **NON-CASH ACTIVITIES[(B)]** | **$** | $ 4,106 | $ |

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

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

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**MARCH 31, 2014**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **CONTROL INVESTMENTS:** | | | | | |
| Galaxy Tool Holding Corp. | Aerospace and Defense | Senior Subordinated Term Debt (13.5%, Due 8/2017) | $ 15,520 | $ 15,520 | $ 15,520 |
| | | Preferred Stock (6,039,387 shares)(C)(F) | | 11,464 | 2,992 |
| | | Common Stock (88,843 shares)(C)(F) | | 48 | |
| | | | | 27,032 | 18,512 |
| NDLI Acquisition Inc. | Cargo Transport | Preferred Stock (2,600 shares)(C)(F) | | 2,600 | 2,592 |
| | | Common Stock (545 shares)(C)(F) | | | |
| | | | | 2,600 | 2,592 |
| **Total Control Investments (represents 6.7% of total investments at fair value)** | | | | **$ 29,632** | **$ 21,104** |
| **AFFILIATE INVESTMENTS:** | | | | | |
| Behrens Manufacturing, LLC | Diversified/Conglomerate Manufacturing | Senior Term Debt (13.0%, Due 12/2018) | $ 9,975 | $ 9,975 | $ 9,975 |
| | | Preferred Stock (2,923 shares) (C)(F) | | 2,922 | 2,754 |
| | | | | 12,897 | 12,729 |
| Channel Technologies Group, LLC | Diversified/Conglomerate Manufacturing | Preferred Stock (2,279 shares)(C)(F) | | 2,864 | 3,122 |
| | | Common Stock (2,279,020 shares)(C)(F) | | | |
| | | | | 2,864 | 3,122 |
| Danco Acquisition Corp. | Diversified/Conglomerate Manufacturing | Line of Credit, $700 available (4.0%, Due 8/2015)(D) | 3,450 | 3,450 | 690 |
| | | Senior Term Debt (4.0%, Due 8/2015)(D) | 2,575 | 2,575 | 515 |
| | | Senior Term Debt (4.0%, Due 8/2015)(D) | 8,795 | 8,795 | 1,759 |
| | | Senior Term Debt (5.0%, Due 8/2015)(D)(E) | 1,150 | 1,150 | 236 |
| | | Preferred Stock (25 shares)(C)(F) | | 2,500 | |
| | | Common Stock (1,241 shares)(C)(F) | | 3 | |
| | | | | 18,473 | 3,200 |
| Edge Adhesives Holdings, Inc. | Diversified/Conglomerate Manufacturing | Line of Credit, $705 available (10.5%, Due 8/2014)(H) | 795 | 795 | 795 |
| | | Senior Term Debt (12.5%, Due 2/2019)(H) | 9,300 | 9,300 | 9,300 |
| | | Senior Subordinated Term Debt (13.5%, Due 2/2019)(H) | 2,400 | 2,400 | 2,400 |
| | | Preferred Stock (3,474 shares) (C)(F)(H) | | 3,474 | 3,474 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 15,969 | 15,969 |
| Head Country Food Products, Inc. | Beverage, Food and Tobacco | Line of Credit, $500 available (10.0%, Due 8/2014)(H) | | | |
| | | Senior Term Debt (12.5%, Due 2/2019)(H) | 9,050 | 9,050 | 9,050 |
| | | Preferred Stock (4,000 shares)(C)(F)(H) | | 4,000 | 4,000 |
| | | | | 13,050 | 13,050 |
| Meridian Rack & Pinion, Inc. | Automobile | Senior Term Debt (13.5%, Due 12/2018) (D) | 9,660 | 9,660 | 9,672 |
| | | Preferred Stock (3,381 shares) (C)(F) | | 3,381 | 3,468 |
| | | | | 13,041 | 13,140 |
| SOG Specialty K&T, LLC | Leisure, Amusement, Motion Pictures, Entertainment | 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 | 8,240 |
| | | | | 28,148 | 26,639 |
| Tread Corp. | Oil and Gas | Line of Credit, $779 available (12.5%, Due 6/2014)(G) | 2,471 | 2,471 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)(G) | 5,000 | 5,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)(G) | 2,750 | 2,750 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)(G) | 1,000 | 1,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due on Demand)(G) | 510 | 510 | |
| | | Preferred Stock (3,332,765 shares)(C)(F) | | 3,333 | |
| | | Common Stock (7,716,320 shares)(C)(F) | | 501 | |
| | | Common Stock Warrants (2,372,727 shares)(C)(F) | | 3 | |
| | | | | 15,568 | |
| **Total Affiliate Investments (represents 27.9% of total investments at fair value)** | | | | **$ 120,010** | **$ 87,849** |

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| Company[(A)] | Industry | Investment[(B)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS:** | | | | | |
| Acme Cryogenics, Inc. | Chemicals, Plastics, and Rubber | Senior Subordinated Term Debt (11.5%, Due 3/2015) | $ 14,500 | $ 14,500 | $ 14,500 |
| | | Preferred Stock (898,814 shares)[(C)(F)] | | 6,984 | 11,276 |
| | | Common Stock (418,072 shares)[(C)(F)] | | 1,045 | |
| | | Common Stock Warrants (465,639 shares)[(C)(F)] | | 25 | |
| | | | | 22,554 | 25,776 |
| Alloy Die Casting Corp. | Diversified/Conglomerate Manufacturing | Senior Term Debt (13.5%, Due 10/2018)[(D)] | 12,215 | 12,215 | 12,261 |
| | | Preferred Stock (4,064 shares)[(C)(F)] | | 4,064 | 1,948 |
| | | Common Stock (630 share)[(C)(F)] | | 41 | |
| | | | | 16,320 | 14,209 |
| Auto Safety House, LLC | Automobile | Revolving Credit Facility, $1,000 available (7.0%, Due 10/2018)[(D)] | 5,000 | 5,000 | 4,925 |
| | | Guaranty ($500) | | | |
| | | Guaranty ($250) | | | |
| | | | | 5,000 | 4,925 |
| B-Dry, LLC | Buildings and Real Estate | Line of Credit, $0 available (6.5%, Due 5/2014) | 750 | 750 | 566 |
| | | Senior Term Debt (13.5%, Due 5/2014) | 6,433 | 6,443 | 4,865 |
| | | Senior Term Debt (13.5%, Due 5/2014) | 2,840 | 2,840 | 2,144 |
| | | Common Stock Warrants (85 shares)[(C)(F)] | | 300 | |
| | | | | 10,333 | 7,575 |
| Cavert II Holding Corp. | Containers, Packaging, and Glass | Preferred Stock (18,446 shares)[(C)(F)] | | 1,845 | 3,023 |
| | | | | 1,845 | 3,023 |
| Country Club Enterprises, LLC | Automobile | Senior Subordinated Term Debt (18.6%, Due 11/2014) | 4,000 | 4,000 | 4,000 |
| | | Preferred Stock (7,079,792 shares)[(C)(F)] | | 7,725 | 3,670 |
| | | Guaranty ($2,000) | | | |
| | | Guaranty ($878) | | | |
| | | | | 11,725 | 7,670 |
| Drew Foam Company, Inc. | Chemicals, Plastics, and Rubber | Senior Term Debt (13.5%, Due 8/2017) | 10,913 | 10,913 | 10,913 |
| | | Preferred Stock (34,045 shares)[(C)(F)] | | 3,375 | 1,351 |
| | | Common Stock (5,372 shares)[(C)(F)] | | 63 | |
| | | | | 14,351 | 12,264 |
| Frontier Packaging, Inc. | Containers, Packaging, and Glass | Senior Term Debt (12.0%, Due 12/2017) | 12,500 | 12,500 | 12,500 |
| | | Preferred Stock (1,373 shares)[(C)(F)] | | 1,373 | 1,522 |
| | | Common Stock (152 shares)[(C)(F)] | | 152 | 843 |
| | | | | 14,025 | 14,865 |

| | | | | | |
|---|---|---|---|---|---|
| Funko, LLC | Personal and Non-Durable Consumer Products (Manufacturing Only) | Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019)(D) | 7,587 | 7,587 | 7,729 |
| | | Preferred Stock (1,305 shares)(C)(F) | | 1,305 | 2,276 |
| | | | | 8,892 | 10,005 |
| Ginsey Home Solutions, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Senior Subordinate Term Debt (13.5%, Due 1/2018) (I) | 13,050 | 13,050 | 13,050 |
| | | Preferred Stock (18,898 shares)(C)(F) | | 9,393 | 3,082 |
| | | Common Stock (63,747 shares)(C)(F) | | 8 | |
| | | | | 22,451 | 16,132 |
| Jackrabbit, Inc. | Farming and Agriculture | Line of Credit, $3,000 available (13.5%, Due 4/2014) | | | |
| | | Senior Term Debt (13.5%, Due 4/2018) | 11,000 | 11,000 | 11,000 |
| | | Preferred Stock (3,556 shares)(C)(F) | | 3,556 | 1,963 |
| | | Common Stock (548 shares)(C)(F) | | 94 | |
| | | | | 14,650 | 12,963 |
| Mathey Investments, Inc. | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (10.0%, Due 3/2016) | 1,375 | 1,375 | 1,375 |
| | | Senior Term Debt (12.0%, Due 3/2016) | 3,727 | 3,727 | 3,727 |
| | | Senior Term Debt (12.5%, Due 3/2016)(E) | 3,500 | 3,500 | 3,500 |
| | | Common Stock (29,102 shares)(C)(F) | | 777 | 4,895 |
| | | | | 9,379 | 13,497 |
| Mitchell Rubber Products, Inc. | Chemicals, Plastics, and Rubber | Subordinated Term Debt (13.0%, Due 10/2016)(D) | 13,560 | 13,560 | 13,628 |
| | | Preferred Stock (27,900 shares)(C)(F) | | 2,790 | 1,086 |
| | | Common Stock (27,900 shares)(C)(F) | | 28 | |
| | | | | 16,378 | 14,714 |

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| Company[A] | Industry | Investment[B] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Noble Logistics, Inc. | Cargo Transport | Line of Credit, $0 available (10.5%, Due 1/2015)[D] | 800 | 800 | 204 |
| | | Senior Term Debt (11.0%, Due 1/2015)[D] | 7,227 | 7,227 | 1,842 |
| | | Senior Term Debt (10.5%, Due 1/2015)[D] | 3,650 | 3,650 | 931 |
| | | Senior Term Debt (10.5%, Due 1/2015)[D][E] | 3,650 | 3,650 | 931 |
| | | | | 15,327 | 3,908 |
| Precision Southeast, Inc. | Diversified/Conglomerate Manufacturing | Senior Term Debt (14.0%, Due 12/2015) | 5,617 | 5,617 | 5,617 |
| | | Preferred Stock (19,091 shares)[C][F] | | 1,909 | |
| | | Common Stock (90,909 shares)[C][F] | | 91 | |
| | | | | 7,617 | 5,617 |
| Quench Holdings Corp. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Common Stock (4,770,391 shares)[C][F] | | 3,397 | 5,056 |
| | | | | 3,397 | 5,056 |
| SBS, Industries, LLC | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (14.0%, Due 8/2016) | 11,355 | 11,355 | 11,355 |
| | | Preferred Stock (19,935 shares)[C][F] | | 1,994 | 1,064 |
| | | Common Stock (221,500 shares)[C][F] | | 221 | |
| | | | | 13,570 | 12,419 |
| Schylling Investments, LLC | Leisure, Amusement, Motion Pictures, Entertainment | Senior Term Debt (13.0%, Due 8/2017)[D] | 13,081 | 13,081 | 13,228 |
| | | Preferred Stock (4,000 shares) [C][F] | | 4,000 | |
| | | | | 17,081 | 13,228 |
| Star Seed, Inc. | Farming and Agriculture | Senior Term Debt (12.5%, Due 4/2018)[D] | 7,500 | 7,500 | 7,594 |
| | | Preferred Stock (1,499 shares)[C][F] | | 1,499 | |
| | | Common Stock (600 shares)[C][F] | | 1 | |
| | | | | 9,000 | 7,594 |
| **Total Non-Control/Non-Affiliate Investments (represents 65.4% of total investments at fair value)** | | | | **$ 233,895** | **$ 205,440** |
| **TOTAL INVESTMENTS[J]** | | | | **$ 383,537** | **$ 314,393** |

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

(B) Percentages represent the weighted average cash interest rates in effect at March 31, 2014, and due date represents the contractual maturity date. If applicable, paid-in-kind ( PIK ) interest rates are noted separately from the cash interest rates.

(C) Security is non-income producing.

(D) Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. as of March 31, 2014.

(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 but before the senior subordinated debt.

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

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

(H) New proprietary portfolio investment valued at cost, as it was determined that the price paid during the three months ended March 31, 2014 best represents fair value as of March 31, 2014.

(I) $5 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for accounting principles generally accepted in the U.S. ( GAAP ) purposes.

(J) Cumulative gross unrealized depreciation for federal income tax purposes is $83,197; cumulative gross unrealized appreciation for federal income tax purposes is $13,913. Cumulative net unrealized depreciation is $69,284, based on a tax cost of $383,677.

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**MARCH 31, 2013**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company[(A)] | Industry | Investment[(B)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **CONTROL INVESTMENTS:** | | | | | |
| Danco Acquisition Corp. | Diversified/Conglomerate Manufacturing | Line of Credit, $282 available (4.0%, Due 8/2015)[(D)] | $ 2,868 | $ 2,868 | $ 717 |
| | | Senior Term Debt (4.0%, Due 8/2015)[(D)] | 2,575 | 2,575 | 644 |
| | | Senior Term Debt (4.0%, Due 8/2015)[(D)] | 8,795 | 8,795 | 2,199 |
| | | Senior Term Debt (5.0%, Due 8/2015)[(D)(E)] | 1,150 | 1,150 | 287 |
| | | Preferred Stock (25 shares)[(C)(F)] | | 2,500 | |
| | | Common Stock Warrants (420 shares)[(C)(F)] | | 3 | |
| | | | | 17,891 | 3,847 |
| Galaxy Tool Holding Corp. | Aerospace and Defense | Senior Subordinated Term Debt (13.5%, Due 8/2017) | 15,520 | 15,520 | 15,520 |
| | | Preferred Stock (5,373,186 shares)[(F)] | | 11,464 | 5,356 |
| | | Common Stock (48,093 shares)[(C)(F)] | | 48 | |
| | | | | 27,032 | 20,876 |
| SOG Specialty K&T, LLC | Leisure, Amusement, Motion Pictures, Entertainment | Senior Term Debt (13.3%, Due 8/2016) | 6,200 | 6,200 | 6,200 |
| | | Senior Term Debt (14.8%, Due 8/2016) | 12,199 | 12,199 | 12,199 |
| | | Preferred Stock (9,749 shares)[(C)(F)] | | 9,749 | 11,423 |
| | | | | 28,148 | 29,822 |
| Venyu Solutions, Inc. | Electronics | Senior Subordinated Term Debt (11.3%, Due 10/2015) | 7,000 | 7,000 | 7,000 |
| | | Senior Subordinated Term Debt (14.0%, Due 10/2015) | 12,000 | 12,000 | 12,000 |
| | | Preferred Stock (5,400 shares)[(C)(F)] | | 6,000 | 24,970 |
| | | | | 25,000 | 43,970 |
| **Total Control Investments (represents 34.4% of total investments at fair value)** | | | | **$ 98,701** | **$ 98,515** |
| **AFFILIATE INVESTMENTS:** | | | | | |
| Channel Technologies Group, LLC | Diversified/Conglomerate Manufacturing | Line of Credit, $0 available (7.0%, Due 5/2013)[(D)] | $ 1,250 | $ 1,250 | $ 1,248 |
| | | Senior Term Debt (8.3%, Due 12/2014)[(D)] | 5,596 | 5,596 | 5,589 |
| | | Senior Term Debt (12.3%, Due 12/2016)[(D)] | 10,750 | 10,750 | 10,737 |
| | | Preferred Stock (1,599 shares)[(C)(F)] | | 1,599 | 275 |
| | | Common Stock (1,598,616 shares)[(C)(F)] | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 19,195 | 17,849 |
| Packerland Whey Products, Inc. | Beverage, Food, and Tobacco | Preferred Stock (248 shares)(C)(F) | | 2,479 | 367 |
| | | Common Stock (247 shares)(C)(F) | | 21 | |
| | | | | 2,500 | 367 |
| Tread Corp. | Oil and Gas | Line of Credit, $1,014 available (12.5%, Due 6/2013)(G) | 1,736 | 1,736 | |
| | | Senior Subordinated Term Debt (12.5%, Due 5/2013)(G) | 5,000 | 5,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due 5/2013)(G) | 2,750 | 2,750 | |
| | | Senior Subordinated Term Debt (12.5%, Due 5/2015)(G) | 1,000 | 1,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due on Demand)(D)(G) | 510 | 510 | |
| | | Preferred Stock (3,332,765 shares)(C)(F) | | 3,333 | |
| | | Common Stock (7,716,320 shares)(C)(F) | | 501 | |
| | | Common Stock Warrants (2,372,727 shares)(C)(F) | | 3 | |
| | | | | 14,833 | |
| **Total Affiliate Investments (represents 6.4% of total investments at fair value)** | | | | **$ 36,528** | **$ 18,216** |

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2013**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS:** | | | | | |
| Acme Cryogenics, Inc. | Chemicals, Plastics, and Rubber | Senior Subordinated Term Debt (11.5%, Due 3/2015) | $ 14,500 | $ 14,500 | $ 14,500 |
| | | Preferred Stock (898,814 shares)(F) | | 6,984 | 11,292 |
| | | Common Stock (418,072 shares)(C)(F) | | 1,045 | 1,179 |
| | | Common Stock Warrants (465,639 shares)(C)(F) | | 25 | 369 |
| | | | | 22,554 | 27,340 |
| Auto Safety House, LLC | Automobile | Line of Credit, $288 available (3.0%, Due 3/2015)(G) | 7,912 | 7,856 | |
| | | Senior Subordinated Term Debt (2.0%, Due 3/2015)(G) | 6,250 | 6,050 | |
| | | Preferred Stock (4,644 shares)(C)(F) | | 2,500 | |
| | | Common Stock (1 share)(C)(F) | | | |
| | | Common Stock Warrants (73,599 shares)(C)(F) | | 4 | |
| | | Guaranty ($500) | | | |
| | | | | 16,410 | |
| B-Dry, LLC | Buildings and Real Estate | Line of Credit, $0 available (6.5%, Due 5/2014)(D) | 750 | 750 | 450 |
| | | Senior Term Debt (14.0%, Due 5/2014)(D) | 6,433 | 6,443 | 3,866 |
| | | Senior Term Debt (14.0%, Due 5/2014)(D) | 2,840 | 2,840 | 1,704 |
| | | Common Stock Warrants (85 shares)(C)(F) | | 300 | |
| | | | | 10,333 | 6,020 |
| Cavert II Holding Corp. | Containers, Packaging, and Glass | Senior Subordinated Term Debt (11.8%, Due 4/2016)(D) | 2,200 | 2,200 | 2,258 |
| | | Subordinated Term Debt (13.0%, Due 4/2016)(D) | 4,671 | 4,671 | 4,805 |
| | | Preferred Stock (18,446 shares)(C)(F) | | 1,844 | 2,803 |
| | | | | 8,715 | 9,866 |
| Country Club Enterprises, LLC | Automobile | Senior Subordinated Term Debt (18.6%, Due 11/2014) | 4,000 | 4,000 | 4,000 |
| | | Preferred Stock (7,304,792 shares)(C)(F) | | 7,725 | 3,467 |
| | | Guaranty ($2,000) | | | |
| | | Guaranty ($1,370) | | | |
| | | | | 11,725 | 7,467 |
| Drew Foam Company, Inc. | | Senior Term Debt (13.5%, Due 8/2017) | 10,913 | 10,913 | 10,913 |

| | | | | | |
|---|---|---|---|---|---|
| | Chemicals, Plastics, and Rubber | | | | |
| | | Preferred Stock (34,045 shares)(F) | | 3,375 | 3,511 |
| | | Common Stock (5,372 shares)(C)(F) | | 63 | 676 |
| | | | | 14,351 | 15,100 |
| Frontier Packaging, Inc. | Containers, Packaging, and Glass | Senior Term Debt (12.0%, Due 12/2017) | 12,500 | 12,500 | 12,500 |
| | | Preferred Stock (1,373 shares)(C)(F) | | 1,373 | 653 |
| | | Common Stock (152 shares)(C)(F) | | 153 | |
| | | | | 14,026 | 13,153 |
| Ginsey Home Solutions, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Senior Subordinate Term Debt (13.5%, Due 1/2018)(H) | 13,050 | 13,050 | 13,050 |
| | | Preferred Stock (18,898 shares)(C)(F) | | 9,393 | 8,783 |
| | | Common Stock (63,747 shares)(C)(F) | | 8 | |
| | | | | 22,451 | 21,833 |
| Mathey Investments, Inc. | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (10.0%, Due 3/2014) | 1,375 | 1,375 | 1,375 |
| | | Senior Term Debt (12.0%, Due 3/2014) | 3,727 | 3,727 | 3,727 |
| | | Senior Term Debt (12.5%, Due 3/2014)(E) | 3,500 | 3,500 | 3,500 |
| | | Common Stock (29,102 shares)(C)(F) | | 777 | 5,817 |
| | | | | 9,379 | 14,419 |
| Mitchell Rubber Products, Inc. | Chemicals, Plastics, and Rubber | Subordinated Term Debt (13.0%, Due 10/2016)(D) | 13,560 | 13,560 | 13,679 |
| | | Preferred Stock (27,900 shares)(C)(F) | | 2,790 | 3,051 |
| | | Common Stock (27,900 shares)(C)(F) | | 28 | |
| | | | | 16,378 | 16,730 |
| Noble Logistics, Inc. | Cargo Transport | Line of Credit, $0 available (10.5%, Due 1/2015)(D) | 800 | 800 | 360 |
| | | Senior Term Debt (11.0%, Due 1/2015)(D) | 7,227 | 7,227 | 3,252 |
| | | Senior Term Debt (10.5%, Due 1/2015)(D) | 3,650 | 3,650 | 1,643 |
| | | Senior Term Debt (10.5%, Due 1/2015)(D)(E) | 3,650 | 3,650 | 1,643 |
| | | Preferred Stock (1,075,000 shares)(C)(F) | | 1,750 | |
| | | Common Stock (1,682,444 shares)(C)(F) | | 1,682 | |
| | | | | 18,759 | 6,898 |
| Precision Southeast, Inc. | Diversified/Conglomerate Manufacturing | Senior Term Debt (14.0%, Due 12/2015) | 7,775 | 7,775 | 7,775 |
| | | Preferred Stock (19,091 shares)(C)(F) | | 1,909 | 2,273 |
| | | Common Stock (90,909 shares)(C)(F) | | 90 | 955 |
| | | | | 9,774 | 11,003 |

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2013**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Quench Holdings Corp. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Preferred Stock (388 shares)(C)(F) | | $ 2,950 | $ 1,679 |
| | | Common Stock (35,242 shares)(C)(F) | | 447 | |
| | | | | 3,397 | 1,679 |
| SBS, Industries, LLC | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (14.0%, Due 8/2016) | 11,355 | 11,355 | 11,355 |
| | | Preferred Stock (19,935 shares)(C)(F) | | 1,994 | 2,253 |
| | | Common Stock (221,500 shares)(C)(F) | | 221 | 4,635 |
| | | | | 13,570 | 18,243 |
| **Total Non-Control/Non-Affiliate Investments (represents 59.2% of total investments at fair value)** | | | | **$ 191,822** | **$ 169,751** |
| **TOTAL INVESTMENTS(I)** | | | | **$ 326,421** | **$ 286,482** |

(A) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
(B) Percentages represent the weighted average interest rates in effect as of March 31, 2013, and due date represents the contractual maturity date.
(C) Security is non-income producing.
(D) Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. as of March 31, 2013.
(E) 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) Where applicable, aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares or aggregates all warrants to purchase shares of such class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.
(G) Debt security is on non-accrual status.
(H) $5 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for GAAP purposes.
(I) Aggregate gross unrealized depreciation for federal income tax purposes is $78,959; aggregate gross unrealized appreciation for federal income tax purposes is $38,650. Net unrealized depreciation is $40,309 based on a tax cost of $326,792.

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

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**GLADSTONE INVESTMENT CORPORATIO N**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

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

**NOTE 1. ORGANIZATION**

Gladstone Investment Corporation ( Gladstone Investment ) was incorporated under the General Corporation Law of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The terms the Company, we, our and us all refer to Gladstone Investment and its consolidated subsidiaries. We are an externally advised, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, we have elected to be treated for tax purposes as a regulated investment company ( RIC ) under the Internal Revenue Code of 1986, as amended (the Code ). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States ( U.S. ). Debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. Our investment objectives are: (a) to achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time, and (b) to provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. We aim to maintain a portfolio allocation of approximately 80% debt investments and 20% equity investments, at cost.

Gladstone Business Investment, LLC ( Business Investment ), a wholly-owned subsidiary of ours, was established on August 11, 2006 for the sole purpose of owning our portfolio of investments in connection with our line of credit. The financial statements of Business Investment are consolidated with those of Gladstone Investment. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 14 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by Gladstone Management Corporation (the Adviser ), an affiliate of ours and a Securities and Exchange Commission ( SEC ) registered investment adviser, pursuant to an investment advisory agreement and management agreement. Administrative services are provided by Gladstone Administration, LLC (the Administrator ), an affiliate of ours and the Adviser, pursuant to an administration agreement.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

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

*Revisions*

Certain amounts in the prior year s financial statements have been revised to correct the presentation for the year ended March 31, 2014 with no effect on our financial condition or results of operations. The specific amounts that were revised relate to our change in the classification of certain of our investments between control, affiliate and non-control/non-affiliate. See *Classification of Investments* below for the current definition of each. The general change in the definition from prior reported periods to the year ended March 31, 2014, relate to the use of voting equity securities as the primary determinate of classification compared to the use of both voting and non-voting equity securities in prior periods.

Other revisions related to the net presentation of certain fees in our results of operations. Our Adviser services, administers and collects on the loans held by Business Investment, in return for which our Adviser receives a 2% annual fee from Business Investment. All loan servicing fees are credited back to us by our Advisor. Previously, we incorrectly presented the loan servicing fee on a net basis, which is zero because it is 100% credited back to us. We have revised our fee presentation related to these loan servicing fees to reflect the gross fee and related gross credit amounts.

Management evaluated these errors in presentation and concluded they were not material to the previously issued financial statements for the years ended March 31, 2013, and 2012. The impact of the revisions are shown in the table below:

| | As of March 31, 2013 | |
|---|---|---|
| | **As Previously Reported** | **As Revised** |
| **Investments at fair value** | | |
| Control investments | $ 243,803 | $ 98,515 |
| Affiliate investments | 36,659 | 18,216 |
| Non-Control/Non-Affiliate investments | 6,020 | 169,751 |
| **Total investments at fair value** | **$ 286,482** | **$ 286,482** |

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| | Year Ended March 31, 2014 As Previously Reported | As Revised | Year Ended March 31, 2013 As Previously Reported | As Revised | Year Ended March 31, 2012 As Previously Reported | As Revised |
|---|---|---|---|---|---|---|
| **Interest income** | | | | | | |
| Control investments | | | $ 17,568 | $ 6,388 | $ 12,548 | $ 4,972 |
| Affiliate investments | | | 5,897 | 3,114 | 5,593 | 1,497 |
| Non-Control/Non-Affiliate investments | | | 1,329 | 15,292 | 1,440 | 13,112 |
| Cash and cash equivalents | | | 4 | 4 | 7 | 7 |
| **Total interest income** | * | * | **24,798** | **24,798** | **19,588** | **19,588** |
| **Other income** | | | | | | |
| Control investments | | | 5,339 | 4,106 | 1,477 | |
| Affiliate investments | | | 401 | | | |
| Non-Control/Non-Affiliate investments | | | | 1,634 | 177 | 1,654 |
| **Total other income** | * | * | **5,740** | **5,740** | **1,654** | **1,654** |
| **Expenses** | | | | | | |
| Non-revised expenses, in aggregate | 19,266 | 19,266 | 15,378 | 15,378 | 8,659 | 8,659 |
| Loan servicing fee | | 4,326 | | 3,724 | | 3,031 |
| Expenses before credits from Adviser | 19,266 | 23,592 | 15,378 | 19,102 | 8,659 | 11,690 |
| Credit of loan servicing fee | | (4,326) | | (3,724) | | (3,031) |
| Credits to fees | (2,309) | (2,309) | (1,328) | (1,328) | (1,160) | (1,160) |
| **Total expenses net of credits to fees** | **16,957** | **16,957** | **14,050** | **14,050** | **7,499** | **7,499** |
| **Net realized gain** | | | | | | |
| Control investments | | | 843 | (6) | 5,087 | (269) |
| Non-Control/Non-Affiliate investments | | | | 849 | 4 | 5,360 |
| Other | | | (41) | (41) | (40) | (40) |
| **Total net realized gain** | * | * | **802** | **802** | **5,051** | **5,051** |
| **Net unrealized (depreciation) appreciation** | | | | | | |
| Control investments | | | 9,480 | 27,740 | 3,045 | 396 |
| Affiliate investments | | | (4,723) | (19,214) | (596) | 1,945 |
| Non-Control/Non-Affiliate investments | | | (3,953) | (7,722) | 714 | 822 |
| Other | | | (815) | (815) | 9 | 9 |
| **Total net unrealized (depreciation) appreciation** | * | * | **$ (11)** | **$ (11)** | **$ 3,172** | **$ 3,172** |

* Not applicable

Additionally, certain investments in our *Consolidated Schedule of Investments* as of March 31, 2013 were moved based upon their new classifications.

*Classification of Investments*

In accordance with the BDC regulations in the 1940 Act, we classify portfolio investments on our accompanying *Consolidated Statements of Assets and Liabilities*, *Consolidated Statements of Operations* and *Consolidated Schedules of Investments* into the following categories:

**Control Investments** Control investments are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25% of the issued and outstanding voting securities;

**Affiliate Investments** Affiliate investments are those in which we own, with the power to vote, between 5% and 25% of the issued and outstanding voting securities that are not otherwise classified as Control Investments; and

**Non-Control/Non-Affiliate Investments** Non-Control/Non-Affiliate investments are those that are neither Control nor Affiliate investments and in which we typically own less than 5% of the issued and outstanding voting securities.

*Consolidation*

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

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*Use of Estimates*

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

*Cash and cash equivalents*

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

*Restricted Cash*

Restricted cash is cash held in escrow that was generally received as part of an investment exit. Restricted cash is carried at cost, which approximates fair value.

*Investment Valuation Policy*

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

The Valuation Team uses valuation techniques in accordance with GAAP to value our portfolio. From time to time, the Valuation Team may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently, but provide a third-party valuation opinion that may differ in results, techniques and scope used to value our investments. When the Valuation Team obtains these specific third-party appraisals, the Valuation Team uses estimates of value provided by such appraisals and its own assumptions, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date, to value our investments.

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

**Publicly traded securities:** The Valuation Team determines the value of a publicly traded security based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own a restricted security that is not freely tradable, but for which a public market otherwise exists, the Valuation Team will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature. As of March 31, 2014 and 2013, we did not have any investments in publicly traded securities.

**Securities for which a limited market exists:** The Valuation Team 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 Valuation Team assesses trading activity in an asset class and evaluates variances in prices and other market insights to determine if any available quoted prices are reliable. In general, if the Valuation Team concludes that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if firm bid prices are unavailable, the Valuation Team 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 Valuation Team uses the IBP as a basis for valuing the security, it may take further steps to consider additional information to validate that price in accordance with the Policy, including but not limited to reviewing a range of indicative bids to the extent the Valuation Team has ready access to such qualified information.

In the event these limited markets become illiquid such that market prices are no longer readily available, the Valuation Team will value our syndicated loans using alternative methods, such as estimated net present values of the future cash flows or discounted cash flows ( DCF ). The use of a DCF methodology follows that prescribed by the Financial Accounting Standards Board (the 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 Valuation Team 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 Valuation Team 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 Valuation Team believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Valuation Team applies the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

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

**(A)** **Portfolio investments comprised solely of debt securities:** Debt securities that are not publicly traded on an established securities market, or for which a market does not exist ( Non-Public Debt Securities ), and that are issued by portfolio companies in which we have no equity or equity-like securities, are fair valued utilizing opinions of value submitted to the Valuation Team by Standard & Poor s Securities Evaluations, Inc. ( 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. The Valuation Team 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 securities, which can include debt and equity securities:** The fair value of these investments is determined based on the total enterprise value ( TEV ) of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for our Non-Public Debt Securities and equity or equity-like securities (e.g., preferred equity, common equity or other equity-like securities) that are purchased together as part of a package, where we control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale or recapitalization of the portfolio company. We generally exit the debt and equity securities of an issuer at the same time. Applying the liquidity waterfall approach to all of our investments in an issuer, the Valuation Team 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 Valuation Team generally references industry statistics and may use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Valuation Team has estimated the TEV of the issuer, it will subtract the value of all the debt securities of the issuer, which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of TEV over the total debt outstanding for the issuer. Once the values for all outstanding senior securities, which include all the debt securities, have been subtracted from the TEV of the issuer, the remaining amount, if any, is used to determine the value of the issuer s equity or equity-like securities. If, in the Valuation Team s judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, the Valuation Team may recommend that we use a valuation by SPSE, or, if that is unavailable, a DCF valuation technique.

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

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

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. At times, the estimates of fair value calculated by the various valuation techniques (inclusive of the third-party valuations we receive) may materially differ from one another, resulting in a range of potential values. In these circumstances, the Valuation Team comes to its valuation conclusion based on all facts and circumstances considered, which is then presented to the Board for review and ultimate approval. In general, fair value is the amount that the Valuation Team might reasonably expect us to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

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

*Interest Income Recognition*

Interest income, adjusted for amortization of premiums, amendment fees and acquisition costs and 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. 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, the interest income is deemed to be collectible. As of March 31, 2014, our loans to Tread Corp. ( Tread ) were on non-accrual, with an aggregate debt cost basis of $11.7 million, or 4.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0. As of March 31, 2013, ASH Holdings Corp. ( ASH ) and Tread were on non-accrual, with an aggregate debt cost basis of $24.9 million, or 10.4% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0.

PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be included in our calculation of distributable income for purposes of complying with our distribution requirements, even though we have not yet collected the cash. During the year ended March 31, 2014, we recorded PIK income of $0.1 million. We did not hold any loans in our portfolio that contained a PIK provision during the year ended March 31, 2013. During the year ended March 31, 2012, we recorded PIK income of $7.

*Other Income Recognition*

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We recorded $4.2 million of success fees in aggregate during the year ended March 31, 2014 related to debt exits or prepayments from Venyu Solutions, Inc. ( Venyu ), Channel Technologies Group, LLC ( Channel ), Cavert II Holding Corp. ( Cavert ), SOG Specialty K&T, LLC ( SOG ), Mathey Investments, Inc. ( Mathey ) and Frontier Packaging, Inc. ( Frontier ). We recorded $0.8 million of success fees during the year ended March 31, 2013, representing prepayments received from Mathey and Cavert. During the year ended March 31, 2012, we recorded success fees of $0.7 million representing prepayments received from Mathey and Cavert.

We accrue dividend income on preferred and common equity securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash or other consideration. For the year ended March 31, 2014, we recorded $1.4 million in dividend income related to the exit of Venyu. We recorded $4.1 million and $0.7 million in dividend income during the year ended March 31, 2013, on accrued preferred shares of Galaxy and Acme Cryogenics, Inc. ( Acme ), respectively. During the year ended March 31, 2012, we recorded and collected $0.7 million of dividends on accrued preferred shares in connection with the recapitalization of Cavert.

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

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

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

*Deferred Financing Costs*

Deferred financing costs consist of costs incurred to obtain financing, including legal fees, origination fees and administration fees. Costs associated with our line of credit and the issuance of the 7.125% Series A Cumulative Term Preferred Stock, par value $0.001 per share ( Term Preferred Stock ), are deferred and amortized using the straight-line method, which approximates the effective interest method, over the terms of the respective financings. See Note 6 *Mandatorily Redeemable Preferred Stock* for further discussion on the Term Preferred Stock.

*Related Party Costs*

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

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

*Federal Income Taxes*

We intend to continue to qualify for treatment as a RIC under subchapter M of the Code, which generally allows us to avoid paying corporate income taxes on any income or gains that we distribute to our stockholders. We have distributed and intend to distribute sufficient dividends to eliminate taxable income. In an effort to limit certain excise taxes imposed on RICs, we generally distribute during each calendar year, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gains in excess of capital losses for preceding years that were not distributed during such years.

ASC 740, Income Taxes requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authorities. Tax positions not deemed to satisfy the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. We have evaluated the implications of ASC 740 for all open tax years and in all major tax jurisdictions and determined that there is no material impact on our *Consolidated Financial Statements*. Our federal tax returns for fiscal years 2011, 2012 and 2013 remain subject to examination by the Internal Revenue Service.

*Distributions*

Distributions to stockholders are recorded on the ex-dividend date. We are required to pay out at least 90% of our ordinary income and short-term capital gains for each taxable year as a distribution to our stockholders to maintain our status as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. It is our policy to pay out as a distribution up to 100% of those amounts. The amount to be paid out as a distribution is determined by the Board of Directors each quarter and is based on the annual earnings estimated by our management. Based on that estimate, a distribution is declared each quarter and is paid out monthly over the course of the respective quarter. At year-end, we elected to treat a portion of the first distribution paid after year-end as having been paid in the prior year, in accordance with Section 855(a) of the Code. Additionally, at year-end, we may pay a bonus distribution in addition to the monthly distributions to ensure that we have paid out at least 90% of its ordinary income and short-term capital gains for the year. We typically retain long-term capital gains, if any, and do not pay them out as distributions. If we decide to retain long-term capital gains, the portion of the retained capital gains, net of any capital loss carryforward, if applicable, will be subject to a 35% tax.

*Recent Accounting Pronouncements*

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so we anticipate no impact from adopting this standard on our financial position or results of operations. We are currently assessing whether additional disclosure requirements will be necessary. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013.

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**NOTE 3. INVESTMENTS**

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

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

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

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

As of March 31, 2014 and 2013, all of our investments were valued using Level 3 inputs. We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the years ended March 31, 2014 and 2013, there were no transfers in or out of Level 1, 2 and 3.

The following table presents the financial assets carried at fair value as of March 31, 2014 and 2013, by caption on our accompanying *Consolidated Statements of Assets and Liabilities* and by security type for each of the three applicable levels of hierarchy established by ASC 820 that we used to value our financial assets:

| | **Total Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities*** | |
|---|---|---|
| | **March 31, 2014** | **March 31, 2013** |
| **Control Investments** | | |
| Senior debt | $ | $ 22,246 |
| Senior subordinated debt | 15,520 | 34,520 |
| Preferred equity | 5,584 | 41,749 |
| **Total Control Investments** | **21,104** | **98,515** |
| **Affiliate Investments** | | |
| Senior debt | 60,391 | 17,573 |
| Senior subordinated debt | 2,400 | |
| Preferred equity | 25,058 | 643 |
| **Total Affiliate Investments** | **87,849** | **18,216** |
| **Non-Control/Non-Affiliate Investments** | | |
| Senior debt | 109,479 | 64,063 |
| Senior subordinated debt | 52,907 | 52,291 |
| Preferred equity | 32,259 | 39,765 |
| Common equity/equivalents | 10,795 | 13,632 |

| | | |
|---|---|---|
| **Total Non-Control/Non-Affiliate Investments** | **205,440** | **169,751** |
| **Total Investments at fair value using Level 3 inputs** | **$ 314,393** | **$ 286,482** |
| **Cash Equivalents using Level 1 inputs** | | 65,000 |
| **Total Investments and Cash Equivalents** | **$ 314,393** | **$ 351,482** |

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In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of March 31, 2014 and 2013. In addition to the techniques and inputs noted in the table below, according to our valuation policy, the Adviser may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

| | Quantitative Information about Level 3 Fair Value Measurements | | | | | |
|---|---|---|---|---|---|---|
| | Fair Value as of March 31, 2014 | Fair Value as of March 31, 2013 | Valuation Technique/ Methodology | Unobservable Input | Range / Weighted Average as of March 31, 2014 | Range / Weighted Average as of March 31, 2013 |
| Senior debt | **$ 115,081** | $ 69,544 | TEV | EBITDA multiples(B) | 3.4x 7.3x / 5.1x | 4.6x 7.3x / 5.6x |
| | | | | EBITDA(B) | $1,558 $6,230 / $3,609 | ($997) $6,640 / $3,752 |
| | **54,789** | 34,338 | SPSE(A) | EBITDA(B) | $118 $3,818 / $1,956 | $29 $3,225 / $1,248 |
| | | | | Risk Ratings(C) | 4.3 6.0 / 5.2 | 3.7 6.9 / 5.1 |
| Senior subordinated debt | **49,470** | 66,070 | TEV | EBITDA multiples(B) | 4.1x 7.3x / 5.0x | 4.5x 9.7x / 6.5x |
| | | | | EBITDA(B) | $36 $6,156 / $4,159 | ($2,866) $8,695 / $4,400 |
| | **21,357** | 20,741 | SPSE(A) | EBITDA(B) | $5,446 $9,978 / $7,072 | $5,169 $6,026 / $5,738 |
| | | | | Risk Ratings(C) | 5.3 5.8 / 5.5 | 4.1 6.2 / 4.8 |
| Preferred equity | **62,901** | 82,157 | TEV | EBITDA multiples(B) | 3.5x 8.5x / 5.1x | 4.2x 9.7x / 5.9x |
| | | | | EBITDA(B) | $36 $10,621 / $4,266 | ($2,866) $8,695 / $4,344 |
| Common equity/equivalents | **10,795** | 13,632 | TEV | EBITDA multiples(B) | 3.4x 16.0x / 10.5x | 3.7x 7.8x / 6.2x |
| | | | | EBITDA(B) | $36 $10,621 / $6,008 | ($2,866) $6,026 / $1,959 |
| **Total** | **$ 314,393** | $ 286,482 | | | | |

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

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

(C) As part of the Adviser s valuation procedures, it risk rates all of our investments in debt securities. The Adviser uses a proprietary risk rating system for all debt securities. The Adviser s risk rating system uses a scale of 0 to >10, with >10 being the lowest probability of default. The risk rating system covers both qualitative and quantitative aspects of the portfolio company business and the securities we hold.

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

*Changes in Level 3 Fair Value Measurements of Investments*

The following tables provide the changes in fair value, broken out by security type, during the years ended March 31, 2014 and 2013 for all investments for which we determine fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (that is, components that are actively quoted and can be validated to external sources). In these cases, we categorize the fair value measurement in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

**Fiscal Year 2014:**

| | Senior Debt | Senior Subordinated Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Year ended March 31, 2014:** | | | | | |
| Fair value as of March 31, 2013 | $ 103,882 | $ 86,811 | $ 82,157 | $ 13,632 | $ 286,482 |
| Total (loss) gain: | | | | | |
| Net realized (loss) gain[(A)] | (2,856) | (6,050) | 18,806 | (1,659) | 8,241 |
| Net unrealized depreciation[(B)] | 3,165 | (660) | (25,000) | (5,921) | (28,416) |
| Reversal of previously-recorded depreciation (appreciation) upon realization[(B)] | 2,274 | 5,874 | (10,644) | 1,706 | (790) |
| New investments, repayments and settlements[(C)]: | | | | | |
| Issuances / Originations | 88,267 | 11,818 | 32,067 | 139 | 132,291 |
| Settlements / Repayments | (24,862) | (26,966) | | | (51,828) |
| Sales | | | (31,535) | (52) | (31,587) |
| Transfers[(D)] | | | (2,950) | 2,950 | |
| **Fair value as of March 31, 2014** | **$ 169,870** | **$ 70,827** | **$ 62,901** | **$ 10,795** | **$ 314,393** |

**Fiscal Year 2013:**

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

(A) Included in Net realized (loss) gain on investments on our accompanying *Consolidated Statements of Operations* for the years ended March 31, 2014 and 2013.

(B) Included in Net unrealized (depreciation) appreciation of investments on our accompanying *Consolidated Statements of Operations* for the years ended March 31, 2014 and 2013.

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

(D) 2014: Transfers represent $3 million of preferred equity of Quench Holding Corp. ( Quench ), at cost, as of September 30, 2013, which was converted into common equity during the quarter ended December 31, 2013.

2013: Transfer represents $3 million of senior subordinated term debt from Tread, at cost, as of June 30, 2012, that we converted into preferred and common equity during the quarter ended September 30, 2012, and $8.2 million of preferred stock from Galaxy, at cost, as of December 31, 2012, that we converted into senior subordinated term debt as part of a recapitalization in the quarter ended March 31, 2013.

*Investment Activity*

During the year ended March 31, 2014, the following significant transactions occurred:

In April 2013, we invested $17.7 million in Jackrabbit, Inc. ( Jackrabbit ) through a combination of debt and equity. Jackrabbit, headquartered in Ripon, California, is a manufacturer of nut harvesting equipment.

In May 2013, we invested $8.8 million in Funko, LLC ( Funko ) through a combination of debt and equity. Funko, headquartered in Lynnwood, Washington, is a designer, importer and marketer of pop-culture collectibles. This was our first co-investment with one of our affiliated funds, Gladstone Capital Corporation ( Gladstone Capital ), pursuant to an exemptive order granted by the SEC in July 2012.

In June 2013, we invested $9 million in Star Seed, Inc. ( Star Seed ) through a combination of debt and equity. Based in Osborne, Kansas, Star Seed provides its customers with a variety of specialty seeds and related products.

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In August 2013, we invested $20 million in Schylling, Inc. ( Schylling ) through a combination of debt and equity. Schylling, headquartered in Rowley, Massachusetts, is a premier provider of high quality specialty toys.

In August 2013, Venyu was sold. As a result of the sale, we received net cash proceeds of $32.2 million, resulting in a realized gain of $24.8 million and dividend income of $1.4 million. In addition, we received full repayment of our debt investment of $19 million in principal repayment and $1.9 million in fee income.

In October 2013, we invested $16.3 million in Alloy Die Casting Co. ( ADC ) through a combination of debt and equity. ADC, headquartered in Buena Park, California, is a manufacturer of high quality, finished aluminum and zinc castings for aerospace, defense, aftermarket automotive and industrial applications. Gladstone Capital also participated as a co-investor by providing $7 million of debt and equity financing at the same price and terms as our investment.

In October 2013, we received full repayment of our debt investments in Channel Technologies Group, LLC ( Channel ) in the aggregate amount of $16.2 million. We also received prepayment and success fee income in the amount of $0.8 million. Simultaneously, we invested $1.3 million in additional preferred and common equity securities in Channel.

In October 2013, ASH, which was on non-accrual, was sold to certain members of its existing management team. As a result of the sale, we received $12 in net cash proceeds, recognized a realized loss of $11.4 million and have retained a $5 million accruing revolving credit facility in ASH.

In November 2013, Packerland Whey Products, Inc. ( Packerland ) was sold to other existing owners at Packerland. As a result of the sale, we received $0.7 million in net cash proceeds and recognized a realized loss of $1.8 million.

In December 2013, we received full repayment of our remaining debt investments in Cavert II Holding Corp. ( Cavert ) in the aggregate amount of $6.1 million. We also received prepayment and success fee income in the amount of $0.2 million. As of December 31, 2013, we have an equity investment of preferred stock in Cavert with a cost basis of $1.8 million and fair value of $3 million.

In December 2013, Quench was recapitalized, resulting in all preferred stock holders, including our preferred stock investment of $3 million, being converted into common stock.

In December 2013, we invested $12.9 million in Behrens Manufacturing, LLC ( Behrens ) through a combination of debt and equity. Behrens, headquartered in Winona, Minnesota, is a manufacturer and marketer of high quality, classic looking, utility products and containers. Gladstone Capital also participated as a co-investor by providing $5.5 million of debt and equity financing at the same price and terms as our investment.

In December 2013, we invested $13 million in Meridian Rack & Pinion, Inc. ( Meridian ) through a combination of debt and equity. Meridian, headquartered in San Diego, California, is a provider of aftermarket and OEM replacement automotive parts, which it sells through both wholesale channels and online at www.BuyAutoParts.com. Gladstone Capital also participated as a co-investor by providing $5.6 million of debt and equity financing at the same price and terms as our investment.

In February 2014, we invested $13.1 million in Head Country Inc. ( Head Country ) through a combination of debt and equity. Head Country, headquartered in Ponca City, OK, is a manufacturer of a leading BBQ sauce brand with three BBQ flavors currently as well as seasonings and marinades.

In February 2014, we invested $15.7 million in Edge Adhesives Holdings, Inc. ( Edge ) through a combination of debt and equity. Edge, headquartered in Fort Worth, TX, is a developer and manufacturer of innovative adhesives, sealants, tapes and related solutions used in building products, transportation and electrical, among other markets. Gladstone Capital also participated as a co-investor by providing $11.1 million of debt and equity financing at the same price and terms as our investment.

In February 2014, we invested $2.6 million in NDLI Acquisition Inc. ( NDLI ) through equity to facilitate its purchase of certain of Noble s assets out of bankruptcy. In connection with this transaction, we wrote off our equity investments in Noble and recorded a realized loss of $3.4 million. Refer to Note 15, Subsequent Events, for further activity related to this investment occurring subsequent to March 31, 2014.

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*Investment Concentrations*

As of March 31, 2014, our investment portfolio consisted of investments in 29 portfolio companies located in 14 states across 14 different industries with an aggregate fair value of $314.4 million, of which our investments in SOG Specialty K&T, LLC ( SOG ), Acme Cryogenics, Inc. ( Acme ), and Galaxy Tool Holdings Corp. ( Galaxy ), our three largest portfolio investments at fair value, collectively comprised $70.9 million, or 22.6%, of our total investment portfolio at fair value. The following table summarizes our investments by security type as of March 31, 2014 and 2013:

| | March 31, 2014 | | | | March 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | Fair Value | | Cost | | Fair Value | |
| Senior debt | **$ 196,293** | **51.2%** | **$ 169,870** | **54.0%** | $ 135,745 | 41.6% | $ 103,882 | 36.3% |
| Senior subordinated debt | **82,348** | **21.5** | **70,827** | **22.5** | 103,547 | 31.7 | 86,811 | 30.3 |
| Total debt | **278,641** | **72.7** | **240,697** | **76.5** | 239,292 | 73.3 | 190,693 | 66.6 |
| Preferred equity | **98,099** | **25.6** | **62,901** | **20.0** | 81,710 | 25.0 | 82,157 | 28.7 |
| Common equity/equivalents | **6,797** | **1.7** | **10,795** | **3.5** | 5,419 | 1.7 | 13,632 | 4.7 |
| Total equity/equivalents | **104,896** | **27.3** | **73,696** | **23.5** | 87,129 | 26.7 | 95,789 | 33.4 |
| **Total Investments** | **$ 383,537** | **100.0%** | **$ 314,393** | **100.0%** | $ 326,421 | 100.0% | $ 286,482 | 100.0% |

Investments at fair value consisted of the following industry classifications as of March 31, 2014 and 2013:

| | March 31, 2014 | | March 31, 2013 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Diversified/Conglomerate Manufacturing | **$ 54,845** | **17.4%** | $ 32,698 | 11.4% |
| Chemicals, Plastics, and Rubber | **52,753** | **16.8** | 59,170 | 20.7 |
| Leisure, Amusement, Motion Pictures, Entertainment | **39,867** | **12.7** | 29,822 | 10.4 |
| Machinery (Non-agriculture, Non-construction, Non-electronic) | **25,917** | **8.2** | 32,662 | 11.4 |
| Automobile | **25,735** | **8.2** | 7,467 | 2.6 |
| Home and Office Furnishings, Housewares, and Durable Consumer Products | **21,188** | **6.7** | 23,512 | 8.2 |
| Farming and Agriculture | **20,557** | **6.5** | | |
| Aerospace and Defense | **18,512** | **5.9** | 20,876 | 7.3 |
| Containers, Packaging, and Glass | **17,889** | **5.7** | 23,019 | 8.0 |
| Beverage Food and Tobacco | **13,050** | **4.2** | 369 | 0.1 |
| Personal and Non-Durable Consumer Products (Manufacturing Only) | **10,005** | **3.2** | | |
| Buildings and Real Estate | **7,575** | **2.4** | 6,020 | 2.2 |
| Cargo Transport | **6,500** | **2.1** | 6,897 | 2.4 |
| Electronics | | | 43,970 | 15.3 |
| **Total Investments** | **$ 314,393** | **100.0%** | $ 286,482 | 100.0% |

Investments at fair value were included in the following geographic regions of the U.S. as of March 31, 2014 and 2013:

| | March 31, 2014 | | March 31, 2013 | |
|---|---|---|---|---|
| | **Fair Value** | **Percentage of Total Investments** | **Fair Value** | **Percentage of Total Investments** |
| West | **$ 117,781** | **37.5%** | $ 81,400 | 28.4% |
| South | **89,915** | **28.6** | 125,518 | 43.8 |
| Northeast | **67,862** | **21.6** | 58,319 | 20.4 |
| Midwest | **38,835** | **12.3** | 21,245 | 7.4 |
| **Total Investments** | **$ 314,393** | **100.0%** | $ 286,482 | 100.0% |

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

*Investment Principal Repayments*

The following table summarizes the contractual principal repayments and maturity of our investment portfolio for the next five fiscal years and thereafter, assuming no voluntary prepayments, as of March 31, 2014:

| | | Amount |
|---|---|---|
| For the fiscal year ending March 31: | 2015 | $ 56,386 |
| | 2016 | 30,190 |
| | 2017 | 43,314 |
| | 2018 | 51,983 |
| | 2019 | 89,181 |
| | Thereafter | 7,587 |
| | **Total contractual repayments** | **$ 278,641** |
| | Investments in equity securities | 104,896 |
| | **Total cost basis of investments held as of March 31, 2014:** | **$ 383,537** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *Consolidated Statements of Assets and Liabilities*. We maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of March 31, 2014 and 2013, we had gross receivables from portfolio companies of $0.9 million and $1.2 million, respectively. The allowance for uncollectible receivables was $163 and $44 as of March 31, 2014 and 2013, respectively.

**NOTE 4. RELATED PARTY TRANSACTIONS**

*Investment Advisory and Management Agreement*

We entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement ). The Adviser is controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee, each as described below. On July 9, 2013, our Board of Directors approved the renewal of the Advisory Agreement through August 31, 2014.

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

| | Year Ended March 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Average total assets subject to base management fee[(A)] | **$ 310,350** | $ 270,600 | $ 219,300 |
| Multiplied by prorated annual base management fee of 2% | **2.0%** | 2.0% | 2.0% |
| Base management fee[(B)] | **6,207** | 5,412 | 4,386 |
| Credit for fees received by Adviser from the portfolio companies | **(2,309)** | (1,107) | (1,106) |
| Net base management fee | **$ 3,898** | $ 4,305 | $ 3,280 |

| | | | |
|---|---|---|---|
| Loan servicing fee(B) | **4,326** | 3,724 | 3,031 |
| Credit of loan servicing fee(B) | **(4,326)** | (3,724) | (3,031) |
| Net loan servicing fee | **$** | $ | $ |
| Incentive fee(B) | **3,983** | 2,585 | 19 |
| Credit from waiver issued by Adviser s board of directors | | (221) | (54) |
| Net Incentive fee | **$ 3,983** | $ 2,364 | $ (35) |
| *Total credits to fees:* | | | |
| Credit for fees received by Adviser from the portfolio companies | **(2,309)** | (1,107) | (1,106) |
| Credit from waiver issued by Adviser s board of directors | | (221) | (54) |
| Other Credit to fees(B) | **(2,309)** | (1,328) | (1,160) |
| Credit for loan servicing fee(B) | **(4,326)** | (3,724) | (3,031) |
| Total credit to fees | **$ (6,635)** | $ (5,052) | $ (4,191) |

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

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

**Base Management Fee**

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2%. It is computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Although neither we nor our Adviser receive fees in connection with managerial assistance, the Adviser provides other services to our portfolio companies and receives fees for these other services. 50% of certain of these fees and 100% of others historically have been credited against the base management fee that we would otherwise be required to pay to our Adviser. Effective October 1, 2013, 100% of all these fees are credited against the base management fee that we would otherwise be required to pay to our Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees are retained by the Adviser in the form of reimbursement for certain tasks completed by personnel of the Adviser.

**Loan Servicing Fee**

In addition, our Adviser services, administers and collects on the loans held by Business Investment, in return for which our Adviser receives a 2% annual fee payable monthly by Business Investment based on the monthly aggregate balance of loans held by Business Investment in accordance with our line of credit. All loan servicing fees are credited back to us by our Adviser. Overall, the base management fee due to our Adviser cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

**Incentive Fee**

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

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

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

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

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate net unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. Aggregate net unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate net unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through March 31, 2014, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded since our inception through March 31, 2014.

*Administration Agreement*

We have entered into an administration agreement (the Administration Agreement ) with the Administrator, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, internal counsel and secretary and their respective staffs. Our allocable portion of administrative expenses is generally derived by multiplying the

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Administrator s total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies serviced by the Administrator under similar agreements. On July 9, 2013, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2014.

*Related Party Fees Due*

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

| | As of March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Base management fee due to Adviser | **$ 63** | $ 625 |
| Incentive fee due to Adviser | **1,161** | 1,454 |
| Other due to (from) Adviser | **1** | (12) |
| **Total fees due to Adviser** | **$ 1,225** | $ 2,067 |
| **Fee due to Administrator** | **$ 224** | $ 221 |
| **Total related party fees due** | **$ 1,449** | $ 2,288 |

**NOTE 5. BORROWINGS**

*Line of Credit*

On April 30, 2013, we, through our wholly-owned subsidiary, Business Investment, entered into a fifth amended and restated credit agreement with Key Equipment Finance Inc., as administrative agent, lead arranger and a lender (the Administrative Agent ), Branch Banking and Trust Company ( BB&T ) as a lender and managing agent, and the Adviser, as servicer, to increase the commitment amount of the revolving line of credit (the Credit Facility ) from $60 million to $70 million and to extend the revolving period to April 30, 2016. If not renewed or extended by April 30, 2016, all principal and interest will be due and payable on or before April 30, 2017 (one year after the revolving period end date). In addition, there is one remaining one-year extension option to be agreed upon by all parties, which may be exercised on or before April 30, 2015. Subject to certain terms and conditions, the Credit Facility may be expanded up to a total of $200 million through the addition of other lenders to the facility. Advances under the Credit Facility generally bear interest at 30-day LIBOR, plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. We incurred fees of $0.3 million in connection with this amendment.

On June 12, 2013, we further increased the borrowing capacity under the Credit Facility from $70 million to $105 million by entering into Joinder Agreements pursuant to the Credit Facility, by and among Business Investment, the Administrative Agent, the Adviser and each of Alostar Bank of Commerce and Everbank Commercial Finance, Inc.

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

| | As of March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Commitment amount | **$ 105,000** | $ 60,000 |
| Borrowings outstanding at cost | **61,250** | 31,000 |
| Availability | **43,750** | 29,000 |

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Weighted average borrowings outstanding | **$ 34,632** | $ 15,533 | $ 7,336 |

| | | | |
|---|---|---|---|
| Effective interest rate[(A)] | **4.90%** | 5.49% | 10.0% |
| Commitment (unused) fees incurred | **$ 318** | $ 225 | $ 371 |

(A) Excludes the impact of deferred financing fees.

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

Generally, our Credit Facility contains covenants that require Business Investment to, among other things, maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to our credit and collection policies without the lenders   consent. Our Credit Facility generally also limits payments on distributions to the aggregate net investment income for each of the twelve month periods ending March 31,

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2015, 2016 and 2017. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward available credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatory redeemable term preferred stock) of $170 million plus 50% of all equity and subordinated debt raised after April 30, 2013, which equates to $170 million as of March 31, 2014, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) its status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2014, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $260.8 million, an asset coverage of 298% and an active status as a BDC and RIC. Our Credit Facility requires a minimum of 12 obligors in the borrowing base and, as of March 31, 2014, Business Investment had 21 obligors. As of March 31, 2014, we were in compliance with all covenants.

We have entered into multiple interest rate cap agreements with BB&T and Keybank National Association that effectively limit the interest rate on a portion of our borrowings under the line of credit pursuant to the terms of our Credit Facility. The current agreement, which expires April 2016, provides that the interest rate on $45 million of our borrowings is capped at 6% when 30-day LIBOR is in excess of 6%that certain interest rate.

*Short-Term Loan*

As of March 31, 2014, our asset composition satisfied the 50% threshold. However, excluding March 31, 2014, for each quarter end since June 30, 2009 (the measurement dates ), we satisfied the 50% threshold to maintain our status as a RIC, in part, through the purchase of short-term qualified securities, which were funded primarily through a short-term loan agreement. Subsequent to each of the measurement dates, the short-term qualified securities matured, and we repaid the short-term loan, at which time we again fell below the 50% threshold. For example, for the December 31, 2013 measurement date, we purchased $10 million of short-term United States Treasury Bills ( T-Bills ) through Jefferies & Company, Inc. ( Jefferies ) on December 27, 2013. The T-Bills were purchased on margin using $1.5 million in cash and the proceeds from an $8.5 million short-term loan from Jefferies with an effective annual interest rate of 1.35%. On January 2, 2014, when the T-Bills matured, we repaid the $8.5 million loan from Jefferies and received the $1.5 million margin payment sent to Jefferies to complete the transaction.

*Secured Borrowing*

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

*Fair Value*

We elected to apply ASC 825, Financial Instruments, specifically for our Credit Facility and short-term loan, which was consistent with the application of ASC 820 to our investments. Generally, the Adviser estimates the fair value of our 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. Additionally, due to the seven-day duration of the short-term loan as of March 31, 2013, cost was deemed to approximate fair value. At each of March 31, 2014 and 2013, all of our borrowings were valued using Level 3 inputs. The following tables present the short-term loan, where applicable, and Credit Facility carried at fair value as of March 31, 2014 and 2013, by caption on our accompanying *Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward of the changes in fair value during the year ended March 31, 2014 and 2013:

**Level 3 Borrowings**

| | Total Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities* March 31, 2014 | March 31, 2013 |
|---|---|---|
| Short-Term Loan | $ | $ 58,016 |
| Credit Facility | **61,701** | 31,854 |
| **Total** | **$ 61,701** | $ 89,870 |

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**Fair Value Measurements of Borrowings Using Significant Unobservable Inputs (Level 3)**

| | Short-Term Loan | Credit Facility | Total Fair Value Reported in *Consolidated Statements of Assets and Liabilities* |
|---|---|---|---|
| **Year ended March 31, 2014:** | | | |
| Fair value as of March 31, 2013 | $ **58,016** | **$ 31,854** | **$ 89,870** |
| Borrowings | **56,514** | **145,350** | **201,864** |
| Repayments | **(114,530)** | **(115,100)** | **(229,630)** |
| Net unrealized depreciation[(a)] | | **(403)** | **(403)** |
| **Fair value as of March 31, 2014** | $ | **$ 61,701** | **$ 61,701** |
| **Year ended March 31, 2013:** | | | |
| Fair value as of March 31, 2012 | $ 76,005 | $ | $ 76,005 |
| Borrowings | 250,063 | 144,000 | 394,063 |
| Repayments | (268,052) | (113,000) | (381,052) |
| Net unrealized appreciation[(a)] | | 854 | 854 |
| **Fair value as of March 31, 2013** | **$ 58,016** | **$ 31,854** | **$ 89,870** |

(A) Included in net unrealized (depreciation) appreciation on our accompanying *Consolidated Statement of Operations* for the year ended March 31, 2014 and 2013.

The fair value of the collateral under our Credit Facility was $288.6 million and $263.7 million as of March 31, 2014 and 2013, respectively. The fair value of the collateral under the short-term loan was $65 million as of March 31, 2013.

**NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK**

In March 2012, we completed a public offering of 1,600,000 shares of 7.125% Series A Cumulative Term Preferred Stock (our Term Preferred Stock ) at a public offering price of $25.00 per share. Gross proceeds totaled $40 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $38 million. We incurred $2 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *Consolidated Statements of Assets and Liabilities* and will be amortized over the redemption period ending February 28, 2017.

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

For the years ended March 31, 2014 and 2013, our Board of Directors declared and paid a monthly distribution of $0.1484375 per share, or $1.78125 per share in aggregate, to preferred stockholders.

In accordance with ASC 480, Distinguishing Liabilities from Equity, mandatorily redeemable financial instruments should be classified as liabilities on the balance sheet and, therefore, the related dividend payments are treated as dividend expense on our accompanying *Consolidated Statements of Operations* at the ex-dividend date. The fair value of the Term Preferred Stock, which we consider to be a level 1 liability within the fair value hierarchy, based on the last reported closing sale price as of March 31, 2014 and 2013, was $42.4 million and $42.7 million, respectively.

Aggregate Term Preferred Stock distributions declared and paid for the years ended March 31, 2014 and 2013, were both $2.9 million. The tax character of distributions paid by us to preferred stockholders is from ordinary income.

**NOTE 7. COMMON STOCK**

*Registration Statement*

We filed a registration statement on Form N-2 (File No. 333-181879) with the SEC on June 4, 2012, and subsequently filed a Pre-effective Amendment No. 1 to the registration statement on July 17, 2012, which the SEC declared effective on July 26, 2012. On June 7, 2013, we filed Post-Effective Amendment No. 2 to the registration statement, which the SEC declared effective on July 26, 2013. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of two or more of such securities.

On October 5, 2012, we completed a public offering of 4 million shares of our common stock at a public offering price of $7.50 per share, which was below our then current net asset value ( NAV ) per share. Gross proceeds totaled $30 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $28.3 million, which was used to repay borrowings under our Credit Facility. In connection with the offering, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3 million and net proceeds, after deducting underwriting discounts, of $2.8 million.

**NOTE 8. NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE**

The following table sets forth the computation of basic and diluted net (decrease) increase in net assets resulting from operations per common share for the years ended March 31, 2014, 2013, and 2012:

| | Year Ended March 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Numerator for basic and diluted net (decrease) increase in net assets resulting from operations per common share | **$ (1,329)** | $ 17,279 | $ 21,966 |
| Denominator for basic and diluted weighted average common shares | **26,475,958** | 24,189,148 | 22,080,133 |
| **Basic and diluted net (decrease) increase in net assets resulting from operations per common share** | **$ (0.05)** | $ 0.71 | $ 0.99 |

**NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS**

We are required to pay out as distributions 90% of our ordinary income and short-term capital gains for each taxable year in order to be taxed as a RIC under Subtitle A, Chapter 1, Subchapter M of the Code. The amount to be paid out as a distribution is determined by our Board of Directors each quarter and is based on our estimated taxable income by management. Based on that estimate, three monthly distributions are declared each quarter. For calendar years ended December 31, 2013, 2012 and 2011, 100% of our common distributions during these periods were deemed to be paid from ordinary income for 1099 shareholder reporting purposes.

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Our Board of Directors declared the following monthly distributions to common stockholders for the years ended March 31, 2014 and 2013:

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2014** | April 9, 2013 | April 22, 2013 | April 30, 2013 | **$ 0.050** |
| | April 9, 2013 | May 20, 2013 | May 31, 2013 | **0.050** |
| | April 9, 2013 | June 19, 2013 | June 28, 2013 | **0.050** |
| | July 9, 2013 | July 17, 2013 | July 31, 2013 | **0.050** |
| | July 9, 2013 | August 19, 2013 | August 30, 2013 | **0.050** |
| | July 9, 2013 | September 16, 2013 | September 30, 2013 | **0.050** |
| | October 8, 2013 | October 22, 2013 | October 31, 2013 | **0.060** |
| | October 8, 2013 | November 14, 2013 | November 29, 2013 | **0.060** |
| | October 8, 2013 | November 18, 2013 | November 29, 2013 | **0.050**[A] |
| | October 8, 2013 | December 16, 2013 | December 31, 2013 | **0.060** |
| | January 7, 2014 | January 22, 2014 | January 31, 2014 | **0.060** |
| | January 7, 2014 | February 19. 2014 | February 28, 2014 | **0.060** |
| | January 7, 2014 | March 17, 2014 | March 31, 2014 | **0.060** |
| **Year Ended March 31, 2014:** | | | | **$ 0.710** |
| **2013** | April 11, 2012 | April 20, 2012 | April 30, 2012 | $ 0.050 |
| | April 11, 2012 | May 18, 2012 | May 31, 2012 | 0.050 |
| | April 11, 2012 | June 20, 2012 | June 29, 2012 | 0.050 |
| | July 10, 2012 | July 20, 2012 | July 31, 2012 | 0.050 |
| | July 10, 2012 | August 22, 2012 | August 31, 2012 | 0.050 |
| | July 10, 2012 | September 19, 2012 | September 28, 2012 | 0.050 |
| | October 10, 2012 | October 22, 2012 | October 31, 2012 | 0.050 |
| | October 10, 2012 | November 19, 2012 | November 30, 2012 | 0.050 |
| | October 10, 2012 | December 19, 2012 | December 31, 2012 | 0.050 |
| | January 8, 2013 | January 18, 2013 | January 31, 2013 | 0.050 |
| | January 8, 2013 | February 15, 2013 | February 28, 2013 | 0.050 |
| | January 8, 2013 | March 15, 2013 | March 28, 2013 | 0.050 |
| **Year Ended March 31, 2013:** | | | | **$ 0.600** |

(A) A bonus dividend on our common stock of $0.05 per share was declared by our Board of Directors.

Aggregate common distributions declared quarterly and paid for the years ended March 31, 2014 and 2013 were $18.8 million and $14.5 million, respectively, which were declared based on estimates of net investment income for the respective fiscal years. For the fiscal years ended March 31, 2014 and 2013, taxable income available for common distributions exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $3.9 million and $3.1 million, respectively, of the first common distributions paid in fiscal year 2015 and 2014, respectively, as having been paid in the respective prior year.

The components of net assets on a tax basis were as follows:

| | Year Ended March 31, 2014 | Year Ended March 31, 2013 |
|---|---|---|
| Common stock | **$ 26** | $ 26 |
| Paid-in-capital | **287,062** | 287,713 |
| Net unrealized depreciation of investments | **(69,283)** | (40,310) |

| | | |
|---|---|---|
| Net unrealized depreciation of other | **(525)** | (883) |
| Undistributed ordinary income | **3,918** | 3,106 |
| Capital loss carryforward | **(216)** | (8,663) |
| Post October loss deferral | | |
| Other temporary differences | **(163)** | (44) |
| Other | **18** | 18 |
| **Net assets** | **$ 220,837** | $ 240,963 |

We generally intend to retain realized gains first to the extent we have available capital loss carryforwards and second, through a deemed distribution. As of March 31, 2014, we had $0.2 million of capital loss carryforwards that expire in 2018.

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For the years ended March 31, 2014 and 2013, we recorded the following adjustments for permanent book-tax differences to reflect tax character. Results of operations and net assets were not affected by this revision.

| | Tax Year Ended March 31, 2014 | Tax Year Ended March 31, 2013 |
|---|---|---|
| Undistributed net investment income | **$ 416** | $ 428 |
| Accumulated net realized gain | **235** | |
| Paid-in-capital | **(651)** | (428) |

The tax character of distributions paid by us to common stockholders is summarized as follows:

| | Tax Year Ended March 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| Distributions from ordinary income | **$ 18,797** | $ 14,547 | $ 13,579 |
| Distributions from capital gains | | | |
| Distributions from return of capital | | | |
| **Total common distributions** | **$ 18,797** | $ 14,547 | $ 13,579 |

**NOTE 10. FEDERAL AND STATE INCOME TAXES**

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

In an effort to limit certain excise taxes imposed on RICs, we generally distribute during each calendar year, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gains in excess of capital losses for preceding years that were not distributed during such years. However, we did incur an excise tax of $0.3 million, $31 and $30 for the calendar years ended December 31, 2013, 2012, and 2011, respectively. Under the RIC Modernization Act (the RIC Act ), we are permitted to carry forward capital losses incurred in taxable years beginning after March 31, 2011, for an unlimited period. However, any losses incurred during those future taxable years must be used prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than only being considered short-term as permitted under previous regulation. Our total capital loss carryforward balance was $8.7 million as of March 31, 2013, and, primarily as a result of the net $8.2 million capital gain related to the Venyu, ASH, Packerland and Noble exits or partial exits and other tax realized loss adjustments during the year ended March 31, 2014, we anticipate that when we file taxes for the fiscal year ended March 31, 2014 we expect that all but $0.2 million in realized losses incurred in pre-enactment taxable years will be utilized during the fiscal year ended March 31, 2014.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

As of March 31, 2014, we have lines of credit commitments to certain of our portfolio companies that have not been fully drawn. Since these lines of credit have expiration dates and we expect many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent future cash requirements.

In addition to the lines of credit to certain portfolio companies, we have also extended certain guarantees on behalf of some of our portfolio companies. As of March 31, 2014, we have not been required to make any payments on the guarantees discussed below, and we consider the credit risk to be remote and the fair values of the guarantees to be minimal.

In October 2008, we executed a guarantee of a vehicle finance facility agreement (the Ford Finance Facility ) between Ford Motor Credit Company ( Ford ) and ASH. The Ford Finance Facility provides ASH with a line of credit of up to $0.5 million for component Ford parts used by ASH to build truck bodies under a separate contract. Ford retains title and ownership of the parts. The guarantee of the Ford Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of us as guarantor. In connection with this guarantee, we received a premium of $20 from ASH.

In February 2010, we executed a guarantee of a wholesale financing facility agreement (the Floor Plan Facility ) between Agricredit Acceptance, LLC ( Agricredit ) and Country Club Enterprises, LLC ( CCE ). The Floor Plan Facility provides CCE with financing of up to $2 million to bridge the time and cash flow gap between the order and delivery of golf carts to customers. The guarantee was renewed in February 2012, 2013 and 2014 and will expire in February 2015, unless it is renewed again by us, CCE and Agricredit. In connection with this guarantee and its subsequent renewals, we recorded aggregate premiums of $0.4 million from CCE.

In April 2010, we executed a guarantee of vendor recourse for up to $2 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 million on transactions with long-time customers who lack the financial history to qualify for third-party financing. The terms to maturity of these individual transactions range from October 2014 to October 2016. In connection with this guarantee, we received aggregate premiums of $0.1 million from CCE.

In October 2013, we executed a guarantee of a vehicle finance facility agreement (the Compass Finance Facility ) between Compass Bank and ASH. The Compass Finance Facility provides ASH with a line of credit of up to $0.3 million for component Ram parts used by ASH to build truck bodies under a separate contract. The guarantee will expire upon maturity of the Compass Finance Facility on October 16, 2014. In connection with this guarantee, we received a premium of $10 from ASH.

The following table summarizes the dollar balance of unused line of credit commitments and guarantees as of March 31, 2014 and 2013:

| | As of March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Unused line of credit commitments | **$ 6,684** | $ 1,584 |
| Guarantees | **3,628** | 3,870 |
| Total | **$ 10,312** | $ 5,454 |

*Escrow Holdbacks*

From time to time, we will enter into arrangements relating to exits of certain investments whereby specific amounts of the proceeds are held in escrow to be used to satisfy potential obligations, as stipulated in the sales agreements. We record escrow amounts in restricted cash on our accompanying *Consolidated Statements of Assets and Liabilities*. In August 2013, the sale of Venyu resulted in $4.9 million in escrow amounts, of which $0.6 million is held on behalf of the other sellers. The $0.6 million amount held on behalf of the other sellers is recorded in other liabilities on our accompanying *Consolidated Statements of Assets and Liabilities*. We establish a contingent liability against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liability recorded against the escrow amounts was $35 and $41 as of March 31, 2014 and 2013, respectively.

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**NOTE 12. FINANCIAL HIGHLIGHTS**

| | Year Ended March 31, 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Per Common Share Data:** | | | | | |
| Net asset value at beginning of year [A] | **$ 9.10** | $ 9.38 | $ 9.00 | $ 8.74 | $ 9.73 |
| *Income from investment operations*[B] | | | | | |
| Net investment income | **0.73** | 0.68 | 0.62 | 0.73 | 0.48 |
| Net realized gain (loss) on investments and other | **0.31** | 0.03 | 0.23 | 1.06 | (1.63) |
| Net unrealized (depreciation) appreciation on investments and Other | **(1.09)** | | 0.14 | (1.05) | 0.65 |
| Total from investment operations | **(0.05)** | 0.71 | 0.99 | 0.74 | (0.50) |
| *Effect of equity capital activity* | | | | | |
| Cash distributions to common stockholders from net investment income[C] | **(0.71)** | (0.60) | (0.61) | (0.48) | (0.48) |
| Shelf registration offering costs | | (0.08) | | | (0.01) |
| Net dilutive effect of equity offering[D] | | (0.31) | | | |
| Total from equity capital activity | **(0.71)** | (0.99) | (0.61) | (0.48) | (0.49) |
| Net asset value at end of year[A] | **$ 8.34** | $ 9.10 | $ 9.38 | $ 9.00 | $ 8.74 |
| Per common share market value at beginning of year | **$ 7.31** | $ 7.57 | $ 7.79 | $ 6.01 | $ 3.67 |
| Per common share market value at end of year | **8.27** | 7.31 | 7.57 | 7.76 | 5.98 |
| Total return[E] | **24.26%** | 4.73% | 5.58% | 38.56% | 79.80% |
| Common stock outstanding at end of year[A] | **26,475,958** | 26,475,958 | 22,080,133 | 22,080,133 | 22,080,133 |
| **Statement of Assets and Liabilities Data:** | | | | | |
| Net assets at end of year | **$ 220,837** | $ 240,963 | $ 207,216 | $ 198,829 | $ 192,978 |
| Average net assets[F] | **231,356** | 216,751 | 204,595 | 192,893 | 191,112 |
| **Senior Securities Data:** | | | | | |
| Total borrowings at cost | **$ 66,250** | $ 94,016 | $ 76,005 | $ 40,000 | $ 102,812 |
| Mandatorily redeemable preferred stock | **40,000** | 40,000 | 40,000 | | |
| Asset coverage ratio[G] | **298%** | 272% | 268% | 534% | 281% |
| Average coverage per unit[H] | **$ 2,978** | $ 2,725 | $ 2,676 | $ 5,344 | $ 2,814 |
| **Ratios/Supplemental Data:** | | | | | |
| Ratio of expenses to average net assets[I][M] | **10.20%** | 8.81% | 5.71% | 6.90% | 7.72% |
| Ratio of net expenses to average net assets[J][K] | **7.33** | 6.48 | 3.67 | 5.13 | 5.33 |
| Ratio of net investment income to average net assets[L] | **8.35** | 7.61 | 6.72 | 8.38 | 5.55 |

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

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

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

(D) In fiscal year ended March 31, 2013, the dilution is the result of issuing common shares at a price below then current NAV.

(E) Total return equals the change in the market value of our common stock from the beginning of the year, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders*.

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

(G)

As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock. Our mandatorily redeemable preferred stock is a senior security that is stock.

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

(I) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.

(J) Ratio of net expenses to average net assets is computed using total expenses net of credits to the management fee.

(K) Had we not received any voluntary waivers of fees due to the Adviser, the ratio of net expenses to average net assets would have been 7.33 %, 6.58%, 3.69%, 5.14%, and 5.54% for the fiscal years ended March 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(L) Had we not received any voluntary waivers of fees due to the Adviser, the ratio of net investment income to average net assets would have been 8.35%, 7.50%, 6.69%, 8.38%, and 5.34% for the fiscal years ended March 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(M) The ratio of expenses to average net assets for the fiscal years ended March 31, 2014, 2013, 2012, 2011, and 2010 were revised from the previously reported ratios, which were 8.33%, 7.09%, 4.23%, 5.48%, and 5.76%, respectively, to correct an error as discussed in footnote 2.

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**NOTE 13. SELECTED QUARTERLY DATA (UNAUDITED)**

| | Quarter Ended | | | |
|---|---|---|---|---|
| **Fiscal Year 2014** | **June 30, 2013** | **September 30, 2013** | **December 31, 2013** | **March 31, 2014** |
| Total investment income | $ 7,398 | $ 11,359 | $ 8,696 | $ 8,811 |
| Net investment income | 4,033 | 6,228 | 4,402 | 4,644 |
| Net (decrease) increase in net assets resulting from operations | (6,519) | 14,939 | (10,686) | 937 |
| Net (decrease) increase in net assets resulting from operations per weighted average common share basic & diluted | $ (0.25) | $ 0.57 | $ (0.40) | $ 0.03 |

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

**NOTE 14. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES**

In accordance with the SEC s Regulation S-X, we have subsidiaries that are not required to be consolidated. We have an unconsolidated subsidiary, Venyu, as of March 31, 2013 and for the years ended March 31, 2014 and 2013, that meets at least one of the significance conditions under Rule 1-02(w) of the SEC s Regulation S-X. Accordingly, summarized, comparative financial information is presented below for Venyu, which is a leader in commercial-grade, customizable solutions for data protection, data hosting, and disaster recovery.

| **Income Statement** | **For the Five Months Ended August 30, 2013[(A)]** | **For the Year Ended March 31, 2013** | **For the Year Ended March 31, 2012** |
|---|---|---|---|
| Net sales | $ **10,120** | $ 23,905 | $ 23,635 |
| Gross profit | **5,254** | 12,861 | 9,987 |
| Net loss | **(294)** | (329) | (5,300) |

| **Balance Sheet** | **As of March 31, 2013** |
|---|---|
| Current assets | $ 6,382 |
| Noncurrent assets | 31,092 |
| Current liabilities | 2,235 |
| Noncurrent liabilities | 32,966 |

(A) Venyu was exited in August 2013 and is no longer in our portfolio as of March 31, 2014. Rule 4-08(g) information is being provided herein in lieu of Rule 3-09 separate financial statements pursuant to relief provided by the Staff of the SEC s Office of Chief Accountant in the Division of Investment Management.

**NOTE 15. SUBSEQUENT EVENTS**

*New Portfolio Activity*

In May 2014, NDLI completed the purchase of certain of Noble s assets out of bankruptcy. The resulting entity assumed the name Noble Distribution & Logistics Inc. and will be listed as one portfolio company on our *Consolidated Schedules of Investments* beginning with the three months ending June 30, 2014.

*Distributions*

On April 8, 2014, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

| Record Date | Payment Date | Distribution per Common Share | Distribution per Term Preferred Share |
|---|---|---|---|
| April 21, 2014 | April 30, 2014 | **$ 0.06** | **$ 0.1484375** |
| May 20, 2014 | May 30, 2014 | **0.06** | **0.1484375** |
| June 19, 2014 | June 30, 2014 | **0.06** | **0.1484375** |
| **Total for the Quarter:** | | **$ 0.18** | **$ 0.4453125** |

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**SCHEDULE 12-14**

**GLADSTONE INVESTMENT CORPORATION**

**INVESTMENTS IN AND ADVANCES TO AFFILIATES**

**(AMOUNTS IN THOUSANDS)**

| Name of Issuer(A) | Title of Issue or Nature of Indebtedness(B) | Amount of Dividends or Interest Credited to Income(C) | Value as of March 31, 2013 | Gross Additions(D) | Gross Reductions(E) | Value as of March 31, 2014 |
|---|---|---|---|---|---|---|
| **CONTROL INVESTMENTS** | | | | | | |
| Galaxy Tool Holding Corp. | Senior Subordinated Term Debt | $ 2,124 | $ 15,520 | $ | $ | $ 15,520 |
| | Preferred Stock | | 5,356 | 3,280 | (5,644) | 2,992 |
| | Common Stock | | | | | |
| | | 2,124 | 20,876 | 3,280 | (3,644) | 18,512 |
| NDLI Acquisition Inc. | Preferred Stock | | | 2,600 | (8) | 2,592 |
| | Common Stock | | | | | |
| | | | | 2,600 | (8) | 2,592 |
| Venyu Solutions, Inc. | Senior Subordinated Term Debt | 330 | 7,000 | | (7,000) | |
| | Senior Subordinated Term Debt | 705 | 12,000 | | (12,000) | |
| | Preferred Stock | 1,465 | 24,970 | | (24,970) | |
| | | 2,500 | 43,970 | | (43,970) | |
| **TOTAL CONTROL INVESTMENTS** | | **$ 4,624** | **$ 64,846** | **$ 5,880** | **$ (49,622)** | **$ 21,104** |
| **AFFILIATE INVESTMENTS** | | | | | | |
| Behrens Manufacturing, LLC | Senior Term Debt | 382 | | 9,975 | | 9,975 |
| | Preferred Stock | | | 2,923 | (169) | 2,754 |
| | | 382 | | 12,898 | (168) | 12,729 |
| Channel Technologies Group, LLC | Revolving Credit Facility | 5 | 1,248 | | (1,248) | |
| | Senior Term Debt | 257 | 5,589 | | (5,589) | |
| | Senior Term Debt | 706 | 10,737 | | (10,737) | |
| | Preferred Stock | | 275 | 2,847 | | 3,122 |
| | Common Stock | | | | | |
| | | 968 | 17,849 | 2,847 | (17,574) | 3,122 |
| Danco Acquisition Corp. | Revolving Credit Facility | 123 | 717 | 603 | (630) | 690 |
| | Senior Term Debt | 105 | 644 | 26 | (155) | 515 |
| | Senior Term Debt | 357 | 2,199 | 88 | (528) | 1,759 |
| | Senior Term Debt | 58 | 287 | 12 | (63) | 236 |
| | Preferred Stock | | | | | |
| | Common Stock Warrants | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | 643 | 3,847 | 729 | (1,376) | 3,200 |
| Edge Adhesives Holdings, Inc. | Revolving Credit Facility | 9 | | 795 | | 795 |
| | Senior Term Debt | 103 | | 9,300 | | 9,300 |
| | Senior Subordinated Term Debt | 29 | | 2,400 | | 2,400 |
| | Preferred Stock | | | 3,474 | | 3,474 |
| | | 141 | | 15,969 | | 15,969 |
| Head Country Food Products, Inc. | Revolving Credit Facility | 1 | | | | |
| | Senior Term Debt | 145 | | 9,050 | | 9,050 |
| | Preferred Stock | | | 4,000 | | 4,000 |
| | | 146 | | 13,050 | | 13,050 |
| Meridian Rack & Pinion, Inc. | Senior Term Debt | 344 | | 9,672 | | 9,672 |
| | Preferred Stock | | | 3,468 | | 3,468 |
| | | 344 | | 13,140 | | 13,140 |
| Packerland Whey Products, Inc. | Preferred Stock | | 367 | | (367) | |
| | Common Stock | | | | | |
| | | | 367 | | (367) | |
| SOG Specialty Knives and Tools, LLC | Senior Term Debt | 833 | 6,200 | | | 6,200 |
| | Senior Term Debt | 1,824 | 12,199 | | | 12,199 |
| | Preferred Stock | | 11,423 | 3,140 | (6,323) | 8,240 |
| | | 2,657 | 29,822 | 3,140 | (6,323) | 26,639 |
| Tread Corp. | Revolving Credit Facility [(F)] | $ | $ | $ 1,830 | $ (1,830) | $ |
| | Senior Subordinated Term Debt [(F)] | | | | | |
| | Senior Subordinated Term Debt [(F)] | | | | | |
| | Preferred Stock | | | | | |
| | Common Stock | | | | | |
| | Common Stock Warrants | | | | | |
| | | | | 1,830 | (1,830) | |
| **TOTAL AFFILIATE INVESTMENTS** | | **$ 5,281** | **$ 51,885** | **$ 63,603** | **$ (27,639)** | **$ 87,849** |

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

(B) Common stock, warrants, options and, in some cases, preferred stock are generally non-income-producing and restricted. The principal amount of debt and the number of shares of common stock and preferred stock are shown in the Consolidated Schedules of Investments as of March 31, 2014.

(C) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was a control investment or affiliate investment, as appropriate.

(D) Gross additions include increases in investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or decreases in unrealized depreciation.

(E) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales, the amortization of premiums and acquisition costs and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or decreases in unrealized appreciation.

(F) Debt security is on non-accrual status and, therefore, is considered non-income producing

** Information related to the amount of equity in the net profit and loss for the period for the investments listed has not been included in this schedule. This information is not considered to be meaningful due to the complex capital structures of the portfolio companies, with different classes of equity securities outstanding with different preferences in liquidation. These investments are not consolidated, nor are they accounted for under the equity method of accounting.

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

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

**(UNAUDITED)**

| | **June 30, 2014** | March 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| Investments at fair value | | |
| Non-Control/Non-Affiliate investments (Cost of **$202,717** and $233,895, respectively) | **$ 189,309** | $ 205,440 |
| Affiliate investments (Cost of **$155,767** and $120,010, respectively) | **110,337** | 87,849 |
| Control investments (Cost of **$27,032** and $29,632 respectively) | **22,186** | 21,104 |
| Total investments at fair value (Cost of **$385,516** and $383,537, respectively) | **321,832** | 314,393 |
| Cash | **3,772** | 4,553 |
| Restricted cash | **5,315** | 5,314 |
| Interest receivable | **1,651** | 1,289 |
| Due from custodian | **1,092** | 1,704 |
| Deferred financing costs | **2,600** | 2,355 |
| Other assets | **2,164** | 1,086 |
| Total assets | **$ 338,426** | $ 330,694 |
| **LIABILITIES** | | |
| Borrowings: | | |
| Line of credit at fair value (Cost of **$62,950** and $61,250, respectively) | **$ 62,950** | $ 61,701 |
| Secured borrowing | **5,096** | 5,000 |
| Total borrowings | **68,046** | 66,701 |
| Mandatorily redeemable preferred stock, $0.001 par value, $25 liquidation preference; 1,610,000 shares authorized, **1,600,000** shares issued and outstanding as of June 30 and March 31, 2014 | **40,000** | 40,000 |
| Accounts payable and accrued expenses | **664** | 665 |
| Fees due to Adviser(A) | **1,647** | 1,225 |
| Fee due to Administrator(A) | **235** | 224 |
| Other liabilities | **993** | 1,042 |
| Total liabilities | **111,585** | 109,857 |
| Commitments and contingencies(B) | | |
| **NET ASSETS** | | |
| Common stock, $0.001 par value per share, 100,000,000 shares authorized, **26,475,958** shares issued and outstanding as of June 30 and March 31, 2014, respectively | **$ 26** | $ 26 |
| Capital in excess of par value | **286,964** | 287,062 |
| Cumulative net unrealized depreciation of investments | **(63,684)** | (69,144) |
| Cumulative net unrealized depreciation of other | **(74)** | (525) |
| Net investment income in excess of distributions | **3,807** | 3,616 |
| Accumulated net realized loss | **(198)** | (198) |
| Total net assets | **226,841** | 220,837 |

| | | |
|---|---|---|
| Total liabilities and net assets | **$ 338,426** | $ 330,694 |
| **NET ASSET VALUE PER SHARE AT END OF PERIOD** | **$ 8.57** | $ 8.34 |

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

(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

*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 PER SHARE AMOUNTS)**

**(UNAUDITED)**

| | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| **INVESTMENT INCOME** | | |
| Interest income: | | |
| Non-Control/Non-Affiliate investments | **$ 5,257** | $ 4,677 |
| Affiliate investments | **2,616** | 458 |
| Control investments | **530** | 2,046 |
| Cash and cash equivalents | **1** | 1 |
| Total interest income | **8,404** | 7,182 |
| Other income: | | |
| Non-Control/Non-Affiliate investments | **1,399** | 216 |
| Affiliate investments | **34** | |
| Total other income | **1,433** | 216 |
| Total investment income | **9,837** | 7,398 |
| **EXPENSES** | | |
| Base management fee(A) | **1,666** | 1,549 |
| Loan servicing fee(A) | **1,135** | 1,024 |
| Incentive fee(A) | **1,215** | 165 |
| Administration fee(A) | **235** | 243 |
| Interest expense on borrowings | **738** | 477 |
| Dividends on mandatorily redeemable preferred stock | **713** | 713 |
| Amortization of deferred financing costs | **254** | 244 |
| Professional fees | **242** | 120 |
| Other general and administrative expenses | **297** | 365 |
| Expenses before credits from Adviser | **6,495** | 4,900 |
| Credit of loan servicing fee(A) | **(1,135)** | (1,024) |
| Other credits to fee(A) | **(382)** | (511) |
| Total expenses net of credits to fees | **4,978** | 3,365 |
| **NET INVESTMENT INCOME** | **$ 4,859** | $ 4,033 |
| **UNREALIZED GAIN (LOSS)** | | |
| Net unrealized appreciation (depreciation): | | |
| Non-Control/Non-Affiliate investments | **445** | (8,837) |
| Affiliate investments | **1,342** | (4,232) |
| Control investments | **3,673** | 1,663 |
| Other | **451** | 854 |

| | | | | |
|---|---|---|---|---|
| Total net unrealized appreciation (depreciation) | | **5,911** | | (10,552) |
| **NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS** | **$** | **10,770** | $ | (6,519) |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | | |
| Net investment income | **$** | **0.18** | $ | 0.15 |
| Net increase (decrease) in net assets resulting from operations | **$** | **0.41** | $ | (0.25) |
| Dividends declared and paid | **$** | **0.18** | $ | 0.15 |
| **WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:** | | | | |
| Basic and diluted | | **26,475,958** | | 26,475,958 |

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

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 |
|---|---|---|
| OPERATIONS: | | |
| Net investment income | **$ 4,859** | $ 4,033 |
| Net unrealized appreciation (depreciation) of investments | **5,460** | (11,406) |
| Net unrealized appreciation of other | **451** | 854 |
| Net increase (decrease) in net assets from operations | **10,770** | (6,519) |
| DISTRIBUTIONS TO COMMON STOCKHOLDERS: | **(4,766)** | (3,972) |
| Total increase (decrease) in net assets | **6,004** | (10,491) |
| Net assets at beginning of period | **220,837** | 240,963 |
| Net assets at end of period | **$ 226,841** | $ 230,472 |

*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**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net increase (decrease) in net assets resulting from operations | **$ 10,770** | $ (6,519) |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities: | | |
| Purchase of investments | **(2,010)** | (35,590) |
| Principal repayments of investments | **60** | 2,340 |
| Increase in investment balance due to paid in kind interest | **(29)** | (1) |
| Net unrealized (appreciation) depreciation of investments | **(5,460)** | 11,406 |
| Net unrealized appreciation of other | **(451)** | (854) |
| Amortization of deferred financing costs | **254** | 244 |
| Increase in restricted cash | **(1)** | |
| Increase in interest receivable | **(362)** | (360) |
| Decrease (increase) in due from custodian | **612** | (1) |
| (Increase) decrease in other assets | **(1,078)** | 451 |
| (Decrease) increase in accounts payable and accrued expenses | **(48)** | 89 |
| Increase (decrease) in fees due to Adviser[(A)] | **422** | (1,620) |
| Increase in administration fee due to Administrator[(A)] | **11** | 22 |
| Decrease in other liabilities | **(49)** | (56) |
| Net cash provided by (used in) operating activities | **2,641** | (30,449) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from short-term loans | | 26,009 |
| Repayments on short-term loans | | (58,016) |
| Proceeds from line of credit | **6,300** | 28,500 |
| Repayments on line of credit | **(4,600)** | (10,500) |
| Proceeds from secured borrowing | **96** | |
| Payment of deferred financing costs | **(452)** | (978) |
| Distributions paid to common stockholders | **(4,766)** | (3,972) |
| Net cash used in financing activities | **(3,422)** | (18,957) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(781)** | (49,406) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | **4,553** | 85,904 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **$ 3,772** | $ 36,498 |

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

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2014**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(K):** | | | | | |
| Acme Cryogenics, Inc. | Chemicals, Plastics, and Rubber | Senior Subordinated Term Debt (11.5%, Due 3/2015)(I) | $ 14,500 | $ 14,500 | $ 14,500 |
| | | Preferred Stock (898,814 shares)(C)(F) | | 6,984 | 12,396 |
| | | Common Stock (418,072 shares)(C)(F) | | 1,045 | 426 |
| | | Common Stock Warrants (465,639 shares)(C)(F) | | 25 | |
| | | | | 22,554 | 27,322 |
| Auto Safety House, LLC | Automobile | Revolving Credit Facility, $1,000 available (7.0%, Due 10/2018)(D)(I) | 5,000 | 5,000 | 4,919 |
| | | Guaranty ($500)(J) | | | |
| | | Guaranty ($250)(J) | | | |
| | | | | 5,000 | 4,919 |
| B-Dry, LLC | Buildings and Real Estate | Line of Credit, $0 available (6.5%, Due 5/2015)(D) | 750 | 750 | 563 |
| | | Senior Term Debt (13.5%, Due 5/2015)(D) | 6,433 | 6,443 | 4,864 |
| | | Senior Term Debt (13.5%, Due 5/2015)(D) | 2,840 | 2,840 | 2,137 |
| | | Common Stock Warrants (85 shares)(C)(F) | | 300 | |
| | | | | 10,333 | 7,564 |
| Cavert II Holding Corp. | Containers, Packaging, and Glass | Preferred Stock (18,446 shares)(C)(F) | | 1,845 | 3,081 |
| | | | | 1,845 | 3,081 |
| Country Club Enterprises, LLC | Automobile | Senior Subordinated Term Debt (18.6%, Due 11/2014) | 4,000 | 4,000 | 4,000 |
| | | Preferred Stock (7,079,792 shares)(C)(F) | | 7,725 | 3,515 |
| | | Guaranty ($2,000) | | | |
| | | Guaranty ($831) | | | |
| | | | | 11,725 | 7,515 |
| Drew Foam Company, Inc. | Chemicals, Plastics, and Rubber | Senior Term Debt (13.5%, Due 8/2017) | 10,913 | 10,913 | 10,913 |
| | | Preferred Stock (34,045 shares)(C)(F) | | 3,375 | 2,107 |
| | | Common Stock (5,372 shares)(C)(F) | | 63 | |
| | | | | 14,351 | 13,020 |
| Frontier Packaging, Inc. | Containers, Packaging, and Glass | Senior Term Debt (12.0%, Due 12/2017) | 12,500 | 12,500 | 12,500 |
| | | Preferred Stock (1,373 shares)(C)(F) | | 1,373 | 1,551 |
| | | Common Stock (152 shares)(C)(F) | | 152 | 108 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 14,025 | 14,159 |
| Funko, LLC | Personal and Non-Durable Consumer Products (Manufacturing Only) | Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019)(D) | 7,616 | 7,616 | 7,768 |
| | | Preferred Stock (1,305 shares)(C)(F) | | 1,305 | 2,596 |
| | | | | 8,921 | 10,364 |
| Ginsey Home Solutions, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Senior Subordinate Term Debt (13.5%, Due 1/2018) (H) | 13,300 | 13,300 | 13,300 |
| | | Preferred Stock (18,898 shares)(C)(F) | | 9,583 | 1,019 |
| | | Common Stock (63,747 shares)(C)(F) | | 8 | |
| | | | | 22,891 | 14,319 |
| Jackrabbit, Inc. | Farming and Agriculture | Senior Term Debt (13.5%, Due 4/2018) | 11,000 | 11,000 | 11,000 |
| | | Preferred Stock (3,556 shares)(C)(F) | | 3,556 | 3,908 |
| | | Common Stock (548 shares)(C)(F) | | 94 | 2,054 |
| | | | | 14,650 | 16,962 |
| Mathey Investments, Inc. | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (10.0%, Due 3/2016) | 1,375 | 1,375 | 1,375 |
| | | Senior Term Debt (12.0%, Due 3/2016) | 3,727 | 3,727 | 3,727 |
| | | Senior Term Debt (12.5%, Due 3/2016)(E)(I) | 3,500 | 3,500 | 3,500 |
| | | Common Stock (29,102 shares)(C)(F) | | 777 | 5,576 |
| | | | | 9,379 | 14,178 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**June 30, 2014**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Mitchell Rubber Products, Inc. | Chemicals, Plastics, and Rubber | Subordinated Term Debt (13.0%, Due 10/2016)(D)(I) | $ 13,560 | $ 13,560 | $ 12,882 |
| | | Preferred Stock (27,900 shares)(C)(F) | | 2,790 | |
| | | Common Stock (27,900 shares)(C)(F) | | 28 | |
| | | | | 16,378 | 12,882 |
| Precision Southeast, Inc. | Diversified/Conglomerate Manufacturing | Senior Term Debt (14.0%, Due 12/2015) | 5,617 | 5,617 | 5,617 |
| | | Preferred Stock (19,091 shares)(C)(F) | | 1,909 | 134 |
| | | Common Stock (90,909 shares)(C)(F) | | 91 | |
| | | | | 7,617 | 5,751 |
| Quench Holdings Corp. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Common Stock (4,770,392 shares)(C)(F) | | 3,397 | 4,753 |
| | | | | 3,397 | 4,753 |
| SBS, Industries, LLC | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (14.0%, Due 8/2016) | 11,355 | 11,355 | 11,355 |
| | | Preferred Stock (19,935 shares)(C)(F) | | 1,994 | 584 |
| | | Common Stock (221,500 shares)(C)(F) | | 221 | |
| | | | | 13,570 | 11,939 |
| Schylling Investments, LLC | Leisure, Amusement, Motion Pictures, Entertainment | Senior Term Debt (13.0%, Due 8/2017) | 13,081 | 13,081 | 13,081 |
| | | Preferred Stock (4,000 shares) (C)(F) | | 4,000 | |
| | | | | 17,081 | 13,081 |
| Star Seed, Inc. | Farming and Agriculture | Senior Term Debt (12.5%, Due 4/2018) | 7,500 | 7,500 | 7,500 |
| | | Preferred Stock (1,499 shares)(C)(F) | | 1,499 | |
| | | Common Stock (600 shares)(C)(F) | | 1 | |
| | | | | 9,000 | 7,500 |
| **Total Non-Control/Non-Affiliate Investments (represents 58.8% of total investments at fair value)** | | | | **$ 202,717** | **$ 189,309** |
| **AFFILIATE INVESTMENTS(L):** | | | | | |
| | | Senior Term Debt (13.5%, Due 10/2018)(D) | $ 12,215 | $ 12,215 | $ 12,230 |

| | | | | | |
|---|---|---|---|---|---|
| Alloy Die Casting Corp. | Diversified/Conglomerate Manufacturing | | | | |
| | | Preferred Stock (4,064 shares)(C)(F) | | 4,064 | 906 |
| | | Common Stock (630 share)(C)(F) | | 41 | |
| | | | | 16,320 | 13,136 |
| Behrens Manufacturing, LLC | Diversified/Conglomerate Manufacturing | Senior Term Debt (13.0%, Due 12/2018) | 9,975 | 9,975 | 9,975 |
| | | Preferred Stock (2,923 shares) (C)(F) | | 2,922 | 3,232 |
| | | | | 12,897 | 13,207 |
| Channel Technologies Group, LLC | Diversified/Conglomerate Manufacturing | Preferred Stock (2,279 shares)(C)(F) | | 2,864 | 2,353 |
| | | Common Stock (2,279,020 shares)(C)(F) | | | |
| | | | | 2,864 | 2,353 |
| Danco Acquisition Corp. | Diversified/Conglomerate Manufacturing | Line of Credit, $500 available (4.0%, Due 8/2015)(D) | 3,850 | 3,850 | 578 |
| | | Senior Term Debt (4.0%, Due 8/2015)(D) | 2,575 | 2,575 | 386 |
| | | Senior Term Debt (4.0%, Due 8/2015)(D) | 8,795 | 8,795 | 1,319 |
| | | Senior Term Debt (5.0%, Due 8/2015)(D)(E) | 1,150 | 1,150 | 173 |
| | | Preferred Stock (25 shares)(C)(F) | | 2,500 | |
| | | Common Stock (1,241 shares)(C)(F) | | 3 | |
| | | | | 18,873 | 2,456 |
| Edge Adhesives Holdings, Inc. | Diversified/Conglomerate Manufacturing | Line of Credit, $345 available (10.5%, Due 8/2014) (D) | 1,155 | 1,155 | 1,156 |
| | | Senior Term Debt (12.5%, Due 2/2019) (D) | 9,300 | 9,300 | 9,335 |
| | | Senior Subordinated Term Debt (13.75%, Due 2/2019) (D) | 2,400 | 2,400 | 2,412 |
| | | Preferred Stock (3,474 shares) (C)(F) | | 3,474 | 4,192 |
| | | | | 16,329 | 17,095 |
| Head Country Food Products, Inc. | Beverage, Food and Tobacco | Line of Credit, $500 available (10.0%, Due 8/2014) | | | |
| | | Senior Term Debt (12.5%, Due 2/2019) | 9,050 | 9,050 | 9,050 |
| | | Preferred Stock (4,000 shares)(C)(F) | | 4,000 | 2,156 |
| | | | | 13,050 | 11,206 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**June 30, 2014**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company[A] | Industry | Investment[B] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Meridian Rack & Pinion, Inc. | Automobile | Senior Term Debt (13.5%, Due 12/2018) [D] | $ 9,660 | $ 9,660 | $ 9,684 |
| | | Preferred Stock (3,381 shares) [C][F] | | 3,381 | 3,552 |
| | | | | 13,041 | 13,236 |
| NDLI Inc. | Cargo Transport | Line of Credit, $0 available (10.5%, Due 1/2015)[D] | 800 | 800 | 640 |
| | | Senior Term Debt (11.0%, Due 1/2015)[D] | 7,227 | 7,227 | 5,782 |
| | | Senior Term Debt (10.5%, Due 1/2015)[D] | 3,650 | 3,650 | 2,920 |
| | | Senior Term Debt (10.5%, Due 1/2015)[D][E] | 3,650 | 3,650 | 2,920 |
| | | Preferred Stock (2,600 shares)[C][F] | | 2,600 | |
| | | Common Stock (545 shares)[C][F] | | | |
| | | | | 17,927 | 12,262 |
| SOG Specialty K&T, LLC | Leisure, Amusement, Motion Pictures, Entertainment | Senior Term Debt (13.3%, Due 10/2017) | 6,200 | 6,200 | 6,200 |
| | | Senior Term Debt (14.8%, Due 10/2017) | 12,199 | 12,199 | 12,199 |
| | | Preferred Stock (9,749 shares)[C][F] | | 9,749 | 6,987 |
| | | | | 28,148 | 25,386 |
| Tread Corp. | Oil and Gas | Line of Credit, $29 available (12.5%, Due 2/2015)[G][I] | 3,221 | 3,221 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)[G][I] | 5,000 | 5,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)[G][I] | 2,750 | 2,750 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)[G][I] | 1,000 | 1,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due on Demand)[G][I] | 510 | 510 | |
| | | Preferred Stock (3,332,765 shares)[C][F] | | 3,333 | |
| | | Common Stock (7,716,320 shares)[C][F] | | 501 | |
| | | Common Stock Warrants (2,372,727 shares)[C][F] | | 3 | |
| | | | | 16,318 | |
| **Total Affiliate Investments (represents 34.3% of total investments at fair value)** | | | | **$ 155,767** | **$ 110,337** |
| **CONTROL INVESTMENTS[M]:** | | | | | |
| Galaxy Tool Holding Corp. | Aerospace and Defense | Senior Subordinated Term Debt (13.5%, Due 8/2017) | $ 15,520 | $ 15,520 | $ 15,520 |
| | | Preferred Stock (6,039,387 shares)[C][F] | | 11,464 | 6,666 |
| | | Common Stock (88,843 shares)[C][F] | | 48 | |
| **Total Control Investments (represents 6.9% of total investments at fair value)** | | | | **$ 27,032** | **$ 22,186** |
| | | | | **$ 385,516** | **$ 321,832** |

**TOTAL INVESTMENTS**

(A) Certain of the securities listed above are issued by affiliate(s) of the indicated portfolio company.
(B) Percentages represent the weighted average cash interest rates in effect at June 30, 2014, and due date represents the contractual maturity date. Unless indicated otherwise, all cash interest rates are indexed to 30-day LIBOR. If applicable, paid-in-kind ( PIK ) interest rates are noted separately from the cash interest rates.
(C) Security is non-income producing.
(D) Fair value was based on an internal yield analysis or on estimates of value submitted by Standard & Poor s Securities Evaluations, Inc.
(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 but before the senior subordinated debt.
(F) Where applicable, aggregates all shares of such class of stock owned without regard to specific series owned within such class (some series of which may or may not be voting shares) or aggregates all warrants to purchase shares of such class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.
(G) Debt security is on non-accrual status.
(H) $5.1 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for accounting principles generally accepted in the U.S. ( GAAP ) purposes.
(I) Debt security has a fixed interest rate.
(J) Subsequent to June 30, 2014, the guarantee was extinguished.
(K) Non-Control/Non-Affiliate investments, as defined by the Investment Company Act of 1940, as amended, (the 1940 Act ), are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.
(L) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.
(M) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS**

**MARCH 31, 2014**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(L):** | | | | | |
| Acme Cryogenics, Inc. | Chemicals, Plastics, and Rubber | Senior Subordinated Term Debt (11.5%, Due 3/2015)(K) | $ 14,500 | $ 14,500 | $ 14,500 |
| | | Preferred Stock (898,814 shares)(C)(F) | | 6,984 | 11,276 |
| | | Common Stock (418,072 shares)(C)(F) | | 1,045 | |
| | | Common Stock Warrants (465,639 shares)(C)(F) | | 25 | |
| | | | | 22,554 | 25,776 |
| Alloy Die Casting Corp. | Diversified/Conglomerate Manufacturing | Senior Term Debt (13.5%, Due 10/2018)(D) | 12,215 | 12,215 | 12,2611 |
| | | Preferred Stock (4,064 shares)(C)(F) | | 4,064 | 1,948 |
| | | Common Stock (630 share)(C)(F) | | 41 | |
| | | | | 16,320 | 14,209 |
| Auto Safety House, LLC | Automobile | Revolving Credit Facility, $1,000 available (7.0%, Due 10/2018)(D)(K) | 5,000 | 5,000 | 4,925 |
| | | Guaranty ($500) | | | |
| | | Guaranty ($250) | | | |
| | | | | 5,000 | 4,925 |
| B-Dry, LLC | Buildings and Real Estate | Line of Credit, $0 available (6.5%, Due 5/2014) | 750 | 750 | 566 |
| | | Senior Term Debt (13.5%, Due 5/2014) | 6,433 | 6,443 | 4,865 |
| | | Senior Term Debt (13.5%, Due 5/2014) | 2,840 | 2,840 | 2,144 |
| | | Common Stock Warrants (85 shares)(C)(F) | | 300 | |
| | | | | 10,333 | 7,575 |
| Cavert II Holding Corp. | Containers, Packaging, and Glass | Preferred Stock (18,446 shares)(C)(F) | | 1,845 | 3,023 |
| | | | | 1,845 | 3,023 |
| Country Club Enterprises, LLC | Automobile | Senior Subordinated Term Debt (18.6%, Due 11/2014) | 4,000 | 4,000 | 4,000 |
| | | Preferred Stock (7,079,792 shares)(C)(F) | | 7,725 | 3,670 |
| | | Guaranty ($2,000) | | | |
| | | Guaranty ($878) | | | |
| | | | | 11,725 | 7,670 |
| Drew Foam Company, Inc. | Chemicals, Plastics, and Rubber | Senior Term Debt (13.5%, Due 8/2017) | 10,913 | 10,913 | 10,913 |
| | | Preferred Stock (34,045 shares)(C)(F) | | 3,375 | 1,351 |
| | | Common Stock (5,372 shares)(C)(F) | | 63 | |
| | | | | 14,351 | 12,264 |
| Frontier Packaging, Inc. | | Senior Term Debt (12.0%, Due 12/2017) | 12,500 | 12,500 | 12,500 |

| | | | | | |
|---|---|---|---|---|---|
| | Containers, Packaging, and Glass | | | | |
| | | Preferred Stock (1,373 shares)(C)(F) | | 1,373 | 1,522 |
| | | Common Stock (152 shares)(C)(F) | | 152 | 843 |
| | | | | 14,025 | 14,865 |
| Funko, LLC | Personal and Non-Durable Consumer Products (Manufacturing Only) | Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019)(D) | 7,587 | 7,587 | 7,729 |
| | | Preferred Stock (1,305 shares)(C)(F) | | 1,305 | 2,276 |
| | | | | 8,892 | 10,005 |
| Ginsey Home Solutions, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Senior Subordinate Term Debt (13.5%, Due 1/2018) (I) | 13,050 | 13,050 | 13,050 |
| | | Preferred Stock (18,898 shares)(C)(F) | | 9,393 | 3,082 |
| | | Common Stock (63,747 shares)(C)(F) | | 8 | |
| | | | | 22,451 | 16,132 |
| Jackrabbit, Inc. | Farming and Agriculture | Line of Credit, $3,000 available (13.5%, Due 4/2014) | | | |
| | | Senior Term Debt (13.5%, Due 4/2018) | 11,000 | 11,000 | 11,000 |
| | | Preferred Stock (3,556 shares)(C)(F) | | 3,556 | 1,963 |
| | | Common Stock (548 shares)(C)(F) | | 94 | |
| | | | | 14,650 | 12,963 |
| Mathey Investments, Inc. | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (10.0%, Due 3/2016) | 1,375 | 1,375 | 1,375 |
| | | Senior Term Debt (12.0%, Due 3/2016) | 3,727 | 3,727 | 3,727 |
| | | Senior Term Debt (12.5%, Due 3/2016)(E)(K) | 3,500 | 3,500 | 3,500 |
| | | Common Stock (29,102 shares)(C)(F) | | 777 | 4,895 |
| | | | | 9,379 | 13,497 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2014**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Mitchell Rubber Products, Inc. | Chemicals, Plastics, and Rubber | Subordinated Term Debt (13.0%, Due 10/2016)(D)(K) | $ 13,560 | $ 13,560 | $ 13,628 |
| | | Preferred Stock (27,900 shares)(C)(F) | | 2,790 | 1,086 |
| | | Common Stock (27,900 shares)(C)(F) | | 28 | |
| | | | | 16,378 | 14,714 |
| Noble Logistics, Inc. | Cargo Transport | Line of Credit, $0 available (10.5%, Due 1/2015)(D) | 800 | 800 | 204 |
| | | Senior Term Debt (11.0%, Due 1/2015)(D) | 7,227 | 7,227 | 1,842 |
| | | Senior Term Debt (10.5%, Due 1/2015)(D) | 3,650 | 3,650 | 931 |
| | | Senior Term Debt (10.5%, Due 1/2015)(D)(E) | 3,650 | 3,650 | 931 |
| | | | | 15,327 | 3,908 |
| Precision Southeast, Inc. | Diversified/Conglomerate Manufacturing | Senior Term Debt (14.0%, Due 12/2015) | 5,617 | 5,617 | 5,617 |
| | | Preferred Stock (19,091 shares)(C)(F) | | 1,909 | |
| | | Common Stock (90,909 shares)(C)(F) | | 91 | |
| | | | | 7,617 | 5,617 |
| Quench Holdings Corp. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Common Stock (4,770,391 shares)(C)(F) | | 3,397 | 5,056 |
| | | | | 3,397 | 5,056 |
| SBS, Industries, LLC | Machinery (Nonagriculture, Nonconstruction, Nonelectronic) | Senior Term Debt (14.0%, Due 8/2016) | 11,355 | 11,355 | 11,355 |
| | | Preferred Stock (19,935 shares)(C)(F) | | 1,994 | 1,064 |
| | | Common Stock (221,500 shares)(C)(F) | | 221 | |
| | | | | 13,570 | 12,419 |
| Schylling Investments, LLC | Leisure, Amusement, Motion Pictures, Entertainment | Senior Term Debt (13.0%, Due 8/2017)(D) | 13,081 | 13,081 | 13,228 |
| | | Preferred Stock (4,000 shares) (C)(F) | | 4,000 | |
| | | | | 17,081 | 13,228 |
| Star Seed, Inc. | Farming and Agriculture | Senior Term Debt (12.5%, Due 4/2018)(D) | 7,500 | 7,500 | 7,594 |
| | | Preferred Stock (1,499 shares)(C)(F) | | 1,499 | |
| | | Common Stock (600 shares)(C)(F) | | 1 | |
| | | | | 9,000 | 7,594 |
| **Total Non-Control/Non-Affiliate Investments (represents 65.4% of total investments at fair value)** | | | | **$ 233,895** | **$ 205,440** |

**AFFILIATE INVESTMENTS[(M)]:**

| | | | | | |
|---|---|---|---|---|---|
| Behrens Manufacturing, LLC | Diversified/Conglomerate Manufacturing | Senior Term Debt (13.0%, Due 12/2018) | $ 9,975 | $ 9,975 | $ 9,975 |
| | | Preferred Stock (2,923 shares) [(C)(F)] | | 2,922 | 2,754 |
| | | | | 12,897 | 12,729 |
| Channel Technologies Group, LLC | Diversified/Conglomerate Manufacturing | Preferred Stock (2,279 shares)[(C)(F)] | | 2,864 | 3,122 |
| | | Common Stock (2,279,020 shares)[(C)(F)] | | | |
| | | | | 2,864 | 3,122 |
| Danco Acquisition Corp. | Diversified/Conglomerate Manufacturing | Line of Credit, $700 available (4.0%, Due 8/2015)[(D)] | 3,450 | 3,450 | 690 |
| | | Senior Term Debt (4.0%, Due 8/2015)[(D)] | 2,575 | 2,575 | 515 |
| | | Senior Term Debt (4.0%, Due 8/2015)[(D)] | 8,795 | 8,795 | 1,759 |
| | | Senior Term Debt (5.0%, Due 8/2015)[(D)(E)] | 1,150 | 1,150 | 236 |
| | | Preferred Stock (25 shares)[(C)(F)] | | 2,500 | |
| | | Common Stock (1,241 shares)[(C)(F)] | | 3 | |
| | | | | 18,473 | 3,200 |
| Edge Adhesives Holdings, Inc. | Diversified/Conglomerate Manufacturing | Line of Credit, $705 available (10.5%, Due 8/2014)[(H)] | 795 | 795 | 795 |
| | | Senior Term Debt (12.5%, Due 2/2019)[(H)] | 9,300 | 9,300 | 9,300 |
| | | Senior Subordinated Term Debt (13.5%, Due 2/2019)[(H)] | 2,400 | 2,400 | 2,400 |
| | | Preferred Stock (3,474 shares) [(C)(F)(H)] | | 3,474 | 3,474 |
| | | | | 15,969 | 15,969 |
| Head Country Food Products, Inc. | Beverage, Food and Tobacco | Line of Credit, $500 available (10.0%, Due 8/2014)[(H)] | | | |
| | | Senior Term Debt (12.5%, Due 2/2019)[(H)] | 9,050 | 9,050 | 9,050 |
| | | Preferred Stock (4,000 shares)[(C)(F)(H)] | | 4,000 | 4,000 |
| | | | | 13,050 | 13,050 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2014**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| **Company[(A)]** | **Industry** | **Investment[(B)]** | **Principal** | **Cost** | **Fair Value** |
|---|---|---|---|---|---|
| Meridian Rack & Pinion, Inc. | Automobile | Senior Term Debt (13.5%, Due 12/2018) [(D)] | $ 9,660 | $ 9,660 | $ 9,672 |
| | | Preferred Stock (3,381 shares) [(C)(F)] | | 3,381 | 3,468 |
| | | | | 13,041 | 13,140 |
| SOG Specialty K&T, LLC | Leisure, Amusement, Motion Pictures, Entertainment | 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 | 8,240 |
| | | | | 28,148 | 26,639 |
| Tread Corp. | Oil and Gas | Line of Credit, $779 available (12.5%, Due 6/2014)[(G)(K)] | 2,471 | 2,471 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)[(G)(K)] | 5,000 | 5,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)[(G)(K)] | 2,750 | 2,750 | |
| | | Senior Subordinated Term Debt (12.5%, Due 2/2015)[(G)(K)] | 1,000 | 1,000 | |
| | | Senior Subordinated Term Debt (12.5%, Due on Demand)[(G)(K)] | 510 | 510 | |
| | | Preferred Stock (3,332,765 shares)[(C)(F)] | | 3,333 | |
| | | Common Stock (7,716,320 shares)[(C)(F)] | | 501 | |
| | | Common Stock Warrants (2,372,727 shares)[(C)(F)] | | 3 | |
| | | | | 15,568 | |
| **Total Affiliate Investments (represents 27.9% of total investments at fair value)** | | | | **$ 120,010** | **$ 87,849** |
| **CONTROL INVESTMENTS[(N)]:** | | | | | |
| Galaxy Tool Holding Corp. | Aerospace and Defense | Senior Subordinated Term Debt (13.5%, Due 8/2017) | $ 15,520 | $ 15,520 | $ 15,520 |
| | | Preferred Stock (6,039,387 shares)[(C)(F)] | | 11,464 | 2,992 |
| | | Common Stock (88,843 shares)[(C)(F)] | | 48 | |
| | | | | 27,032 | 18,512 |
| NDLI Acquisition Inc. | Cargo Transport | Preferred Stock (2,600 shares)[(C)(F)] | | 2,600 | 2,592 |
| | | Common Stock (545 shares)[(C)(F)] | | | |
| | | | | 2,600 | 2,592 |
| **Total Control Investments (represents 6.7% of total investments at fair value)** | | | | **$ 29,632** | **$ 21,104** |
| **TOTAL INVESTMENTS[(J)]** | | | | **$ 383,537** | **$ 314,393** |

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

(B) Percentages represent the weighted average cash interest rates in effect at March 31, 2014, and due date represents the contractual maturity date. Unless indicated otherwise, all cash interest rates are indexed to 30-day LIBOR. If applicable, paid-in-kind ( PIK ) interest rates are noted separately from the cash interest rates.

(C) Security is non-income producing.

(D) Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. as of March 31, 2014.

(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 but before the senior subordinated debt.

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

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

(H) New proprietary portfolio investment valued at cost, as it was determined that the price paid during the three months ended March 31, 2014 best represents fair value as of March 31, 2014.

(I) $5 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for accounting principles generally accepted in the U.S. ( GAAP ) purposes.

(J) Cumulative gross unrealized depreciation for federal income tax purposes is $83,197; cumulative gross unrealized appreciation for federal income tax purposes is $13,913. Cumulative net unrealized depreciation is $69,284, based on a tax cost of $383,677.

(K) Debt security has a fixed interest rate.

(L) Non-Control/Non-Affiliate investments, as defined by the Investment Company Act of 1940, as amended, (the 1940 Act ), are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.

(M) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

(N) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.

*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**

**JUNE 30, 2014**

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

## NOTE 1. ORGANIZATION

Gladstone Investment Corporation ( Gladstone Investment ) was incorporated under the General Corporation Law of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The terms the Company, we, our and us all refer to Gladstone Investment and its consolidated subsidiaries. We are an externally advised, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, we have elected to be treated for tax purposes as a regulated investment company ( RIC ) under the Internal Revenue Code of 1986, as amended (the Code ). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States ( U.S. ). Debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. Our investment objectives are: (a) to achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time, and (b) to provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. We aim to maintain a portfolio allocation of approximately 80% debt investments and 20% equity investments, at cost.

Gladstone Business Investment, LLC ( Business Investment ), a wholly-owned subsidiary of ours, was established on August 11, 2006 for the sole purpose of owning our portfolio of investments in connection with our line of credit. The financial statements of Business Investment are consolidated with those of Gladstone Investment. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by Gladstone Management Corporation (the Adviser ), an affiliate of ours and a Securities and Exchange Commission ( SEC ) registered investment adviser, pursuant to an investment advisory agreement and management agreement. Administrative services are provided by Gladstone Administration, LLC (the Administrator ), an affiliate of ours and the Adviser, pursuant to an administration agreement.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Unaudited Interim Financial Statements and Basis of Presentation*

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. ( GAAP ) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of SEC Regulation S-X. Accordingly, we have omitted certain disclosures accompanying annual financial statements prepared in accordance with GAAP. The accompanying condensed consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not required to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three months ended June 30, 2014, are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended March 31, 2014, as filed with the SEC on May 13, 2014.

Our fiscal year-end *Condensed Consolidated Statement of Assets and Liabilities* presented in this Form 10-Q was derived from audited financial statements, but does not include all disclosures required by GAAP.

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*Revisions*

Certain amounts in the prior year s financial statements have been revised to correct the presentation for the three months ended June 30, 2014 with no effect on our financial condition or results of operations. Certain amounts that were revised relate to our change in the classification of certain of our investments between control, affiliate and non-control/non-affiliate. The general change in the definitions from prior reported periods to the three months ended June 30, 2014, relate to the use of voting equity securities as the primary determinate of classification compared to the use of both voting and non-voting equity securities in prior periods.

Other revisions related to the net presentation of certain fees in our results of operations. Our Adviser services, administers and collects on the loans held by Business Investment, in return for which our Adviser receives a 2% annual fee from Business Investment. All loan servicing fees are credited back to us by our Advisor. Previously, we incorrectly presented the loan servicing fee on a net basis, which is zero because it is 100% credited back to us. We have revised our fee presentation related to these loan servicing fees to reflect the gross fee and related gross credit amounts.

Management evaluated these errors in presentation and concluded they were not material to the previously issued financial statements for the three months ended June 30, 2013. The impact of the revisions are shown in the table below:

| | Three Months Ended June 30, 2013 | |
|---|---|---|
| | As Previously Reported | As Revised |
| **Interest income** | | |
| Non-Control/Non-Affiliate investments | $ 436 | $ 4,677 |
| Affiliate investments | 1,108 | 458 |
| Control investments | 5,637 | 2,046 |
| Cash and cash equivalents | 1 | 1 |
| **Total interest income** | **7,182** | **7,182** |
| **Other income** | | |
| Non-Control/Non-Affiliate investments | | 216 |
| Control investments | 216 | |
| **Total other income** | **216** | **216** |
| **Expenses** | | |
| Non-revised expenses, in aggregate | 3,876 | 3,876 |
| Loan servicing fee | | 1,024 |
| Expenses before credits from Adviser | 3,876 | 4,900 |
| Credit of loan servicing fee | | (1,024) |
| Other credits to fee | (511) | (511) |
| **Total expenses net of credits to fees** | **3,365** | **3,365** |
| **Net unrealized (depreciation) appreciation** | | |
| Non-Control/Non-Affiliate investments | (3,010) | (8,837) |
| Affiliate investments | 878 | (4,232) |
| Control investments | (9,274) | 1,663 |
| Other | 854 | 854 |
| **Total net unrealized (depreciation) appreciation** | **$ (10,552)** | **$ (10,552)** |

*Investment Valuation Policy*

Accounting Recognition

We record our investments at fair value in accordance with the Financial Accounting Standards Board (the FASB ) Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ( ASC 820 ) and the 1940 Act. Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and amortized cost basis of the investment, without regard to unrealized depreciation or appreciation previously recognized, and include investments charged off during the period, net of recoveries. Unrealized depreciation or appreciation primarily reflect the change in investment fair values, including the reversal of previously recorded unrealized depreciation or appreciation when gains or losses are realized.

Board Responsibility

In accordance with the 1940 Act, our board of directors (our Board of Directors ) has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our established investment valuation policy (the Policy ). Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator with oversight and direction from the Valuation Officer, employed by the Administrator (the Valuation Team ). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the Valuation Officer, uses the Policy, which has been approved by our Board of Directors, and each quarter our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

The Valuation Team engages third party valuation firms to provide independent assessments of fair value of certain of our investments. Currently, the third-party service provider Standard & Poor s Securities Evaluation, Inc. ( SPSE ) provides estimates of fair value on the majority of our debt investments.

The Valuation Team generally assigns SPSE s estimates of fair value to our debt investments where we do not have the ability to effectuate a sale of the applicable portfolio company. The Valuation Team corroborates SPSE s estimates of fair value using one or more of the valuation techniques discussed below. The Valuation Team s estimates of value on a specific debt investment may significantly differ from SPSE s. When this occurs, our Board of Directors reviews whether the Valuation Team has followed the Policy and whether the Valuation Team s recommended value is reasonable in light of the Policy and other facts and circumstances and then votes to accept or reject the Valuation Team s recommended valuation.

Valuation Techniques

In accordance with ASC 820, the Valuation Team uses the following techniques when valuing our investment portfolio:

***Total Enterprise Value*** In determining the fair value using a total enterprise value ( TEV ), the Valuation Team first calculates the TEV of the portfolio company by incorporating some or all of the following factors: the portfolio company s ability to make payments and other specific portfolio company attributes; the earnings of the portfolio company (the trailing or projected twelve month revenue or earnings before interest, taxes, depreciation and amortization ( EBITDA )); EBITDA or revenue multiples obtained from our indexing methodology whereby the original transaction EBITDA or revenue multiple at the time of our closing is indexed to a general subset of comparable disclosed transactions and EBITDA or revenue multiples from recent sales to third parties of similar securities in similar industries; a comparison to publicly traded securities in similar industries; and other pertinent factors. To gather information regarding these factors, the Valuation Team generally references industry statistics and may use outside experts. Once the TEV is determined for a portfolio company, the Valuation Team then allocates the TEV to the portfolio company s securities in order of their relative priority in the capital structure. Generally, the Valuation Team uses TEV to value our equity investments and, in the circumstances where we have the ability to effectuate a sale of a portfolio company, our debt investments.

TEV is primarily calculated using EBITDA or revenue multiples; however, TEV may also be calculated using a discounted cash flow ( DCF ) analysis whereby future expected cash flows of the portfolio company are discounted to determine a net present value using estimated risk-adjusted discount rates, which incorporate adjustments for nonperformance and liquidity risks. Generally, the Valuation Team uses the DCF to calculate the TEV to corroborate estimates of value for our equity investments, where we do not have the ability to effectuate a sale of a portfolio company or for debt of credit impaired portfolio companies.

***Yield Analysis*** The Valuation Team generally determines the fair value of our debt investments using the yield analysis, which includes a DCF calculation and the Valuation Team s own assumptions, including, but not limited to, estimated remaining life, current market yield, current leverage, and interest rate spreads. This technique develops a modified discount rate that incorporates risk premiums including, among other things, increased probability of default, increased loss upon default and increased liquidity risk. Generally, the Valuation Team uses the yield analysis to corroborate both estimates of value provided by SPSE and market quotes.

In addition to the above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including, but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new debt and equity investments made during the three months ended June 30, 2014 are generally valued at original cost basis. Fair value measurements of our investments may involve subjective judgments and estimates and due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate from period to period. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which it is recorded.

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

*Interest Income Recognition*

Interest income, adjusted for amortization of premiums, amendment fees and acquisition costs and 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. 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, the interest income is deemed to be collectible. As of June 30, 2014, our loans to Tread Corp. ( Tread ) were on non-accrual, with an aggregate debt cost basis of $12.5 million, or 4.5% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0. As of March 31, 2014, our loans to Tread were on non-accrual, with an aggregate debt cost basis of $11.7 million, or 4.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0.

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PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. During the three months ended June 30, 2014, we recorded PIK income of $29. During the three months ended June 30, 2013, we recorded PIK income of $10.

*Other Income Recognition*

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We did not record any success fee income during the three months ended June 30, 2014. We recorded $0.2 million of success fees during the three months ended June 30, 2013, representing prepayments received from Mathey Investments, Inc. ( Mathey ).

We accrue dividend income on preferred and common equity securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash or other consideration. For the three months ended June 30, 2014, we recorded $1.4 million of dividend income primarily consisting of a receivable from Mathey. We collected the Mathey dividend receivable on July 1, 2014. We did not record any dividend income during the three months ended June 30, 2013.

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

*Recent Accounting Pronouncements*

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so there was no impact from adopting this standard on our financial position or results of operations. We adopted ASU 2013-08 beginning with our quarter ended June 30, 2014, and have increased our disclosure requirements as necessary.

**NOTE 3. INVESTMENTS**

*Fair Value*

In accordance with ASC 820, our investments fair value is determined to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. This fair value definition 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 a financial instrument as of the measurement date.

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

- *Level 2* inputs to the valuation methodology include quoted prices for similar financial instruments in active or inactive markets and inputs that are observable for the financial instrument, 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 financial instrument and can include the Valuation Team s own assumptions based upon the best available information.

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of June 30 and March 31, 2014, all of our investments were valued using Level 3 inputs and during the three months ended June 30, 2014 and 2013, there were no investments transferred in to or out of Level 1, 2 or 3.

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The following table presents our investments carried at fair value as of June 30 and March 31, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type and input level on the ASC 820 fair value hierarchy:

| | Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities* | |
|---|---|---|
| | **June 30, 2014** | **March 31, 2014** |
| **Non-Control/Non-Affiliate Investments** | | |
| Senior debt | $ 93,052 | $ 109,479 |
| Senior subordinated debt | 52,450 | 52,907 |
| Preferred equity | 30,890 | 32,259 |
| Common equity/equivalents | 12,917 | 10,795 |
| **Total Non-Control/Non-Affiliate Investments** | **189,309** | **205,440** |
| **Affiliate Investments** | | |
| Senior debt | 84,547 | 60,391 |
| Senior subordinated debt | 2,412 | 2,400 |
| Preferred equity | 23,379 | 25,058 |
| **Total Affiliate Investments** | **110,338** | **87,849** |
| **Control Investments** | | |
| Senior subordinated debt | 15,520 | 15,520 |
| Preferred equity | 6,665 | 5,584 |
| **Total Control Investments** | **22,185** | **21,104** |
| **Total Investments at fair value using Level 3 inputs** | **$ 321,832** | **$ 314,393** |

In accordance with the FASB s ASU No. 2011-04, *Fair Value Measurement (Topic820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ( IFRS )*, ( ASU 2011-04 ), the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30 and March 31, 2014. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

| | Quantitative Information about Level 3 Fair Value Measurements | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair Value as of June 30, 2014** | **Fair Value as of March 31, 2014** | **Valuation Technique/ Methodology** | **Unobservable Input** | **Range / Weighted Average as of June 30, 2014** | | **Range / Weighted Average as of March 31, 2014** | |
| Senior debt | **$ 117,993** | $ 115,081 | TEV | EBITDA multiples | 3.6x | 7.0x / 5.1x | 4.6x | 7.3x / 5.6x |
| | | | | EBITDA | $(606) | $5,906 / $3,359 | $1,558 | $6,230 / $3,609 |
| | **59,606** | 54,789 | Yield Analysis | Discount Rate | 8% | 30% / 20% | 8% | 30% / 19% |
| Senior subordinated debt | **47,320** | 49,470 | TEV | EBITDA multiples | 4.1x | 7.0x / 5.7x | 4.1x | 7.3x / 5.0x |
| | | | | EBITDA | $(606) | $5,112 / $3,830 | $36 | $6,156 / $4,159 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **23,062** | 21,357 | Yield Analysis | Discount Rate | 13% | 16% / 15% | 13% | 13% / 13% |
| Preferred equity | **60,934** | 62,901 | TEV | EBITDA multiples | 3.6x | 8.6x / 5.7x | 3.5x | 8.5x / 5.1x |
| | | | | EBITDA | $(606) | $10,668 / $3,933 | $36 | $10,621 / $4,266 |
| Common equity/equivalents | **12,917** | 10,795 | TEV | EBITDA multiples | 3.5x | 18.0x / 11.6x | 3.4x | 16.0x / 10.5x |
| | | | | EBITDA | $(606) | $9,300 / $6,181 | $36 | $10,621 / $6,008 |
| **Total** | **$ 321,832** | $ 314,393 | | | | | | |

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in market yields, discounts rates, leverage, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in isolation, may change the fair value of certain of our investments. Generally, an increase in market yields, discount rates or leverage or a decrease in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a decrease in the fair value of certain of our investments.

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The following tables provide the changes in fair value, broken out by security type, during the three months ended June 30, 2014 and 2013 for all of our investments.

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| | Senior Debt | Senior Subordinated Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Three months ended June 30, 2014:** | | | | | |
| Fair value as of March 31, 2014 | $ 169,870 | $ 70,827 | $ 62,901 | $ 10,795 | $ 314,393 |
| Total gain (loss): | | | | | |
| Net unrealized appreciation (depreciation)[(A)] | 6,219 | (724) | (2,157) | 2,122 | 5,460 |
| New investments, repayments and settlements[(B)]: | | | | | |
| Issuances / Originations | 1,510 | 279 | 250 | | 2,039 |
| Settlements / Repayments | | | (60) | | (60) |
| **Fair value as of June 30, 2014** | **$ 177,599** | **$ 70,382** | **$ 60,934** | **$ 12,917** | **$ 321,832** |

| | Senior Debt | Senior Subordinated Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Three months ended June 30, 2013:** | | | | | |
| Fair value as of March 31, 2013 | $ 103,882 | $ 86,811 | $ 82,157 | $ 13,632 | $ 286,482 |
| Total (losses) gains: | | | | | |
| Net unrealized depreciation[(A)] | (3,842) | (943) | (3,922) | (2,699) | (11,406) |
| New investments, repayments and settlements[(B)]: | | | | | |
| Issuances / Originations | 20,690 | 8,501 | 6,306 | 94 | 35,591 |
| Settlements / Repayments | (1,940) | (400) | | | (2,340) |
| **Fair value as of June 30, 2013** | **$ 118,790** | **$ 93,969** | **$ 84,541** | **$ 11,027** | **$ 308,327** |

(A) Included in Net unrealized (depreciation) appreciation on our accompanying *Condensed Consolidated Statements of Operations* for the periods ended June 30, 2014 and 2013.

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

*Investment Activity*

During the three-months ended June 30, 2014, the following significant transaction occurred:

In May 2014, NDLI Acquisition Inc. completed the purchase of certain of Noble Logistics, Inc. s assets out of bankruptcy. The resulting entity was listed as one portfolio company under NDLI Inc. on our *Condensed Consolidated Schedules of Investments* as of June 30, 2014.

*Investment Concentrations*

As of June 30, 2014, our investment portfolio consisted of investments in 28 portfolio companies located in 14 states across 14 different industries with an aggregate fair value of $321.8 million, of which our investments in Acme Cryogenics, Inc. ( Acme ), SOG Specialty K&T,

LLC ( SOG ), and Galaxy Tool Holdings Corp. ( Galaxy ), our three largest portfolio investments at fair value, collectively comprised $74.9 million, or 23.3%, of our total investment portfolio at fair value. The following table summarizes our investments by security type as of June 30 and March 31, 2014:

| | June 30, 2014 | | | | March 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | Fair Value | | Cost | | Fair Value | |
| Senior debt | **$ 197,053** | **51.1%** | **$ 177,599** | **55.2%** | $ 196,293 | 51.2% | $ 169,870 | 54.0% |
| Senior subordinated debt | **83,377** | **21.6** | **70,382** | **21.9** | 82,348 | 21.5 | 70,827 | 22.5 |
| Total debt | **280,430** | **72.7** | **247,981** | **77.1** | 278,641 | 72.7 | 240,697 | 76.5 |
| Preferred equity | **98,289** | **25.5** | **60,934** | **18.9** | 98,099 | 25.6 | 62,901 | 20.0 |
| Common equity/equivalents | **6,797** | **1.8** | **12,917** | **4.0** | 6,797 | 1.7 | 10,795 | 3.5 |
| Total equity/equivalents | **105,086** | **27.3** | **73,851** | **22.9** | 104,896 | 27.3 | 73,696 | 23.5 |
| **Total Investments** | **$ 385,516** | **100.0%** | **$ 321,832** | **100.0%** | $ 383,537 | 100.0% | $ 314,393 | 100.0% |

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Investments at fair value consisted of the following industry classifications as of June 30 and March 31, 2014:

| | June 30, 2014 | | March 31, 2014 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Diversified/Conglomerate Manufacturing | **$ 53,998** | **16.8%** | $ 54,845 | 17.4% |
| Chemicals, Plastics, and Rubber | **53,223** | **16.5** | 52,753 | 16.8 |
| Leisure, Amusement, Motion Pictures, Entertainment | **38,468** | **12.0** | 39,867 | 12.7 |
| Machinery (Non-agriculture, Non-construction, Non-electronic) | **26,118** | **8.1** | 25,917 | 8.2 |
| Automobile | **25,670** | **8.0** | 25,735 | 8.2 |
| Farming and Agriculture | **24,462** | **7.6** | 20,557 | 6.5 |
| Aerospace and Defense | **22,186** | **6.9** | 18,512 | 5.9 |
| Home and Office Furnishings, Housewares, and Durable Consumer Products | **19,072** | **5.9** | 21,188 | 6.7 |
| Containers, Packaging, and Glass | **17,240** | **5.4** | 17,889 | 5.7 |
| Cargo Transport | **12,262** | **3.8** | 6,500 | 2.1 |
| Beverage Food and Tobacco | **11,206** | **3.5** | 13,050 | 4.2 |
| Personal and Non-Durable Consumer Products (Manufacturing Only) | **10,363** | **3.2** | 10,005 | 3.2 |
| Buildings and Real Estate | **7,564** | **2.3** | 7,575 | 2.4 |
| **Total Investments** | **$ 321,832** | **100.0%** | $ 314,393 | 100.0% |

Investments at fair value were included in the following geographic regions of the U.S. as of June 30 and March 31, 2014:

| | June 30, 2014 | | March 31, 2014 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| West | **$ 115,853** | **36.0%** | $ 117,781 | 37.5% |
| South | **96,097** | **29.9** | 89,915 | 28.6 |
| Northeast | **66,990** | **20.8** | 67,862 | 21.6 |
| Midwest | **42,892** | **13.3** | 38,835 | 12.3 |
| **Total Investments** | **$ 321,832** | **100.0%** | $ 314,393 | 100.0% |

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

*Investment Principal Repayments*

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2014:

| | | Amount |
|---|---|---|
| For the remaining nine months ending March 31: | 2015 | $ 47,463 |

| | | |
|---|---|---|
| For the fiscal year ending March 31: | 2016 | 40,623 |
| | 2017 | 24,915 |
| | 2018 | 70,632 |
| | 2019 | 89,181 |
| | Thereafter | 7,616 |
| | **Total contractual repayments** | **$ 280,430** |
| | Investments in equity securities | 105,086 |
| | **Total cost basis of investments held at June 30, 2014:** | **$ 385,516** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of June 30 and March 31, 2014, we had gross receivables from portfolio companies of $0.6 million and $0.9 million, respectively. The allowance for uncollectible receivables was $163 as of each of June 30 and March 31, 2014.

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**NOTE 4. RELATED PARTY TRANSACTIONS**

*Investment Advisory and Management Agreement*

We entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement ). The Adviser is controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee, each as described below. On July 15, 2014, our Board of Directors approved the renewal of the Advisory Agreement through August 31, 2015.

The following table summarizes the management fees, loan servicing fee which is paid in accordance to our line of credit, incentive fees and associated credits reflected in our accompanying *Condensed Consolidated Statements of Operations*:

| | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 |
|---|---|---|
| Average total assets subject to base management fee(A) | **$ 333,200** | $ 309,800 |
| Multiplied by prorated annual base management fee of 2% | **0.5%** | 0.5% |
| Base management fee(B) | **1,666** | 1,549 |
| Other credits to fee(B) | **(382)** | (511) |
| Net base management fee | **$ 1,284** | $ 1,038 |
| Loan servicing fee(B) | **1,135** | 1,024 |
| Credit of loan servicing fee(B) | **(1,135)** | (1,024) |
| Net loan servicing fee | **$** | $ |
| Incentive fee(B) | **$ 1,215** | $ 165 |

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

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

**Base Management Fee**

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2%. It is computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Although neither we nor our Adviser receive fees in connection with managerial assistance, the Adviser provides other services to our portfolio companies and receives fees for these other services. 50% of certain of these fees and 100% of others historically have been credited against the base management fee that we would otherwise be required to pay to our Adviser. Effective October 1, 2013, 100% of all these fees are credited against the base management fee that we would otherwise be required to pay to our Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees are retained by the Adviser in the form of reimbursement for certain tasks completed by personnel of the Adviser.

**Loan Servicing Fee**

In addition, our Adviser services, administers and collects on the loans held by Business Investment, in return for which our Adviser receives a 2% annual fee payable monthly by Business Investment based on the monthly aggregate balance of loans held by Business Investment in accordance with our line of credit. All loan servicing fees are credited back to us by our Adviser. Overall, the base management fee due to our Adviser cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

**Incentive Fee**

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

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

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

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

The second part of the incentive fee is a capital gains-based incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date) and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate net unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. Aggregate net unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate net unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through June 30, 2014, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. No GAAP accrual for a capital gains-based incentive fee has been recorded since our inception through June 30, 2014.

*Administration Agreement*

We have entered into an administration agreement (the Administration Agreement ) with the Administrator, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, general counsel and secretary, who also serves as the Administrator s president, and their respective staffs. Our allocable portion of administrative expenses is generally derived by multiplying the Administrator s total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all funds serviced by the Administrator under similar agreements. On July 15, 2014, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2015.

*Related Party Fees Due*

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

| | **As of June 30, 2014** | As of March 31 2014 |
|---|---|---|
| Base management fee due to Adviser | **$ 424** | $ 63 |
| Incentive fee due to Adviser | **1,215** | 1,161 |
| Other due to Adviser | **8** | 1 |
| **Total fees due to Adviser** | **$ 1,647** | $ 1,225 |
| **Fee due to Administrator** | **$ 235** | $ 224 |
| **Total related party fees due** | **$ 1,882** | $ 1,449 |

**NOTE 5. BORROWINGS**

*Line of Credit*

On June 26, 2014, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 1 to the Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013, with Key Equipment Finance Inc., as administrative agent, lead arranger and a lender (the Administrative Agent ), Branch Banking and Trust Company ( BB&T ) as a lender and managing agent, and the Adviser, as servicer, to extend the revolving period and reduce the interest rate of the line of credit (the Credit Facility ). The revolving period was extended 14 months to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). In addition, we have retained the two one-year extension options, to be agreed upon by all parties, which may be exercised on or before June 26, 2015 and 2016, respectively, and upon exercise, the options would extend the revolving period to June 26, 2018 and 2019 and the maturity date to June 26, 2020 and 2021, respectively. Subject to certain terms and conditions, the Credit Facility can be expanded by up to $145 million, to a total facility amount of $250 million, through additional commitments of existing or new

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committed lenders. Advances under the Credit Facility generally bear interest at 30-day LIBOR, plus 3.25% per annum, down from 3.75% prior to the amendment, and the Credit Facility includes a fee of 0.50% on undrawn amounts. Once the revolving period ends, the interest rate margin increases to 3.75% for the period from June 26, 2017 to June 26, 2018, and further increases to 4.25% through maturity. We incurred fees of $0.4 million in connection with this amendment.

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

| | As of June 30, 2014 | As of March 31, 2014 |
|---|---|---|
| Commitment amount | **$ 105,000** | $ 105,000 |
| Borrowings outstanding at cost | **62,950** | 61,250 |
| Availability | **42,050** | 43,750 |

| | For the Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Weighted average borrowings outstanding | **$ 60,423** | $ 32,654 |
| Effective interest rate[(A)] | **4.3%** | 4.6% |
| Commitment (unused) fees incurred | **$ 56** | $ 52 |

(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. The Administrative Agent is also the trustee of the account and remits the collected funds to us once a month.

Among other things, our Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to our credit and collection policies without the lenders consent. Our Credit Facility generally also limits payments on distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2015, 2016 and 2017. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward available credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatory redeemable term preferred stock) of $170 million plus 50% of all equity and subordinated debt raised after April 30, 2013, which equates to $170 million as of June 30, 2014, (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 June 30, 2014, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $266.8 million, an asset coverage of 300% and an active status as a BDC and RIC. Our Credit Facility requires a minimum of 12 obligors in the borrowing base and, as of June 30, 2014, Business Investment had 21 obligors. As of June 30, 2014, we continued to be in compliance with all covenants.

We have entered into an interest rate cap agreement with Keybank National Association that effectively limits the interest rate on a portion of our borrowings under the line of credit pursuant to the terms of our Credit Facility. The agreement, which expires April 2016, provides that the interest rate on $45 million of our borrowings is capped at 6%, plus 3.25% per annum, when 30-day LIBOR is in excess of 6%.

*Secured Borrowing*

In August 2012, we entered into a participation agreement with a third-party related to $5.0 million of our senior subordinated term debt investment in Ginsey Home Solutions, Inc. ( Ginsey ). In May 2014, we amended the agreement with the third-party to include an additional $0.1 million. ASC 860 requires us to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our accompanying *Condensed Consolidated Statements of Assists and Liabilities* reflects the entire senior subordinated term debt investment in Ginsey and a corresponding $5.1 million secured borrowing liability. The secured borrowing has a stated interest rate of 7.0% and a maturity date of January 3, 2018.

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*Fair Value*

We elected to apply ASC 825, Financial Instruments, specifically for our Credit Facility, which was consistent with the application of ASC 820 to our investments. Generally, the Valuation Team estimates the fair value of our Credit Facility using a yield analysis, which includes a DCF calculation, 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. During the three months ended June 30, 2014, due to the closing of an amendment extending the maturity and reducing the rate, amongst other things, cost was deemed to approximate fair value. At each of June 30 and March 31, 2014, all of our borrowings were valued using Level 3 inputs. The following tables present the short-term loan, where applicable, and Credit Facility carried at fair value as of June 30 and March 31, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward of the changes in fair value during the three months ended June 30, 2014 and 2013:

| | Level 3 Borrowings Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities* | |
|---|---|---|
| | **June 30, 2014** | **March 31, 2014** |
| Credit Facility | **$ 62,950** | $ 61,701 |

**Fair Value Measurements of Borrowings Using Significant**

**Unobservable Inputs (Level 3)**

| | **Credit Facility** |
|---|---|
| **Three months ended June 30, 2014:** | |
| Fair value at March 31, 2014 | $ 61,701 |
| Borrowings | 6,300 |
| Repayments | (4,600) |
| Net unrealized depreciation[(A)] | (451) |
| **Fair value at June 30, 2014** | **$ 62,950** |

| | **Short-Term Loan** | **Credit Facility** | **Total** |
|---|---|---|---|
| **Three months ended June 30, 2013:** | | | |
| Fair value at March 31, 2013 | $ 58,016 | $ 31,854 | $ 89,870 |
| Borrowings | 26,009 | 28,500 | 54,509 |
| Repayments | (58,016) | (10,500) | (68,516) |
| Net unrealized depreciation[(A)] | | (854) | (854) |
| **Fair value at June 30, 2013** | **$ 26,009** | **$ 49,000** | **$ 75,009** |

(A) Included in net unrealized (depreciation) appreciation on our accompanying *Condensed Consolidated Statement of Operations* for periods ended June 30, 2014 and 2013.

The fair value of the collateral under our Credit Facility was $292.0 million and $288.6 million as of June 30 and March 31, 2014, respectively.

**NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK**

In March 2012, we completed a public offering of 1,600,000 shares of 7.125% Series A Cumulative Term Preferred Stock (our Term Preferred Stock ) at a public offering price of $25.00 per share. Gross proceeds totaled $40 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $38 million. We incurred $2 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and will be amortized over the redemption period ending February 28, 2017.

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

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For three months ended June 30, 2014 and 2013, our Board of Directors declared and paid a monthly distribution of $0.1484375 per share, or $0.4453125 per share in aggregate, to preferred stockholders. The tax character of distributions paid by us to preferred stockholders is from ordinary income.

In accordance with ASC 480, Distinguishing Liabilities from Equity, mandatorily redeemable financial instruments should be classified as liabilities on the balance sheet and, therefore, the related dividend payments are treated as dividend expense on our accompanying *Condensed Consolidated Statements of Operations* at the ex-dividend date. The fair value of the Term Preferred Stock, which we consider to be a level 1 liability within the fair value hierarchy, based on the last reported closing sale price as of June 30 and March 31, 2014, was $41.9 million and $42.4 million, respectively.

**NOTE 7. COMMON STOCK**

*Registration Statement*

We filed a registration statement on Form N-2 (File No. 333-181879) with the SEC on June 4, 2012, and subsequently filed a Pre-Effective Amendment No. 1 to the registration statement on July 17, 2012, which the SEC declared effective on July 26, 2012. On June 7, 2013, we filed Post-Effective Amendment No. 2 to the registration statement, which the SEC declared effective on July 26, 2013. On June 3, 2014, we filed Post-Effective Amendment No. 3 to the registration statement, which has not yet been declared effective. Upon the SEC declaring the registration statement effective we will be permitted to issue, through one or more transactions, up to an aggregate of $300 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of two or more of such securities.

**NOTE 8. NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE**

The following table sets forth the computation of basic and diluted net increase (decrease) in net assets resulting from operations per weighted average common share for the three months ended June 30, 2014 and 2013:

| | Three Months Ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Numerator for basic and diluted net increase (decrease) in net assets resulting from operations per common share | **$ 10,770** | $ (6,519) |
| Denominator for basic and diluted weighted average common shares | **26,475,958** | 26,475,958 |
| **Basic and diluted net increase (decrease) in net assets resulting from operations per common share** | **$ 0.41** | $ (0.25) |

**NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS**

To qualify to be taxed as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code, we are required to distribute to our stockholders 90% of our investment company taxable income, which is generally our net ordinary income plus the excess of our net short-term capital gains over net long-term capital losses. The amount to be paid out as a distribution is determined by our Board of Directors each quarter and is based on management s estimate of our estimated taxable income. Based on that estimate, our Board of Directors declares three monthly distributions each quarter.

Our Board of Directors declared the following monthly distributions to common stockholders for the three months ended June 30, 2014 and 2013:

| Fiscal Year | Declaration Date | Record Date | Payment Date | | Distribution per Common Share |
|---|---|---|---|---|---|
| **2015** | April 8, 2014 | April 21, 2014 | April 30, 2014 | **$** | **0.06** |
| | April 8, 2014 | May 20, 2014 | May 30, 2014 | | **0.06** |
| | April 8, 2014 | June 19, 2014 | June 30, 2014 | | **0.06** |
| **Three months ended June 30, 2014:** | | | | **$** | **0.18** |
| **2014** | April 9, 2013 | April 22, 2013 | April 30, 2013 | $ | 0.05 |
| | April 9, 2013 | May 14, 2013 | May 31, 2013 | | 0.05 |
| | April 9, 2013 | June 19, 2013 | June 28, 2013 | | 0.05 |
| **Three months ended June 30, 2013:** | | | | **$** | **0.15** |

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Aggregate common distributions declared quarterly and paid for the three months ended June 30, 2014 and 2013 were approximately $4.8 million and $4.0 million, respectively. We determine the tax characterization of our common distributions as of the end of our fiscal year based upon our taxable income for the full year and distributions paid during the full year. Therefore, a determination of tax attributes made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year. If we determined the tax attributes of our distributions as of June 30, 2014, 100% would be from ordinary income and 0% would be a return of capital. For the three months ended June 30, 2014, we recorded a $0.1 million adjustment for estimated book-tax differences which decreased Capital in excess of par value and increased Net investment income in excess of distributions. For the fiscal year ended March 31, 2014, taxable income available for common distributions exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $3.9 million of the first common distributions paid in fiscal year 2015, as having been paid in the prior year.

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

*Legal Proceedings*

We are party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our financial condition, results of operation or cash flows. Additionally, based on current knowledge, we do not believe such loss contingencies are probable and estimable and therefore, as of June 30, 2014, we have not established reserves for such loss contingencies.

*Financial Commitments and Obligations*

As of June 30, 2014, we have lines of credit commitments to certain of our portfolio companies that have not been fully drawn. Since these lines of credit have expiration dates and we expect many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent future cash requirements.

In addition to the lines of credit to certain portfolio companies, we have also extended certain guarantees on behalf of some of our portfolio companies. As of June 30, 2014, we have not been required to make any payments on the guarantees discussed below, and we consider the credit risk to be remote and the fair values of the guarantees to be minimal.

In October 2008, we executed a guarantee of a vehicle finance facility agreement (the Ford Finance Facility ) between Ford Motor Credit Company ( Ford ) and ASH. The Ford Finance Facility provides ASH with a line of credit of up to $0.5 million for component Ford parts used by ASH to build truck bodies under a separate contract. Ford retains title and ownership of the parts. The guarantee of the Ford Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of us as guarantor. In connection with this guarantee, we received a premium of $20 from ASH. In July 2014, the Ford Finance Facility was modified and the guarantee was terminated.

In February 2010, we executed a guarantee of a wholesale financing facility agreement (the Floor Plan Facility ) between Agricredit Acceptance, LLC ( Agricredit ) and Country Club Enterprises, LLC ( CCE ). The Floor Plan Facility provides CCE with financing of up to $2.0 million to bridge the time and cash flow gap between the order and delivery of golf carts to customers. The guarantee was renewed in February 2011, 2012 and 2013 and expires in February 2014, unless it is renewed again by us, CCE and Agricredit. In connection with this guarantee and its subsequent renewals, we recorded aggregate premiums of $0.4 million from CCE.

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

In October 2013, we executed a guarantee of a vehicle finance facility agreement (the Compass Finance Facility ) between Compass Bank and ASH. The Compass Finance Facility provides ASH with a line of credit of up to $0.3 million for component Ram parts used by ASH to build truck bodies under a separate contract. The guarantee will expire upon maturity of the Compass Finance Facility on October 16, 2014. In connection with this guarantee, we received a premium of $10 from ASH. In July 2014, the Compass Finance Facility was modified and the guarantee was terminated.

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The following table summarizes the dollar balance of unused line of credit commitments and guarantees as of June 30 and March 31, 2014:

| | June 30, 2014 | March 31, 2014 |
|---|---|---|
| Unused line of credit commitments | **$ 2,374** | $ 6,684 |
| Guarantees | **3,581** | 3,628 |
| Total | **$ 5,955** | $ 10,312 |

*Escrow Holdbacks*

From time to time, we will enter into arrangements relating to exits of certain investments whereby specific amounts of the proceeds are held in escrow to be used to satisfy potential obligations, as stipulated in the sales agreements. We record escrow amounts in restricted cash on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. In August 2013, the sale of Venyu resulted in $4.9 million in escrow amounts, of which $0.6 million is held on behalf of the other sellers, which we record in other liabilities on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We establish a contingent liability against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liability recorded against the escrow amounts was $0 and $35 as of June 30 and March 31, 2014, respectively.

**NOTE 11. FINANCIAL HIGHLIGHTS**

| | Three Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Per Common Share Data | | |
| NAV at beginning of period(A) | **$ 8.34** | $ 9.10 |
| Net investment income(B) | **0.18** | 0.15 |
| Net unrealized appreciation (depreciation) of investments and other(B) | **0.23** | (0.40) |
| Total from investment operations(B) | **0.41** | (0.25) |
| Cash distributions from net investment income(B)(C) | **(0.18)** | (0.15) |
| NAV at end of period(A) | **$ 8.57** | $ 8.70 |
| Per common share market value at beginning of period | **$ 8.27** | $ 7.31 |
| Per common share market value at end of period | **7.40** | 7.35 |
| Total return(D) | **(8.40)%** | 2.61% |
| Common stock outstanding at end of period | **26,475,958** | 26,475,958 |
| Statement of Assets and Liabilities Data: | | |
| Net assets at end of period | **$ 226,841** | $ 230,472 |
| Average net assets(E) | **222,719** | 237,146 |
| Senior Securities Data(F): | | |
| Total borrowings at cost | **$ 68,046** | $ 80,009 |
| Mandatorily redeemable preferred stock | **40,000** | 40,000 |
| Asset coverage ratio(G) | **300%** | 283% |
| Average coverage per unit(H) | **$ 2,995** | $ 2,829 |
| Ratios/Supplemental Data: | | |
| Ratio of expenses to average net assets(I)(J)(L) | **11.67%** | 8.27% |

| | | |
|---|---|---|
| Ratio of net expenses to average net assets(I)(K) | **8.94** | 5.68 |
| Ratio of net investment income to average net assets(I) | **8.73** | 6.80 |

(A) Based on actual common shares outstanding at the end of the corresponding period.
(B) Based on weighted average per basic common share data.
(C) Distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.
(D) Total return equals the change in the market value of our common stock from the beginning of the period, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders*.
(E) Calculated using the average balance of net assets at the end of each month of the reporting period.
(F) The 1940 Act currently permits BDCs to issue senior securities representing indebtedness and senior securities that are stock, to which we refer as senior securities.
(G) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock. Our mandatorily redeemable preferred stock is a senior security that is stock.
(H) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.
(I) Amounts are annualized.
(J) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.
(K) Ratio of net expenses to average net assets is computed using total expenses net of any credits received from the Adviser.
(L) The ratio of expenses to average net assets for the three months ended June 30, 2013 was revised from the ratio previously reported, which was 6.54%, to correct an error as discussed in footnote 2.

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**NOTE 12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES**

In accordance with the SEC s Regulation S-X, we have one unconsolidated subsidiary, Galaxy Tool Holdings, Inc. ( Galaxy ), that met at least one of the significance conditions of the SEC s Regulation S-X as of June 30, 2014 and 2013 and for the three months ended June 30, 2014 and 2013. Additionally, we have one unconsolidated subsidiary, SOG Specialty K&T, LLC ( SOG ), and one former unconsolidated subsidiary, Venyu Solutions Inc. ( Venyu ), that met at least one of the significance conditions of the SEC s Regulation S-X for the three months ended June 30, 2013. Accordingly, summarized, comparative financial information, in aggregate, is presented below for our significant unconsolidated subsidiaries.

| Income Statement[(A)] | For the Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Net Sales | $ **14,428** | $ 22,719 |
| Gross Profit | **4,128** | 8,754 |
| Net loss | **(1,226)** | 189 |

(A) Reflects only three months of summarized income statement information of Venyu in 2013, as it was exited in August 2013.

**NOTE 13. SUBSEQUENT EVENTS**

*Distributions*

On July 15, 2014, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

| Declaration Date | Record Date | Payment Date | Distribution per Common Share | Distribution per Term Preferred Share |
|---|---|---|---|---|
| July 15, 2014 | July 25, 2014 | August 5, 2014 | **$ 0.06** | **$ 0.1484375** |
| July 15, 2014 | August 20, 2014 | August 29, 2014 | **0.06** | **0.1484375** |
| July 15, 2014 | September 19, 2014 | September 30, 2014 | **0.06** | **0.1484375** |
| **Total for the Quarter:** | | | **$ 0.18** | **$ 0.4453125** |

**Schedule 12-14**

**GLADSTONE INVESTMENT CORPORATION**

**INVESTMENTS IN AND ADVANCES TO AFFILIATES**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Name of Issuer[(A)] | Title of Issue or Nature of Indebtedness[(B)] | Amount of Dividends or Interest Credited to Income[(C)] | Value as of March 31, 2014 | Gross Additions[(D)] | Gross Reductions[(E)] | Value as of June 30, 2014 |
|---|---|---|---|---|---|---|
| **CONTROL INVESTMENTS** | | | | | | |
| Galaxy Tool Holding Corp. | Senior Subordinated Term Debt | $ 530 | $ 15,520 | $ | $ | $ 15,520 |
| | Preferred Stock | | 2,992 | 3,674 | | 6,666 |
| | Common Stock | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | 530 | 18,512 | 3,674 | | 22,186 |
| **TOTAL CONTROL INVESTMENTS** | | **$ 530** | **$ 18,512** | **$ 3,674** | **$** | **$ 22,186** |
| **AFFILIATE INVESTMENTS** | | | | | | |
| Alloy Die Casting Corp. | Senior Term Debt | $ 417 | $ 12,261 | $ | $ (31) | $ 12,230 |
| | Preferred Stock | | 1,948 | | (1,042) | 906 |
| | Common Stock | | | | | |
| | | 417 | 14,209 | | (1,073) | 13,136 |
| Behrens Manufacturing, LLC | Senior Term Debt | 328 | 9,975 | | | 9,975 |
| | Preferred Stock | | 2,754 | 478 | | 3,232 |
| | | 328 | 12,729 | 478 | | 13,207 |
| Channel Technologies Group, LLC | Preferred Stock | | 3,122 | | (769) | 2,353 |
| | Common Stock | | | | | |
| | | | 3,122 | | (769) | 2,353 |
| Danco Acquisition Corp. | Revolving Credit Facility | 38 | 690 | 400 | (512) | 578 |
| | Senior Term Debt | 26 | 515 | | (129) | 386 |
| | Senior Term Debt | 89 | 1,759 | | (440) | 1,319 |
| | Senior Term Debt | 15 | 236 | | (63) | 173 |
| | Preferred Stock | | | | | |
| | Common Stock Warrants | | | | | |
| | | 168 | 3,200 | 400 | (1,144) | 2,456 |
| Edge Adhesives Holdings, Inc. | Revolving Credit Facility | 30 | 795 | 361 | | 1,156 |
| | Senior Term Debt | 294 | 9,300 | 35 | | 9,335 |
| | Subordinated Term Debt | 83 | 2,400 | 12 | | 2,412 |
| | Preferred Stock | | 3,474 | 718 | | 4,192 |
| | | 407 | 15,969 | 1,126 | | 17,095 |
| Head Country Food Products, Inc. | Revolving Credit Facility | 1 | | | | |
| | Senior Term Debt | 286 | 9,050 | | | 9,050 |
| | Preferred Stock | | 4,000 | | (1,844) | 2,156 |
| | | 287 | 13,050 | | (1,844) | 11,206 |
| Meridian Rack & Pinion, Inc. | Senior Term Debt | 330 | 9,672 | 12 | | 9,684 |
| | Preferred Stock | | 3,468 | 84 | | 3,552 |
| | | 330 | 13,140 | 96 | | 13,236 |
| NDLI Inc. | Revolving Credit Facility | 22 | | 1,236 | (596) | 640 |
| | Senior Term Debt | 210 | | 11,166 | (5,384) | 5,782 |
| | Senior Term Debt | 101 | | 5,639 | (2,719) | 2,920 |
| | Senior Term Debt | 101 | | 5,639 | (2,719) | 2,920 |
| | Preferred Stock | | 2,592 | | (2,592) | |
| | Common Stock | | | | | |
| | | 434 | 2,592 | 23,680 | (14,010) | 12,262 |
| SOG Specialty Knives and Tools, LLC | Senior Term Debt | 208 | 6,200 | | | 6,200 |
| | Senior Term Debt | 455 | 12,199 | | | 12,199 |
| | Preferred Stock | 34 | 8,240 | | (1,253) | 6,987 |
| | | 697 | 26,639 | | (1,253) | 25,386 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tread Corp. | Revolving Credit Facility [F] | | | 750 | (750) | |
| | Senior Subordinated Term Debt [F] | | | | | |
| | Senior Subordinated Term Debt [F] | | | | | |
| | Preferred Stock | | | | | |
| | Common Stock | | | | | |
| | Common Stock Warrants | | | | | |
| | | | | 750 | (750) | |
| **Total Affiliate Investments** | | **$ 3,068** | **$ 104,650** | **$ 26,530** | **$ (20,843)** | **$ 110,337** |

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

(B) Common stock, warrants, options and, in some cases, preferred stock are generally non-income-producing and restricted. The principal amount of debt and the number of shares of common stock and preferred stock are shown in the Consolidated Schedules of Investments as of June 30, 2014.

(C) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was a control investment or affiliate investment, as appropriate.

(D) Gross additions include increases in investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or decreases in unrealized depreciation.

(E) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales, the amortization of premiums and acquisition costs and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or decreases in unrealized appreciation.

** Information related to the amount of equity in the net profit and loss for the period for the investments listed has not been included in this schedule. This information is not considered to be meaningful due to the complex capital structures of the portfolio companies, with different classes of equity securities outstanding with different preferences in liquidation. These investments are not consolidated, nor are they accounted for under the equity method of accounting.

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

Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

**Shares of Common Stock**

We are offering for sale shares of our common stock. Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value per share of our common stock at the close of business on , 201 was $ per share.

| | Per Share | Total (1) |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds, before expenses, to us | $ | $ |

(1) The aggregate expenses of the offering are estimated to be $ , which represents approximately $ per share.

The underwriters may also purchase up to an additional shares of common stock from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days after the date of this prospectus supplement. If the over-allotment option is exercised in full, our total proceeds, before expenses, would be $ and the total underwriting discounts and commissions would be $ . The common shares will be ready for delivery on or about , .

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our common stock and you should retain them 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 at http://www.gladstoneinvestment.com.

**An investment in our common stock 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 S-6 of this prospectus supplement and page 7 of the accompanying prospectus. 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 common stock. You should carefully consider these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our common stock.**

**The common stock being offered has 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 supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

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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 supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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**Prospectus Supplement**



**Prospectus**

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

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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 year ended , and average net assets for the quarter ended , .

| | |
|---|---|
| **Stockholder Transaction Expenses:** | |
| Sales load (as a percentage of offering price) | [ ]% |
| Offering expenses (as a percentage of offering price) | [ ]% |
| Dividend reinvestment plan expenses(1) | [ ] |
| Total stockholder transaction expenses | [ ]% |
| **Annual expenses (as a percentage of net assets attributable to common stock):** | |
| Management fees(2) | [ ]% |
| Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(3) | [ ]% |
| Interest payments on borrowed funds(4) | [ ]% |
| Other expenses(5) | [ ]% |
| Total annual expenses (2)(5) | [ ]% |

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

(2) Our annual base management fee is 2% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Investment, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. For the fiscal year ended , , our Adviser voluntarily agreed to waive the annual base management fee of 2% to [ ]% 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 , , the waiver did not impact our expenses for that period, as reflected in the table above. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus and footnote 3 below.

(3) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly ([ ]% 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.

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%)

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= 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 in the accompanying prospectus.

(4) Includes deferred financing costs. We entered into a revolving credit facility, effective , , under which our borrowing capacity is $[ ] 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 $[ ] million at an interest rate of [ ]% plus an additional fee related to borrowings of [ ]%, for an aggregate rate of [ ]%, interest payments and amortization of deferred financing costs on borrowed funds would have been [ ]% of our average net assets for the quarter ended , .

(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 in the accompanying prospectus.

**Example**

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

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment: | | | | |
| assuming a 5% annual return consisting entirely of ordinary income(1)(2) | $ [ ] | $ [ ] | $ [ ] | $ [ ] |
| assuming a 5% annual return consisting entirely of capital gains(2)(3) | $ [ ] | $ [ ] | $ [ ] | $ [ ] |

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

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

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

## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

[To be provided.]

## FINANCIAL HIGHLIGHTS

[To be provided.]

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

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 , , we had [ ] stockholders of record.

## PLAN OF DISTRIBUTION

[To be provided.]

## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by .]

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**Gladstone Investment Corporation**

**Shares of Common Stock**

**PROSPECTUS SUPPLEMENT**

**, 201**

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

Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

**Shares**

**% Series [ ] Preferred Stock**

**Liquidation Preference $ per share**

We are offering for sale shares of our Series Preferred Stock. Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value per share of our common stock at the close of business on , 201 was $ per share. There currently is no market for the preferred stock. We applied to list the preferred stock on [ ]. The expected trading symbol for the preferred stock is [ ].

| | Per Share | Total (1) |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds, before expenses, to us | $ | $ |

(1) The aggregate expenses of the offering are estimated to be $ , which represents approximately $ per share.

The Underwriters are expected to deliver the Series Preferred Stock in book-entry form through the Depositary Trust Company on or about .

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our preferred stock and you should retain them 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 at http://www.gladstoneinvestment.com.

**An investment in our preferred stock 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 P-5 of this prospectus supplement and page 7 of the accompanying prospectus. 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 preferred stock. You should carefully consider these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our preferred stock.**

**The preferred stock being offered has 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 supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

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**Table of Contents**

**We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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**Prospectus Supplement**



**Prospectus**

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

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**TERMS OF THE SERIES [ ] PREFERRED STOCK**

| | |
|---|---|
| Dividend Rate | The dividend rate will be %. |
| Dividend Payment Rate | [Dividends will be paid when, as and if declared on , , , and , commencing .] The payment date for the initial dividend period will be .] |
| Regular Dividend Period | Regular dividend periods will be days. |
| Liquidation Preference | $ per share |
| Non-Call Period | The shares may not be called for redemption at the option of the Company prior to . |
| Stock Exchange Listing | |

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## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

[To be provided.]

## CAPITALIZATION

[To be provided.]

## RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

[To be provided.]

## DESCRIPTION OF THE SERIES [    ] PREFERRED STOCK

[To be provided.]

## TAXATION

[To be provided.]

## UNDERWRITING

[To be provided.]

## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by            .]

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**Gladstone Investment Corporation**

**Shares**

**% Series [ ] Preferred Stock**

**(Liquidation Preference $ per share)**

**PROSPECTUS SUPPLEMENT**

**, 201**

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

Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

**Rights for Shares**

**Subscription Rights for Common Stock**

Gladstone Investment Corporation, referred to as we, us, our or the Company, is issuing subscription rights, or Rights, to our common stockholders to purchase additional shares of common stock.

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. Our investment adviser is Gladstone Management Corporation, referred to as Adviser.

Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value per share of our common stock at the close of business on , 201 was $ per share.

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our Rights and you should retain them 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 at http://www.gladstoneinvestment.com.

**Investing in common stock through Rights involves certain risks that are described in the Risk Factors section beginning on page R-7 of this prospectus supplement and page 7 of the accompanying prospectus.**

**Stockholders who do not exercise their rights may, at the completion of the offering, own a smaller proportional interest in the Company than if they exercised their rights. As a result of the offering you may experience dilution or accretion of the aggregate net asset value of your shares of common stock depending upon whether the Company s net asset value per share of common stock is above or below the subscription price on the expiration date.**

**The Rights 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 supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

| | Per Share | Total |
|---|---|---|
| Subscription price of Common Stock to shareholders exercising Rights | $ | $ |

| | | |
|---|---|---|
| Underwriting discounts and commissions | $ | $ |
| Proceeds, before expenses, to us (1) | $ | $ |

(1) The aggregate expenses of the offering are estimated to be $ .

The common stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about , 201 . If the offer is extended, the common stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about , 201 .

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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 supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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**Prospectus Supplement**



**Prospectus**

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

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**SUMMARY OF THE TERMS OF THE RIGHTS OFFERING**

| | |
|---|---|
| **Terms of the Offer** | [To be provided.] |
| **Amount Available for Primary Subscription** | $[ ] |
| **Title** | Subscription Rights for common stock |
| **Subscription Price** | Rights may be exercised at a price of $ per share of common stock (the Subscription Price ). See Description of the Rights Offering. |
| **Record Date** | Rights will be issued to holders of record of the Company s common stock on , 201 (the Record Date ). See Description of the Rights Offering. |
| **Number of Rights Issued** | Rights will be issued in respect of each share of common stock of the Company outstanding on the Record Date. See Description of the Rights Offering. |
| **Number of Rights Required to Purchase One Common Share** | A holder of Rights may purchase share of common stock of the Company for every Rights exercised. The number of Rights to be issued to a stockholder on the Record Date will be rounded up to the nearest number of Rights evenly divisible by . See Description of the Rights Offering. |
| **Over-Subscription Privilege** | [To be provided.] |
| **Transfer of Rights** | [To be provided.] |
| **Subscription Period** | The Rights may be exercised at any time after issuance and prior to expiration of the Rights, which will be 5:00 PM Eastern Time on , 201 (the Expiration Date ) (the Subscription Period ). See Description of the Rights Offering. |
| **Offer Expenses** | The expenses of the Offer are expected to be approximately $[ ]. See Use of Proceeds. |
| **Sale of Rights** | [To be provided.] |
| **Use of Proceeds** | The Company estimates the net proceeds of the Offer to be approximately $[ ]. This figure is based on the Subscription Price per share of $ and assumes all new shares of common stock offered are sold and that the expenses related to the Offer estimated at approximately $[ ] are paid.<br><br>The Company intends to use the net proceeds from this offering 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. 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 the offering. Pending such utilization, we intend to invest the net proceeds of this 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. See Use of Proceeds. |
| **Rights Agent** | [To be provided.] |

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## DESCRIPTION OF THE RIGHTS OFFERING

[To be provided.]

## 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 year ended , and average net assets for the quarter ended , .

| | |
|---|---|
| **Stockholder Transaction Expenses:** | |
| Sales load (as a percentage of offering price) | [ ]% |
| Offering expenses (as a percentage of offering price) | [ ]% |
| Dividend reinvestment plan expenses(1) | [ ] |
| Total stockholder transaction expenses | [ ]% |
| **Annual expenses (as a percentage of net assets attributable to common stock):** | |
| Management fees(2) | [ ]% |
| Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(3) | [ ]% |
| Interest payments on borrowed funds(4) | [ ]% |
| Other expenses(5) | [ ]% |
| Total annual expenses(2)(5) | [ ]% |

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

(2) Our annual base management fee is 2% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Investment, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. For the fiscal year ended , , our Adviser voluntarily agreed to waive the annual base management fee of 2% to [ ]% 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 , , the waiver did not impact our expenses for that period, as reflected in the table above. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus and footnote 3 below.

(3) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly ([ ]% 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.

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 in the accompanying prospectus.

(4) Includes deferred financing costs. We entered into a revolving credit facility, effective , , under which our borrowing capacity is $[ ] 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 $[ ] million at an interest rate of [ ]% plus an additional fee related to borrowings of [ ]%, for an aggregate rate of [ ]%, interest payments and amortization of deferred financing costs on borrowed funds would have been [ ]% of our average net assets for the quarter ended , .

(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 in the accompanying prospectus.

**Example**

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

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment: | | | | |
| assuming a 5% annual return consisting entirely of ordinary income(1)(2) | $ [ ] | $ [ ] | $ [ ] | $ [ ] |
| assuming a 5% annual return consisting entirely of capital gains(2)(3) | $ [ ] | $ [ ] | $ [ ] | $ [ ] |

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

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

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

## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

[To be provided.]

## CAPITALIZATION

[To be provided.]

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

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 , , we had [ ] stockholders of record.

## TAXATION

[To be provided.]

## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by .]

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**Gladstone Investment Corporation**

**Shares of Common Stock**

**Issuable Upon Exercise of Rights to**

**Subscribe for Such Shares of Common Stock**

**PROSPECTUS SUPPLEMENT**

**, 201**

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Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

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**Subscription Rights for % Series [ ] Preferred Stock**

Gladstone Investment Corporation, referred to as we, us, our or the Company, is issuing subscription rights, or Rights, to our common stockholders to purchase shares of % Series [ ] Preferred Stock, referred to as the Series [ ] Preferred Stock.

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. Our investment adviser is Gladstone Management Corporation, referred to as Adviser.

Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value of our common shares at the close of business on , 201 was $ per share. There currently is no market for the preferred stock. We applied to list the preferred stock on [ ]. The expected trading symbol for the preferred stock is [ ].

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our Rights and you should retain them 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 at http://www.gladstoneinvestment.com.

**Investing in preferred stock through Rights involves certain risks that are described in the Risk Factors section beginning on page PR-6 of this prospectus supplement and page 7 of the accompanying prospectus.**

**The Rights 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.**

| | Per Share | Total |
|---|---|---|
| Subscription price of Preferred Stock to shareholders exercising Rights | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds, before expenses, to us (1) | $ | $ |

(1) The aggregate expenses of the offering are estimated to be $[ ].

The preferred stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about , 201 .

If the offer is extended, the preferred stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about , 201 .

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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 supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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**Prospectus Supplement**



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

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**SUMMARY OF THE TERMS OF THE RIGHTS OFFERING**

| | |
|---|---|
| **Terms of the Offer** | [To be provided.] |
| **Amount Available for Primary Subscription** | $[ ] |
| **Title** | Subscription Rights for Series [ ] preferred stock |
| **Exercise Price** | Rights may be exercised at a price of $ per share of common stock (the Subscription Price ). See Description of the Rights Offering. |
| **Record Date** | Rights will be issued to holders of record of the Company s common stock on , 201 (the Record Date ). See Description of the Rights Offering. |
| **Number of Rights Issued** | Rights will be issued in respect of each share of preferred stock of the Company outstanding on the Record Date. See Description of the Rights Offering. |
| **Number of Rights Required to Purchase One Preferred Share** | A holder of Rights may purchase share of common stock of the Company for every Rights exercised. The number of Rights to be issued to a stockholder on the Record Date will be rounded up to the nearest number of Rights evenly divisible by . See Description of the Rights Offering. |
| **Over-Subscription Privilege** | [To be provided.] |
| **Transfer of Rights** | [To be provided.] |
| **Exercise Period** | The Rights may be exercised at any time after issuance and prior to expiration of the Rights, which will be 5:00 PM Eastern Time on , 201 (the Expiration Date ) (the Subscription Period ). See Description of the Rights Offering. |
| **Offer Expenses** | The expenses of the Offer are expected to be approximately $[ ]. See Use of Proceeds. |
| **Sale of Rights** | [To be provided.] |
| **Use of Proceeds** | The Company estimates the net proceeds of the Offer to be approximately $[ ]. This figure is based on the Exercise Price per share of $ and assumes all new shares of Series [ ] preferred stock offered are sold and that the expenses related to the Offer estimated at approximately $[ ] are paid.<br><br>The Company intends to use the net proceeds from this offering 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. 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 the offering. Pending such utilization, we intend to invest the net proceeds of this 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. See Use of Proceeds. |
| **Rights Agent** | [To be provided.] |

**TERMS OF THE SERIES [ ] PREFERRED STOCK**

| | |
|---|---|
| Dividend Rate | The dividend rate will be %. |
| Dividend Payment Rate | [Dividends will be paid when, as and if declared on , , , and , commencing .] The payment date for the initial dividend period will be .] |
| Regular Dividend Period | Regular dividend periods will be days. |
| Liquidation Preference | $ per share |
| Non-Call Period | The shares may not be called for redemption at the option of the Company prior to . |
| Stock Exchange Listing | |

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## DESCRIPTION OF THE RIGHTS OFFERING

[To be provided.]

## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

We intend to use the net proceeds from this offering 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 [ ]% and matures on , . 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 the offering. Pending such utilization, we intend to invest the net proceeds of this 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.

## CAPITALIZATION

[To be provided.]

## RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

[To be provided.]

## TAXATION

[To be provided.]

## UNDERWRITING

[To be provided.]

## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by .]

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**Gladstone Investment Corporation**

**Shares of % Series [ ] Preferred Stock**

**Issuable Upon Exercise of Rights to**

**Subscribe for Such Shares of Preferred Stock**

**PROSPECTUS SUPPLEMENT**

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

Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

**% Notes due ,**

We are offering promissory notes in an aggregate principal amount of $ , which we refer to as the Notes in this prospectus supplement. Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value per share of our common stock at the close of business on , 201 was $ per share.

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our Notes and you should retain them 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 at http://www.gladstoneinvestment.com.

**An investment in our Notes 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 N-5 of this prospectus supplement and page 7 of the accompanying prospectus. 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 Notes. You should carefully consider these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our Notes.**

**The Notes do not represent a deposit or obligation of, and are 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.**

| | Per Note | Total |
|---|---|---|
| Public offering price | $ | $ |
| Sales load | $ | $ |
| Proceeds to us (before expenses) (1) | $ | $ |

(1) Does not include offering expenses payable to us estimated to be $ .

The Notes will be ready for delivery on or about , 201 .

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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 supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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**TERMS OF THE NOTES**

| | |
|---|---|
| Principal Amount | The principal amount of the Notes is $ in the aggregate. |
| Maturity | The principal amount of the Notes will become due and payable on , . |
| Interest Rate | The interest rate will be %. |
| Frequency of payment | Interest will be paid commencing . |
| Prepayment Protections | [To be provided.] |
| Conversion | [To be provided.] |
| [Stock Exchange Listing] | [To be provided.] |
| Rating | It is a condition of issuance that the notes be rated [ ] by [ ]. |
| Covenants | [To be provided.] |
| Events of Default | [To be provided.] |
| Clearance and Settlement Procedures | [To be provided.] |
| Denominations | [To be provided.] |
| Ranking | [To be provided.] |
| Trustee | [To be provided.] |
| Redemption | [To be provided.] |

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## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

[To be provided.]

## CAPITALIZATION

[To be provided.]

## RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

[To be provided.]

## TAXATION

[To be provided.]

## UNDERWRITING

[To be provided.]

## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by .]

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**Gladstone Investment Corporation**

**%   Notes due   ,**

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

Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

**% Senior Notes due ,**

We are offering promissory senior notes in an aggregate principal amount of $ , which we refer to as the Notes in this prospectus supplement. Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value per share of our common stock at the close of business on , 201 was $ per share.

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our Notes and you should retain them 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 at http://www.gladstoneinvestment.com.

**An investment in our Notes 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 N-5 of this prospectus supplement and page 7 of the accompanying prospectus. 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 Notes. You should carefully consider these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our Notes.**

**The Notes do not represent a deposit or obligation of, and are 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.**

| | Per Note | Total |
|---|---|---|
| Public offering price | $ | $ |
| Sales load | $ | $ |
| Proceeds to us (before expenses) (1) | $ | $ |

(1) Does not include offering expenses payable to us estimated to be $ .

The Notes will be ready for delivery on or about , 201 .

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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 supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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

**TERMS OF THE NOTES**

| | |
|---|---|
| Principal Amount | The principal amount of the Notes is $ in the aggregate. |
| Maturity | The principal amount of the Notes will become due and payable on , . |
| Interest Rate | The interest rate will be %. |
| Frequency of payment | Interest will be paid commencing . |
| Prepayment Protections | [To be provided.] |
| Conversion | [To be provided.] |
| [Stock Exchange Listing] | [To be provided.] |
| Rating | It is a condition of issuance that the notes be rated [ ] by [ ]. |
| Covenants | [To be provided.] |
| Events of Default | [To be provided.] |
| Clearance and Settlement Procedures | [To be provided.] |
| Denominations | [To be provided.] |
| Ranking | [The Notes may rank senior to future debt securities if such debt issuance is expressly subordinate to the Notes. The Notes may rank senior to current indebtedness if the Notes are secured. The Company will provide any required disclosure should the Notes rank senior to current or future obligations, and any such ranking will be in accordance with the applicable provisions of the 1940 Act. Additional details to be provided regarding any such ranking.] |
| Trustee | [To be provided.] |
| Redemption | [To be provided.] |

**Table of Contents**

## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

[To be provided.]

## CAPITALIZATION

[To be provided.]

## RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

[To be provided.]

## TAXATION

[To be provided.]

## UNDERWRITING

[To be provided.]

## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by .]

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**Gladstone Investment Corporation**

**% Notes due ,**

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

Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

**Warrants for Common Stock**

We are offering for sale warrants to purchase shares of common stock of the Company, which we refer to as Common Warrants, at an exercise price equal to $ per whole share. No fractional Common Warrants will be issued. Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value per share of our common stock at the close of business on , 201 was $ per share.

Currently, no public market exists for the Common Warrants offered by this prospectus supplement. It is anticipated that the Common Warrants will be quoted on promptly after the date of this prospectus supplement.

| | **Per Warrant** | **Total (1)** |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds, before expenses, to us | $ | $ |

(1) The aggregate expenses of the offering are estimated to be $ .

The Underwriters are expected to deliver the Common Warrants in book-entry form through the Depositary Trust Company on or about , .

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our Common Warrants and you should retain them 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 at http://www.gladstoneinvestment.com.

**An investment in our Common Warrants 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 W-7 of this prospectus supplement and page 7 of the accompanying prospectus. 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 Common Warrants. You should carefully consider these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our Common Warrants.**

**The Common Warrants 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 supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

, 201

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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 supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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

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## TERMS OF THE WARRANTS

| | |
|---|---|
| Exercise Price | Each Common Warrant will be exercisable at an exercise price of $ per whole share of common stock of the Company. |
| Exercise Period | The Common Warrants will be exercisable until the date that is years from the original date of issuance, or the Exercise Period. The rights represented by the Common Warrants may be exercised in whole or in part at any time during the Exercise Period. |
| [Stock Exchange Listing] | [To be provided.] |
| [Non-Call Period | The Common Warrants may not be called for redemption at the option of the Company prior to .] |
| No Stockholder Rights | The Common Warrants do not entitle the holder to any voting rights or other rights as a stockholder of the Company. |

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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 year ended , and average net assets for the quarter ended , .

| | |
|---|---|
| **Stockholder Transaction Expenses:** | |
| Sales load (as a percentage of offering price) | [ ]% |
| Offering expenses (as a percentage of offering price) | [ ]% |
| Dividend reinvestment plan expenses(1) | [ ] |
| Total stockholder transaction expenses | [ ]% |
| **Annual expenses (as a percentage of net assets attributable to common stock):** | |
| Management fees(2) | [ ]% |
| Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(3) | [ ]% |
| Interest payments on borrowed funds(4) | [ ]% |
| Other expenses(5) | [ ]% |
| Total annual expenses (2)(5) | [ ]% |

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

(2) Our annual base management fee is 2% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Investment, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. For the fiscal year ended , , our Adviser voluntarily agreed to waive the annual base management fee of 2% to [ ]% 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 , , the waiver did not impact our expenses for that period, as reflected in the table above. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus and footnote 3 below.

(3) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly ([ ]% 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.

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:

$= 100\% \times (2.00\% \quad 1.75\%)$

$= 0.25\%$

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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 in the accompanying prospectus.

(4) Includes deferred financing costs. We entered into a revolving credit facility, effective , , under which our borrowing capacity is $[ ] 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 $[ ] million at an interest rate of [ ]% plus an additional fee related to borrowings of [ ]%, for an aggregate rate of [ ]%, interest payments and amortization of deferred financing costs on borrowed funds would have been [ ]% of our average net assets for the quarter ended , .

(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 in the accompanying prospectus.

**Example**

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

| | **1 Year** | **3 Years** | **5 Years** | **10 Years** |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment: | | | | |
| assuming a 5% annual return consisting entirely of ordinary income(1)(2) | $ [ ] | $ [ ] | $ [ ] | $ [ ] |
| assuming a 5% annual return consisting entirely of capital gains(2)(3) | $ [ ] | $ [ ] | $ [ ] | $ [ ] |

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

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

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

## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

[To be provided.]

## CAPITALIZATION

[To be provided.]

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

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 , , we had [ ] stockholders of record.

## DESCRIPTION OF THE WARRANTS

[To be provided.]

## TAXATION

[To be provided.]

## UNDERWRITING

[To be provided.]

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## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by .]

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**Gladstone Investment Corporation**

**Warrants for Common Stock**

**PROSPECTUS SUPPLEMENT**

**, 201**

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Filed Pursuant to Rule 497

Registration Statement No. 333-181879

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 201 )

**Warrants for Series [ ] Preferred Stock**

We are offering for sale warrants to purchase shares of Series [ ] Preferred Stock of the Company, which we refer to as Preferred Warrants, at an exercise price equal to $ per whole share. No fractional Preferred Warrants will be issued. Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. The last reported sale price for our common stock on , was $ per share. The net asset value per share of our common stock at the close of business on , 201 was $ per share. Our preferred stock is traded on [ ] under the symbol [ ]. The last reported sale of our preferred stock on , 201 was $ per share.

Currently, no public market exists for the Preferred Warrants offered by this prospectus supplement. It is anticipated that the Preferred Warrants will be quoted on promptly after the date of this prospectus supplement.

| | Per Warrant | Total (1) |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds, before expenses, to us | $ | $ |

(1) The aggregate expenses of the offering are estimated to be $ .

The Underwriters are expected to deliver the Preferred Warrants in book-entry form through the Depositary Trust Company on or about , .

You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our Preferred Warrants and you should retain them 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 at http://www.gladstoneinvestment.com.

**An investment in our Preferred Warrants 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 WP-6 of this prospectus supplement and page 7 of the accompanying prospectus. 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 Preferred Warrants. You should carefully consider these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our Preferred Warrants.**

**The Preferred Warrants 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.**

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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 supplement or the accompanying prospectus. You must not rely upon any information or representation not contained in this prospectus supplement or the accompanying prospectus as if we had authorized it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and any accompanying prospectus is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.**

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**Prospectus Supplement**



**Prospectus**

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

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**TERMS OF THE WARRANTS**

| | |
|---|---|
| Exercise Price | Each Preferred Warrant will be exercisable at an exercise price of $ per whole share of Series [ ] Preferred Stock of the Company. |
| Exercise Period | The Preferred Warrants will be exercisable until the date that is years from the original date of issuance, or the Exercise Period. The rights represented by the warrant may be exercised in whole or in part at any time during the Exercise Period. |
| [Stock Exchange Listing] | [To be provided.] |
| [Non-Call Period | The Preferred Warrants may not be called for redemption at the option of the Company prior to .] |
| No Stockholder Rights | The Preferred Warrants do not entitle the holder to any voting rights or other rights as a stockholder of the Company. |

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**TERMS OF THE SERIES [ ] PREFERRED STOCK**

| | |
|---|---|
| Dividend Rate | The dividend rate will be %. |
| Dividend Payment Rate | [Dividends will be paid when, as and if declared on , , , and , commencing .] The payment date for the initial dividend period will be .] |
| Regular Dividend Period | Regular dividend periods will be days. |
| Liquidation Preference | $ per share |
| Non-Call Period | The shares may not be called for redemption at the option of the Company prior to . |
| Stock Exchange Listing | |

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## RISK FACTORS

[To be provided.]

## USE OF PROCEEDS

[To be provided.]

## CAPITALIZATION

[To be provided.]

## DESCRIPTION OF THE WARRANTS

[To be provided.]

## TAXATION

[To be provided.]

## UNDERWRITING

[To be provided.]

## LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. [Certain legal matters will be passed upon for the underwriters by .]

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**Gladstone Investment Corporation**

**Warrants for Series [    ] Preferred Stock**

**PROSPECTUS SUPPLEMENT**

**, 201**

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**Part C OTHER INFORMATION**

**Item 25.** ***Financial Statements and Exhibits***

**1. Financial Statements**

The following financial statements of Gladstone Investment Corporation (the Company or the Registrant ) are included in the Registration Statement in Part A: Information Required in a Prospectus:

**GLADSTONE INVESTMENT CORPORATION**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**Audited Consolidated Financial Statements**



**2. Exhibits**

| Exhibit Number | Description |
|---|---|
| 2.a.1 | Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit a.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005. |
| 2.a.2 | Certificate of Designation of 7.125% Series A Cumulative Term Preferred Stock of Gladstone Investment Corporation, incorporated by reference to Exhibit 2.a.2 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720) filed February 29, 2012. |
| 2.b.1 | Amended and Restated Bylaws, incorporated by reference to Exhibit b.2 to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 2.b.2 | First Amendment to Amended and Restated Bylaws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00704), filed July 10, 2007. |
| 2.c | Not applicable. |
| 2.d.1 | Specimen Stock Certificate, incorporated by reference to Exhibit 99.d to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |

| | |
|---|---|
| 2.d.2 | Form of Senior Indenture, incorporated by reference to Exhibit 2.d.2 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006. |

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| Exhibit Number | Description |
|---|---|
| 2.d.3 | Form of Subordinated Indenture, incorporated by reference to Exhibit 2.d.3 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006. |
| 2.d.4 | Specimen 7.125% Series A Cumulative Term Preferred Stock Certificate, incorporated by reference to Exhibit 2.d.4 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720), filed February 29, 2012. |
| 2.d.5* | Form of Common Stock Subscription Form and Subscription Certificate. |
| 2.d.6* | Form of Preferred Stock Subscription Form and Subscription Certificate. |
| 2.d.7* | Form of Common Stock Warrant Agreement and Warrant Certificate. |
| 2.d.8* | Form of Preferred Stock Warrant Agreement and Warrant Certificate. |
| 2.f | Not applicable. |
| 2.g | Investment Advisory and Management Agreement between the Registrant and Gladstone Management Corporation, incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012). |
| 2.h** | Form of Underwriting Agreement. |
| 2.i | Not applicable. |
| 2.j.1 | Custody Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit 99.j to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 2.j.2* | Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated October 10, 2006. |
| 2.j.3* | Amendment No. 1 to Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated April 14, 2009. |
| 2.k.1 | Administration Agreement between the Registrant and Gladstone Administration, LLC, dated June 22, 2005, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012). |
| 2.k.2 | Stock Transfer Agency Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit k.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005. |
| 2.k.3 | Fifth Amended and Restated Credit Agreement, dated as of April 30, 2013, by and among Gladstone Business Investment, LLC, as Borrower, Gladstone Management Corporation, as servicer, the financial institutions as party thereto, as Lenders and Managing Agents, and Key Equipment Finance, Inc., as Administrative Agent and Lead Arranger, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 2, 2013. |
| 2.k.4 | Joinder Agreement, dated as of June 12, 2013, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and Everbank Commercial Finance, Inc., incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013. |
| 2.k.5 | Joinder Agreement, dated as of June 12, 2013, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and Alostar Bank of Commerce, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013. |
| 2.l* | Opinion of Bass, Berry & Sims PLC. |
| 2.m | Not applicable. |
| 2.n.1* | Consent of Bass, Berry & Sims PLC (included in Exhibit 2.l). |
| 2.n.2 | Consent of PricewaterhouseCoopers LLP. |
| 2.n.3* | Report of Independent Registered Public Accounting Firm. |
| 2.n.4* | Consent of Moss Adams LLP. |

| | |
|---|---|
| 2.n.5* | Consent of Allen, Gibbs & Houlik, L.C. |
| 2.n.6* | Consent of Moss Adams LLP |
| 2.o | Not applicable. |
| 2.p | Founder Stock Purchase Agreement between the Registrant and David Gladstone, incorporated by reference to Exhibit p to the Registration Statement on Form N-2 (File No. 333-123699), filed March 31, 2005. |
| 2.q | Not applicable. |
| 2.r* | Code of Ethics and Business Conduct, updated January 28, 2013. |
| 2.s.1* | Power of Attorney (included in the signature page to the Registration Statement, filed on June 4, 2012). |
| 2.s.2 | Computation of Ratio of Earnings to Fixed Charges. |
| 2.s.3 | Statement of Eligibility of trustee on Form T-1 (to be filed pursuant to Section 305(b)(2) of the Trust Indenture Act of 1939). |
| 99.1* | Financial Statements of Danco Acquisition Corporation as of and for the years ended December 31, 2013 and 2012 (unaudited). |
| 99.2* | Financial Statements of Danco Acquisition Corporation as of and for the years ended December 31, 2012 and 2011. |
| 99.3* | Financial Statements of Galaxy Tool Holding Corporation and Subsidiaries as of and for the years ended December 31, 2013 and 2012. |
| 99.4* | Financial Statements of Galaxy Tool Holding Corporation and Subsidiaries as of and for the years ended December 31, 2012 and 2011. |
| 99.5* | Financial Statements of SOG Specialty Knives and Tools, LLC as of and for the years ended December 31, 2013 and 2012. |
| 99.6* | Financial Statements of SOG Specialty Knives and Tools, LLC as of December 31, 2011 and for the period August 6, 2011 through December 31, 2011 (unaudited). |

* Previously filed.
** To be filed by post-effective amendment.

**Item 26.** ***Marketing Arrangements***

The information contained under the heading Plan of Distribution in the prospectus is incorporated herein by reference, and any information concerning any underwriters will be contained in the accompanying prospectus supplement, if any.

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**Item 27.** ***Other Expenses of Issuance and Distribution***

| | |
|---|---|
| Commission registration fee | $ 34,380 |
| FINRA fee | 30,500 |
| Accounting fees and expenses | 75,000* |
| Legal fees and expenses | 250,000* |
| Printing and engraving | 100,000* |
| Miscellaneous fees and expenses | 15,000* |
| Total | $ 487,240* |

* These amounts are estimates.
All of the expenses set forth above shall be borne by the Registrant.

**Item 28.** ***Persons Controlled by or Under Common Control***
The following list sets forth each of the companies considered to be controlled by the Registrant as defined by the Investment Company Act of 1940, as of June 30, 2014:

Gladstone Business Investment, LLC, a Delaware limited liability company, controlled by the Registrant, through 100% of the voting securities. (1)

¡ Galaxy Tool Holding Corporation, incorporated in Delaware, and its subsidiaries, controlled by the Registrant, through 63% of the voting securities (2)

Gladstone Investment Advisers, Inc., a Delaware corporation, controlled by the Registrant, through 100% of the voting securities. (1)
(1) Subsidiary is included in the Registrant s consolidated financial statements.

(2) The Registrant filed separate unaudited financial statements for Galaxy Tool Holding Corporation and its subsidiaries as an exhibit to its Annual Report on Form 10-K for the fiscal year ended March 31, 2014, on May 13, 2014.

We may also be deemed to be under common control with the following entities: Gladstone Capital Corporation, a Maryland corporation; Gladstone Commercial Corporation, a Maryland corporation; and Gladstone Land Corporation, a Maryland corporation; by virtue of the fact that they are advised by our Adviser, Gladstone Management Corporation, as well as Gladstone Lending Corporation, a Maryland corporation, and Gladstone Participation Fund, LLC, a Delaware limited liability company, because 100% of the voting securities of each are owned by Gladstone Management Corporation.

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**Item 29.** ***Number of Holders of Securities***
The following table sets forth the approximate number of record holders of our common stock at May 23, 2014.

| Title of Class | Number of Record Holders |
|---|---|
| Common Stock, par value $0.001 per share | 25 |
| 7.125% Series A Cumulative Term Preferred Stock, par value $0.001 par value per share | 1 |

**Item 30.** ***Indemnification***
Subject to the Investment Company Act of 1940 as amended, or the 1940 Act, or any valid rule, regulation or order of the Securities and Exchange Commission, or the SEC, thereunder, our amended and restated certificate of incorporation and bylaws provide that we will indemnify any person who was or is a party or is threatened to be made a party to any threatened action, suit or proceeding whether civil, criminal, administrative or investigative, by reason of the fact that he is or was our director or officer, or is or was serving at our request as a director, officer, partner or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise to the maximum extent permitted by Section 145 of the Delaware General Corporation Law. The 1940 Act provides that a company may not indemnify any director or officer against liability to it or its security holders to which he or she might otherwise be subject by reason of his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of the foregoing conduct. In addition to any indemnification to which our directors and officers are entitled pursuant to our certificate of incorporation and bylaws and the Delaware General Corporation Law, our certificate of incorporation and bylaws permit us to indemnify our other employees and agents to the fullest extent permitted by the Delaware General Corporation Law, whether such employees or agents are serving us or, at our request, any other entity.

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

**Item 31.** ***Business and Other Connections of Investment Adviser***
A description of any other business, profession, vocation or employment of a substantial nature in which our Adviser, and each director or executive officer of our Adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the section entitled Management. Additional information regarding our Adviser and its officers and directors is set forth in its Form ADV, as filed with the SEC, and is incorporated herein by reference.

**Item 32.** ***Location of Accounts and Records***
All accounts, books or other documents required to be maintained by Section 31(a) of the 1940 Act and the rules thereunder are maintained at the offices of:

(1) the Registrant, Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102;

(2) the Transfer Agent, Computershare, 250 Royall Street, Canton, MA 02021;

(3) the Adviser, Gladstone Management Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102;

(4) the Custodian, The Bank of New York Mellon Corp., 500 Ross Street, Suite 625, Pittsburgh, PA 15262; and

(5) the Collateral Custodian, The Bank of New York Mellon Corp., 500 Ross Street, Suite 625 Pittsburgh, PA 15262.

**Item 33.** ***Management Services***
Not applicable.

**Item 34.** ***Undertakings***
1. We hereby undertake to suspend the offering of shares until the prospectus is amended if, subsequent to the effective date of this registration statement, our net asset value declines more than ten percent from our net asset value as of the effective date of this registration statement.

2. We hereby undertake:

(a) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended, or the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(b) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof;

(c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(d) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use;

(e) that for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities: The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;

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(ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser;

(f) To file a post-effective amendment to the registration statement, and to suspend any offers or sales pursuant the registration statement until such post-effective amendment has been declared effective under the Securities Act, in the event the shares of the Registrant are trading below its net asset value and either (i) the Registrant receives, or has been advised by its independent registered accounting firm that it will receive, an audit report reflecting substantial doubt regarding the Registrant s ability to continue as a going concern or (ii) the Registrant has concluded that a material adverse change has occurred in its financial position or results of operations that has caused the financial statements and other disclosures on the basis of which the offering would be made to be materially misleading;

(g) to file a post-effective amendment to the registration statement in respect of any one or more offerings of the Registrant s shares (including warrants and/or rights to purchase the shares) below net asset value that will result in greater than 15% dilution, in the aggregate, to existing net asset value per share;

(h) to file a post-effective amendment to the registration statement in connection with any rights offering; and

(i) to file a post-effective amendment to the registration statement in connection with any combined offering of securities.

3. We hereby undertake that:

(a) for the purpose of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by us under Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(b) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Post-Effective Amendment No. 4 to this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of McLean and the Commonwealth of Virginia, on the 2nd day of September, 2014.

GLADSTONE INVESTMENT CORPORATION

By: /s/ DAVID GLADSTONE

David Gladstone
*Chairman of the Board and*
*Chief Executive Officer*

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities indicated on September 2, 2014:

By: /s/ DAVID GLADSTONE

David Gladstone
*Chief Executive Officer and Chairman of the*
*Board of Directors (principal executive officer)*

By: /s/ DAVID WATSON

David Watson
*Chief Financial Officer and Treasurer*
*(principal financial and accounting officer)*

By: *

Terry L. Brubaker
*Vice Chairman, Chief Operating Officer,*
*and Director*

By: *

David A.R. Dullum
*President and Director*

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By: *

Anthony W. Parker
*Director*

By: *

Michela A. English
*Director*

By: *

Paul W. Adelgren
*Director*

By: *

John H. Outland
*Director*

*By: /s/ David Gladstone
David Gladstone

Attorney-in-fact

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**Exhibit List**

| Exhibit Number | Description |
|---|---|
| 2.a.1 | Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit a.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005. |
| 2.a.2 | Certificate of Designation of 7.125% Series A Cumulative Term Preferred Stock of Gladstone Investment Corporation , incorporated by reference to Exhibit 2.a.2 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720) filed February 29, 2012. |
| 2.b.1 | Amended and Restated Bylaws, incorporated by reference to Exhibit b.2 to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 2.b.2 | First Amendment to Amended and Restated Bylaws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00704), filed July 10, 2007. |
| 2.c | Not applicable. |
| 2.d.1 | Specimen Stock Certificate, incorporated by reference to Exhibit 99.d to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 2.d.2 | Form of Senior Indenture, incorporated by reference to Exhibit 2.d.2 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006. |
| 2.d.3 | Form of Subordinated Indenture, incorporated by reference to Exhibit 2.d.3 to the Registration Statement on Form N-2 (File No. 333-138008), filed October 16, 2006. |
| 2.d.4 | Specimen 7.125% Series A Cumulative Term Preferred Stock Certificate, incorporated by reference to Exhibit 2.d.4 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720), filed February 29, 2012. |
| 2.d.5* | Form of Common Stock Subscription Form and Subscription Certificate. |
| 2.d.6* | Form of Preferred Stock Subscription Form and Subscription Certificate. |
| 2.d.7* | Form of Common Stock Warrant Agreement and Warrant Certificate. |
| 2.d.8* | Form of Preferred Stock Warrant Agreement and Warrant Certificate. |
| 2.f | Not applicable. |
| 2.g | Investment Advisory and Management Agreement between the Registrant and Gladstone Management Corporation, incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012). |
| 2.h** | Form of Underwriting Agreement. |
| 2.i | Not applicable. |
| 2.j.1 | Custody Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit 99.j to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 2.j.2* | Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated October 10, 2006. |
| 2.j.3* | Amendment No. 1 to Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated April 14, 2009. |
| 2.k.1 | Administration Agreement between the Registrant and Gladstone Administration, LLC, dated June 22, 2005, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006 (renewed July 10, 2012). |
| 2.k.2 | |

| | |
|---|---|
| | Stock Transfer Agency Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit k.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005. |
| 2.k.3 | Fifth Amended and Restated Credit Agreement, dated as of April 30, 2013, by and among Gladstone Business Investment, LLC, as Borrower, Gladstone Management Corporation, as servicer, the financial institutions as party thereto, as Lenders and Managing Agents, and Key Equipment Finance, Inc., as Administrative Agent and Lead Arranger, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 2, 2013. |
| 2.k.4 | Joinder Agreement, dated as of June 12, 2013, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and Everbank Commercial Finance, Inc., incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013. |
| 2.k.5 | Joinder Agreement, dated as of June 12, 2013, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and Alostar Bank of Commerce, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013. |
| 2.l* | Opinion of Bass, Berry & Sims PLC. |
| 2.m | Not applicable. |
| 2.n.1* | Consent of Bass, Berry & Sims PLC (included in Exhibit 2.l). |
| 2.n.2 | Consent of PricewaterhouseCoopers LLP. |
| 2.n.3* | Report of Independent Registered Public Accounting Firm. |
| 2.n.4* | Consent of Moss Adams LLP. |
| 2.n.5* | Consent of Allen, Gibbs & Houlik, L.C. |
| 2.n.6* | Consent of Moss Adams LLP. |
| 2.o | Not applicable. |
| 2.p | Founder Stock Purchase Agreement between the Registrant and David Gladstone, incorporated by reference to Exhibit p to the Registration Statement on Form N-2 (File No. 333-123699), filed March 31, 2005. |
| 2.q | Not applicable. |
| 2.r* | Code of Ethics and Business Conduct, updated January 28, 2013. |
| 2.s.1* | Power of Attorney (included in the signature page to the Registration Statement, filed on June 4, 2012). |
| 2.s.2 | Computation of Ratio of Earnings to Fixed Charges. |
| 2.s.3 | Statement of Eligibility of trustee on Form T-1 (to be filed pursuant to Section 305(b)(2) of the Trust Indenture Act of 1939). |
| 99.1* | Financial Statements of Danco Acquisition Corporation as of and for the years ended December 31, 2013 and 2012 (unaudited). |
| 99.2* | Financial Statements of Danco Acquisition Corporation as of and for the years ended December 31, 2012 and 2011. |
| 99.3* | Financial Statements of Galaxy Tool Holding Corporation and Subsidiaries as of and for the years ended December 31, 2013 and 2012. |
| 99.4* | Financial Statements of Galaxy Tool Holding Corporation and Subsidiaries as of and for the years ended December 31, 2012 and 2011. |
| 99.5* | Financial Statements of SOG Specialty Knives and Tools, LLC as of and for the years ended December 31, 2013 and 2012. |
| 99.6* | Financial Statements of SOG Specialty Knives and Tools, LLC as of December 31, 2011 and for the period August 6, 2011 through December 31, 2011 (unaudited). |

* Previously filed.
** To be filed by post-effective amendment.