GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
November 03, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED SEPTEMBER 30, 2009

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 000-51233

GLADSTONE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**83-0423116**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1521 WESTBRANCH DRIVE, SUITE 200

MCLEAN, VIRGINIA 22102

(Address of principal executive office)

(703) 287-5800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12 b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x .

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares of the issuer s Common Stock, $0.001 par value, outstanding as of November 2, 2009 was 22,080,133.

GLADSTONE INVESTMENT CORPORATION

TABLE OF CONTENTS

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

		September 30, 2009		March 31, 2009
ASSETS				
Non-Control/Non-Affiliate investments (Cost 9/30/09: $29,886; Cost 3/31/09: $134,836)	$	25,004	$	94,740
Control investments (Cost 9/30/09: $142,698; Cost 3/31/09: $150,081)		132,399		166,163
Affiliate investments (Cost 9/30/09: $64,019; Cost 3/31/09: $64,028)		46,900		53,027
Total investments at fair value (Cost 9/30/09: $236,603; Cost 3/31/09: $348,945)		204,303		313,930
Cash and cash equivalents		86,311		7,236
Interest receivable		1,212		1,500
Due from Custodian		932		2,706
Deferred financing fees		963		1,167
Prepaid assets		445		172
Other assets		184		132
TOTAL ASSETS	$	294,350	$	326,843
LIABILITIES				
Accounts payable and accrued expenses	$	460	$	1,283
Fee due to Administrator (Refer to Note 4)		198		179
Fee due to Adviser (Refer to Note 4)		221		187
Short-term loan		75,000		
Borrowings under line of credit (Cost 9/30/09: $36,100; Cost 3/31/09: $110,265)		36,278		110,265
Other liabilities		148		127
TOTAL LIABILITIES		112,305		112,041
NET ASSETS	$	182,045	$	214,802
ANALYSIS OF NET ASSETS:				
Common stock, $0.001 par value, 100,000,000 shares authorized, 22,080,133 shares issued and outstanding at September 30, 2009 and March 31, 2009	$	22	$	22
Capital in excess of par value		264,551		257,361
Net unrealized depreciation of investment portfolio		(32,301)		(35,015)
Net unrealized depreciation of derivative		(27)		(53)
Net unrealized appreciation of borrowings under line of credit		(178)		
Accumulated net investment loss		(50,022)		(7,513)
TOTAL NET ASSETS	$	182,045	$	214,802
NET ASSETS PER SHARE	$	8.24	$	9.73

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF SEPTEMBER 30, 2009

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS:				
Senior Syndicated Loans:				
HMTBP Acquisition II Corp.	Service aboveground storage tanks	Senior Term Debt (2.6%, Due 5/2014) (7), (8)	$ 3,819	$ 3,064
Interstate Fibernet, Inc.	Service provider of voice and data telecommunications services	Senior Term Debt (4.3%, Due 7/2013) (7), (9)	9,758	7,929
Survey Sampling, LLC	Service telecommunications-based sampling	Senior Term Debt (9.5%, Due 5/2011) (3)	2,409	958
Subtotal - Syndicated Loans			$ 15,986	$ 11,951
Non-syndicated Loans:				
American Greetings Corporation	Manufacturing and design greeting cards	Senior Notes (7.4%, Due 6/2016) (3)	$ 3,043	$ 2,588
B-Dry, LLC	Service basement waterproofer	Senior Term Debt (13.0%, Due 5/2014) (5)	6,647	6,589
		Senior Term Debt (13.0%, Due 5/2014) (5)	3,910	3,876
		Common Stock Warrants (4)	300	
			10,857	10,465
Total Non-Control/Non-Affiliate Investments			**$ 29,886**	**$ 25,004**
CONTROL INVESTMENTS:				
A. Stucki Holding Corp.	Manufacturing railroad freight car products	Senior Term Debt (4.8%, Due 3/2012)	$ 9,101	$ 9,101
		Senior Term Debt (7.0%, Due 3/2012) (6)	9,900	9,900
		Senior Subordinated Term Debt (13.0%, Due 3/2014)	8,586	8,586
		Preferred Stock (4)	4,387	5,333
		Common Stock (4)	130	3,511
			32,104	36,431
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2012)	14,500	14,500
		Preferred Stock (4)	6,984	3,828
		Common Stock (4)	1,045	
		Common Stock Warrants (4)	24	
			22,553	18,328
ASH Holdings Corp.	Retail and Service school buses and parts	Revolver, $1,500 available (non-accrual, Due 3/2010) (5)	500	150
		Senior Subordinated Term Debt (non-accrual, Due 1/2012) (5)	5,937	1,484
		Preferred Stock (4)	2,500	
		Common Stock Warrants (4)	4	

				8,941	1,634
Cavert II Holdings Corp.	Manufacturing	bailing wire	Senior Term Debt (8.3%, Due 10/2012)	2,875	2,875
			Senior Term Debt (10.0%, Due 10/2012) (6)	2,700	2,700
			Senior Subordinated Term Debt (13.0%, Due 10/2014)	4,671	4,671
			Preferred Stock (4)	4,110	4,769
			Common Stock (4)	69	1,334
				14,425	16,349
Chase II Holdings Corp.	Manufacturing	traffic doors	Revolving Credit Facility, $0 available (4.3%, Due 7/2010) (10)	3,500	3,500
			Senior Term Debt (8.8%, Due 3/2011)	8,250	8,250
			Senior Term Debt (12.0%, Due 3/2011) (6)	7,600	7,600
			Senior Subordinated Term Debt (13.0%, Due 3/2013)	6,168	6,168
			Preferred Stock (4)	6,961	9,765
			Common Stock (4)	61	670
				32,540	35,953

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

AS OF SEPTEMBER 30, 2009

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	**Industry**	**Investment (2)**	**Cost**	**Fair Value**
CONTROL INVESTMENTS *(Continued)*:				
Country Club Enterprises, LLC	Service golf cart distribution	Subordinated Term Debt (14.0%, Due 11/2014) (5)	$ 7,000	$ 6,842
		Preferred Stock (4)	3,725	
			10,725	6,842
Galaxy Tool Holding Corp.	Manufacturing aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013) (5)	17,250	16,862
		Preferred Stock (4)	4,112	
		Common Stock (4)	48	
			21,410	16,862
Total Control Investments			**$ 142,698**	**$ 132,399**
AFFILIATE INVESTMENTS:				
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, $2,100 available (9.3%, Due 10/2010) (5)	$ 900	$ 878
		Senior Term Debt (9.3%, Due 10/2012) (5)	4,312	4,215
		Senior Term Debt (11.5%, Due 4/2013) (5)	9,067	8,727
		Preferred Stock (4)	2,500	
		Common Stock Warrants (4)	2	
			16,781	13,820
Mathey Investments, Inc.	Manufacturing pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $250 available (10.0%, Due 3/2011) (5)	750	747
		Senior Term Debt (10.0%, Due 3/2013) (5)	2,375	2,366
		Senior Term Debt (13.5%, Due 3/2014) (5), (6)	7,227	7,137
		Common Stock (4)	500	
		Common Stock Warrants (4)	277	
			11,129	10,250
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Revolving Credit Facility, $0 available (4.3%, Due 12/2009) (5)	2,000	1,300
		Senior Term Debt (9.3%, Due 12/2011) (5)	6,227	4,048
		Senior Term Debt (10.5%, Due 12/2011) (5) (6)	7,300	4,745
		Preferred Stock (4)	1,750	
		Common Stock (4)	1,682	
			18,959	10,093

Quench Holdings Corp.	Service sales, installation and service of water coolers	Senior Subordinated Term Debt (10.0%, Due 8/2013) (5)		8,000		6,240
		Preferred Stock (4)		2,950		1,378
		Common Stock (4)		447		
				11,397		7,618
Tread Corp.	Manufacturing storage and transport equipment	Senior Term Debt (12.5%, Due 5/2013) (5)		5,000		4,962
		Preferred Stock (4)		750		157
		Common Stock & Debt Warrants (4)		3		
				5,753		5,119
Total Affiliate Investments			**$**	**64,019**	**$**	**46,900**
TOTAL INVESTMENTS			**$**	**236,603**	**$**	**204,303**

(1) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
(2) Percentage represents the weighted average interest rates in effect at September 30, 2009, and due date represents the contractual maturity date.
(3) Valued based on the indicative bid price on or near September 30, 2009, offered by the respective syndication agent s trading desk or secondary desk.
(4) Security is non-income producing.
(5) Fair value based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at September 30, 2009.
(6) Last Out Tranche of senior debt, meaning if the portfolio company is liquidated, the holder of the Last Out Tranche is paid after the senior debt.
(7) Security valued based on the sale price obtained at or subsequent to September 30, 2009, as the security, or a portion of it, was sold.
(8) Security was sold subsequent to quarter-end; approximately \$3.1 million of cash proceeds was received, and a realized loss of \$757 was recorded.
(9) A portion of this security, approximately \$3.0 million in principal, was sold subsequent to quarter-end. Approximately \$2.4 million of cash proceeds was received, and a realized loss of \$561 was recorded.
(10) Revolving credit facility was repaid in full and sold to a third party subsequent to quarter-end.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF MARCH 31, 2009

(DOLLAR AMOUNTS IN THOUSANDS)

Company (1)	**Industry**	**Investment (2)**	**Cost**	**Fair Value**
NON-CONTROL/NON-AFFILIATE INVESTMENTS:				
Senior Syndicated Loans:				
Activant Solutions, Inc.	Service - enterprise software and services	Senior Term Debt (3.4%, Due 5/2013) (7)	$ 1,658	$ 904
Advanced Homecare Holdings, Inc.	Service - home health nursing services	Senior Term Debt (4.3%, Due 8/2014) (7)	2,947	2,019
Aeroflex, Inc.	Service - provider of highly specialized electronic equipment	Senior Term Debt (4.5%, Due 8/2014) (7)	1,892	1,083
Compsych Investments Corp.	Service - employee assistance programs	Senior Term Debt (3.8%, Due 2/2012) (7)	3,083	2,405
CRC Health Group, Inc.	Service - substance abuse treatment	Senior Term Debt (3.5%, Due 2/2012) (7)	7,772	5,026
Critical Homecare Solutions, Inc.	Service - home therapy and respiratory treatment	Senior Term Debt (3.8%, Due 1/2012) (7)	4,359	3,632
Generac Acquisition Corp.	Manufacturing - standby power products	Senior Term Debt (3.0%, Due 11/2013) (7)	6,799	3,820
Graham Packaging Holdings Company	Manufacturing - plastic containers	Senior Term Debt (3.6%, Due 10/2011) (7)	3,348	2,813
HMTBP Acquisition II Corp.	Service - aboveground storage tanks	Senior Term Debt (3.5%, Due 5/2014) (3)	3,838	2,942
Huish Detergents, Inc.	Manufacturing - household cleaning products	Senior Term Debt (2.3%, Due 4/2014) (7)	1,966	1,690
Hyland Software, Inc.	Service - provider of enterprise content management software	Senior Term Debt (3.6%, Due 7/2013) (7)	3,912	2,990
Interstate Fibernet, Inc.	Service - provider of voice and data telecommunications services	Senior Term Debt (5.2%, Due 7/2013) (3)	9,804	6,698
KIK Custom Products, Inc.	Manufacturing - consumer products	Senior Term Debt (2.8%, Due 5/2014) (7)	3,941	1,862
Kronos, Inc.	Service - workforce management solutions	Senior Term Debt (3.5%, Due 6/2014) (7)	1,899	1,291
Local TV Finance, LLC	Service - television station operator	Senior Term Debt (2.5%, Due 5/2013) (7)	985	359
LVI Services, Inc.	Service - asbestos and mold remediation	Senior Term Debt (4.5%, Due 11/2010) (7)	5,916	2,673
MedAssets, Inc.	Service - pharmaceuticals and healthcare GPO	Senior Term Debt (5.1%, Due 10/2013) (7)	3,517	3,129
Network Solutions, LLC	Service - internet domain solutions	Senior Term Debt (3.2%, Due 3/2014) (7)	8,672	5,506
Open Solutions, Inc.	Service - software outsourcing for financial institutions	Senior Term Debt (3.3%, Due 1/2014) (7)	2,648	1,206
Ozburn-Hessey Holding Co. LLC	Service third party logistics	Senior Term Debt (4.4%, Due 8/2012) (7)	7,523	5,975
Pinnacle Foods Finance, LLC	Manufacturing - branded food products	Senior Term Debt (3.2%, Due 4/2014) (7)	1,950	1,570
PTS Acquisition Corp.	Manufacturing - drug delivery and packaging technologies	Senior Term Debt (2.8%, Due 4/2014) (7)	6,877	4,264
QTC Acquisition, Inc.	Service - outsourced disability evaluations	Senior Term Debt (2.8%, Due 11/2012) (7)	1,763	1,356
Radio Systems Corporation	Service - design electronic pet containment products	Senior Term Debt (3.3%, Due 9/2013) (7)	1,644	1,308
Rally Parts, Inc.			2,458	1,073

	Manufacturing - aftermarket motorcycle parts and accessories	Senior Term Debt (3.5%, Due 11/2013) (7)				
SafeNet, Inc.	Service chip encryption products	Senior Term Debt (4.2%, Due 4/2014) (7)		2,949		2,008
SGS International, Inc.	Service - digital imaging and graphics	Senior Term Debt (4.0%, Due 12/2011) (7)		1,475		978
Survey Sampling, LLC	Service - telecommunications-based sampling	Senior Term Debt (9.5%, Due 5/2011) (3)		2,596		2,441
Triad Laboratory Alliance, LLC	Service - regional medical laboratories	Senior Term Debt (4.5%, Due 12/2011) (7)		4,120		3,432
Wastequip, Inc.	Service - process and transport waste materials	Senior Term Debt (2.8%, Due 2/2013) (7)		2,893		1,530
WaveDivision Holdings, LLC	Service - cable	Senior Term Debt (3.5%, Due 6/2014) (7)		1,905		1,575
West Corporation	Service - business process outsourcing	Senior Term Debt (2.9%, Due 10/2013) (7)		3,323		2,293
Subtotal - Senior Syndicated Loans			$	120,432	$	81,851
Non-Syndicated Loans						
American Greetings Corporation	Manufacturing and design - greeting cards	Senior Notes (7.4%, Due 6/2016) (3) (10)	$	3,043	$	2,180
B-Dry, LLC	Service - basement waterproofer	Revolving Credit Facility, $300 available (10.5%, Due 10/2009) (5)		450		443
		Senior Term Debt (10.0%, Due 5/2014) (5)		6,681		6,464
		Senior Term Debt (10.0%, Due 5/2014) (5)		3,930		3,802
		Common Stock Warrants (4)		300		
				11,361		10,709
Total Non-Control/Non-Affiliate Investments			**$**	**134,836**	**$**	**94,740**

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

AS OF MARCH 31, 2009

(DOLLAR AMOUNTS IN THOUSANDS)

Company (1)	Industry	Investment (2)	Cost	Fair Value
CONTROL INVESTMENTS:				
A. Stucki Holding Corp.	Manufacturing - railroad freight car products	Senior Term Debt (5.0%, Due 3/2012)	$ 11,246	$ 11,246
		Senior Term Debt (7.2%, Due 3/2012) (6)	10,450	10,450
		Senior Subordinated Term Debt (13%, Due 3/2014)	8,586	8,586
		Preferred Stock (4)	4,387	5,128
		Common Stock (4)	130	14,021
			34,799	49,431
Acme Cryogenics, Inc.	Manufacturing - manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2012)	14,500	14,500
		Redeemable Preferred Stock (4)	6,984	6,920
		Common Stock (4)	1,045	
		Common Stock Warrants (4)	25	
			22,554	21,420
ASH Holdings Corp.	Retail and Service - school buses and parts	Revolver, $400 available (non accrual, Due 3/2010) (5)	1,600	560
		Senior Subordinated Term Debt (non accrual, Due 1/2012) (5)	5,937	2,078
		Preferred Stock (4)	2,500	
		Common Stock Warrants (4)	4	
			10,041	2,638
Cavert II Holding Corp.	Manufacturing - bailing wire	Revolving Credit Facility, $3,000 available (8.0%, Due 10/2010) (8)		
		Senior Term Debt (8.3%, Due 10/2012)	5,687	5,687
		Senior Term Debt (10.0%, Due 10/2012) (6)	2,950	2,950
		Senior Subordinated Term Debt (13.0%, Due 10/2014)	4,671	4,671
		Preferred Stock (4)	4,110	4,591
		Common Stock (4)	69	733
			17,487	18,632
Chase II Holdings Corp.	Manufacturing - traffic doors	Revolving Credit Facility, $1,105 available (4.5%, Due 7/2010)	3,395	3,395
		Senior Term Debt (8.8%, Due 3/2011)	8,800	8,800
		Senior Term Debt (12.0%, Due 3/2011) (6)	7,680	7,680
		Senior Subordinated Term Debt (13.0%, Due 3/2013)	6,168	6,168
		Redeemable Preferred Stock (4)	6,961	9,300
		Common Stock (4)	61	5,537
			33,065	40,880
Country Club Enterprises, LLC	Service - golf cart distribution		7,000	7,000

		Subordinated Term Debt (14.0% Due 11/2014)				
		Preferred Stock (4)		3,725		3,725
				10,725		10,725
Galaxy Tool Holding Corp.	Manufacturing - aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)		17,250		17,250
		Preferred Stock (4)		4,112		4,486
		Common Stock (4)		48		701
				21,410		22,437
Total Control Investments			**$**	**150,081**	**$**	**166,163**

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

AS OF MARCH 31, 2009

(DOLLAR AMOUNTS IN THOUSANDS)

Company (1)	**Industry**	**Investment (2)**	**Cost**	**Fair Value**
AFFILIATE INVESTMENTS:				
Danco Acquisition Corp.	Manufacturing - machining and sheet metal work	Revolving Credit Facility, $2,600 available (9.3%, Due 10/2010) (5) (9)	$ 400	$ 378
		Senior Term Debt (9.3%, Due 10/2012) (5)	4,837	4,584
		Senior Term Debt (11.5%, Due 4/2013) (5)	9,113	8,544
		Redeemable Preferred Stock (4)	2,500	2,558
		Common Stock Warrants (4)	3	
			16,853	16,064
Mathey Investments, Inc.	Manufacturing - pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $1,463 available (9.0%, Due 3/2011) (5) (9)	537	529
		Senior Term Debt (9.0%, Due 3/2013) (5)	2,375	2,339
		Senior Term Debt (12.0%, Due 3/2014) (5)(6)	7,227	7,082
		Common Stock (4)	500	446
		Common Stock Warrants (4)	277	260
			10,916	10,656
Noble Logistics, Inc.	Service - aftermarket auto parts delivery	Revolving Credit Facility, $-0- available (6.5%, Due 12/2009) (5)	2,000	1,500
		Senior Term Debt (10.5%, Due 12/2011) (5)	5,727	4,295
		Senior Term Debt (12.5%, Due 12/2011) (5)(6)	7,300	5,475
		Senior Subordinated Term Debt (18.0%, Due 12/2011)	500	375
		Senior Subordinated Term Debt (14.0%, Due 5/2009)	150	149
		Preferred Stock (4)	1,750	
		Common Stock (4)	1,682	
			19,109	11,794
Quench Holdings Corp.	Service - sales, installation and service of water coolers	Senior Subordinated Term Debt (10.0%, Due 8/2013) (5)	8,000	5,800
		Preferred Stock (4)	2,950	2,542
		Common Stock Warrants (4)	447	
			11,397	8,342
Tread Corp.	Manufacturing - storage and transport equipment	Senior Term Debt (12.5%, Due 5/2013) (5)	5,000	4,925
		Preferred Stock (4)	750	793
		Common Stock Warrants (4)	3	453
			5,753	6,171
Total Affiliate Investments			**$ 64,028**	**$ 53,027**

Total Investments	**$ 348,945**	**$ 313,930**

(1) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
(2) Percentage represents the weighted average interest rates in effect at March 31, 2009, and due date represents the contractual maturity date.
(3) Security valued using internally-developed, risk-adjusted discounted cash flow methodologies as of March 31, 2009.
(4) Security is non-income producing.
(5) Fair value based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at March 31, 2009.
(6) Last Out Tranche of senior debt, meaning if the portfolio company is liquidated, the holder of the Last Out Tranche is paid after the senior debt.
(7) Security valued based on the sale price obtained at or subsequent to March 31, 2009, since the security was sold.
(8) Revolver was sold to third party subsequent to March 31, 2009.
(9) Terms of agreement were refinanced and revolver limit was reduced.
(10) The Company received non-cash assumption of $3,043 worth of senior notes received from American Greetings Corporation for the Company s agreement to the RPG bankruptcy settlement in which the Company received the aforementioned notes and $909 in cash and recognized a loss on the settlement of approximately $601.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2009	2008	2009	2008
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	$ 615	$ 2,134	$ 1,351	$ 4,458
Control investments	2,868	2,735	5,736	5,304
Affiliate investments	1,448	1,349	2,928	2,460
Cash and cash equivalents	1	22	1	46
Total interest income	4,932	6,240	10,016	12,268
Other income	11	576	96	586
Total investment income	4,943	6,816	10,112	12,854
EXPENSES				
Loan servicing fee (Refer to Note 4)	938	1,258	2,006	2,511
Base management fee (Refer to Note 4)	164	435	477	861
Administration fee (Refer to Note 4)	198	212	371	447
Interest expense	552	1,084	1,255	2,186
Amortization of deferred finance costs	438	140	751	278
Professional fees	118	183	320	314
Stockholder related costs	146	200	227	301
Insurance expense	62	55	119	108
Directors fees	48	48	99	95
Other	73	114	137	189
Expenses before credit from Adviser	2,737	3,729	5,762	7,290
Credits to base management fee (Refer to Note 4)	(165)	(696)	(466)	(1,270)
Total expenses net of credit to base management fee	2,572	3,033	5,296	6,020
NET INVESTMENT INCOME	2,371	3,783	4,816	6,834
REALIZED AND UNREALIZED (LOSS) GAIN ON:				
Realized loss on sale of Non-Control/Non-Affiliate investments		(2,498)	(34,605)	(4,215)
Realized loss on termination of derivative			(53)	
Net unrealized (depreciation) appreciation of Non-Control/Non-Affiliate investments	(1,514)	(5,191)	35,214	(726)
Net unrealized (depreciation) appreciation of Control investments	(14,900)	10,840	(26,381)	5,973
Net unrealized depreciation of Affiliate investments	(3,853)	(5,978)	(6,119)	(11,393)
Net unrealized (depreciation) appreciation of derivative	(16)		26	
Net unrealized appreciation of borrowings under line of credit	(178)		(178)	
Net loss on investments and borrowings under line of credit	(20,461)	(2,827)	(32,096)	(10,361)

NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$	(18,090)	$	956	$	(27,280)	$	(3,527)
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:								
Basic and Diluted	$	(0.82)	$	0.04	$	(1.24)	$	(0.17)
SHARES OF COMMON STOCK OUTSTANDING:								
Basic and diluted weighted average shares		22,080,133		22,080,133		22,080,133		21,011,740

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Six Months Ended September 30, 2009	2008
Operations:		
Net investment income	$ 4,816	$ 6,834
Realized loss on sale of investments	(34,605)	(4,215)
Realized loss on termination of derivative	(53)	
Net unrealized appreciation (depreciation) of portfolio	2,714	(6,146)
Net unrealized appreciation of derivative	26	
Net unrealized appreciation of borrowings under line of credit	(178)	
Net decrease in net assets from operations	(27,280)	(3,527)
Capital transactions:		
Issuance of common stock		41,290
Shelf offering registration costs	(178)	(643)
Distributions to stockholders	(5,299)	(10,157)
Net (decrease) increase in net assets from capital transactions	(5,477)	30,490
Total (decrease) increase in net assets	(32,757)	26,963
Net assets at beginning of period	214,802	206,445
Net assets at end of period	$ 182,045	$ 233,408

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Six Months Ended September 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net decrease in net assets resulting from operations	$ (27,280)	$ (3,527)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Purchase of investments	(968)	(36,612)
Principal repayments of investments	9,482	22,284
Proceeds from sales of investments	69,222	13,296
Proceeds from short-term borrowings	75,000	
Net realized loss on sales of investments	34,605	4,215
Net realized loss on termination of derivative	53	
Net unrealized (appreciation) depreciation of investment portfolio	(2,714)	6,146
Net unrealized appreciation of derivative	(26)	
Net unrealized appreciation of borrowings under line of credit	178	
Net amortization of premiums and discounts		19
Amortization of deferred financing costs	751	278
Decrease in interest receivable	288	309
Decrease in due from custodian	1,774	1,351
Increase in prepaid assets	(273)	(114)
(Increase) decrease in other assets	(40)	309
Decrease in accounts payable and accrued liabilities	(823)	(167)
Increase in administration fee payable to Administrator (See Note 4)	19	4
Increase in base management fee payable to Adviser (See Note 4)	113	123
Decrease in loan servicing fee payable to Adviser (See Note 4)	(79)	(7)
Increase in other liabilities	21	13
Net cash provided by operating activities	159,303	7,920
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from the issuance of common stock	(178)	40,647
Borrowings from line of credit	79,000	129,000
Repayments of line of credit	(153,165)	(142,870)
Purchase of derivative	(39)	
Deferred financing costs	(547)	
Distributions paid	(5,299)	(10,157)
Net cash (used in) provided by financing activities	(80,228)	16,620
NET INCREASE IN CASH AND CASH EQUIVALENTS	79,075	24,540
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,236	9,360
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 86,311	$ 33,900
CASH PAID DURING PERIOD FOR INTEREST	$ 1,418	$ 2,134
NON-CASH ACTIVITIES (1)	$ 850	

(1) On April 10, 2009, the Company made an investment disbursement to Cavert II Holding Corp. for approximately $850 on their revolving line of credit, and the proceeds were used to make the next four quarterly payments due under normal amortization for both their senior term A and senior term B loans in a non-cash transaction.

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

GLADSTONE INVESTMENT CORPORATION

FINANCIAL HIGHLIGHTS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008
Per Share Data (1)				
Net asset value at beginning of period	$ 9.19	$ 10.77	$ 9.73	$ 12.47
Income from investment operations:				
Net investment income (2)	0.11	0.17	0.22	0.33
Realized loss on sale of investments (2)		(0.11)	(1.57)	(0.20)
Net unrealized depreciation of investments (2)	(0.92)	(0.02)	0.12	(0.30)
Net unrealized appreciation of borrowings on line of credit (2)	(0.01)		(0.01)	
Total from investment operations	(0.82)	0.04	(1.24)	(0.17)
Distributions from:				
Net investment income	(0.12)	(0.24)	(0.24)	(0.48)
Total distributions (3)	(0.12)	(0.24)	(0.24)	(0.48)
Effect of shelf offering:				
Shelf registration offering costs	(0.01)		(0.01)	(0.03)
Effect of distribution of stock rights offering after record date (4)				(1.22)
Total effect of shelf offering	(0.01)		(0.01)	(1.25)
Net asset value at end of period	$ 8.24	$ 10.57	$ 8.24	$ 10.57
Per share market value at beginning of period	$ 4.88	$ 6.38	$ 3.67	$ 9.32
Per share market value at end of period	4.85	6.88	4.85	6.88
Total Return (5)	1.75%	14.79%	39.03%	(21.39)%
Shares outstanding at end of period	22,080,133	22,080,133	22,080,133	22,080,133
Statement of Assets and Liabilities Data:				
Net assets at end of period	$ 182,045	$ 233,408	$ 182,045	$ 233,408
Average net assets (6)	195,005	234,165	202,596	238,410
Senior Securities Data:				
Borrowings under line of credit	$ 36,278	$ 130,965	$ 36,278	$ 130,965
Asset coverage ratio (7)	602%	278%	602%	278%
Asset coverage per unit (8)	$ 6,018	$ 2,782	$ 6,018	$ 2,782
Ratios/Supplemental Data:				
Ratio of expenses to average net assets (9), (10)	5.61%	6.37%	5.69%	6.11%
Ratio of net expenses to average net assets (9), (11)	5.28%	5.18%	5.23%	5.05%
Ratio of net investment income to average net assets (9)	4.86%	6.46%	4.75%	5.73%

(1) Based on actual shares outstanding at the end of the corresponding period.
(2) Based on weighted average basic per share data.
(3) Distributions are determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under accounting principles generally accepted in the United States of America.
(4) The effect of distributions from the stock rights offering after the record date represents the effect on net asset value of issuing additional shares after the record date of a distribution.
(5) Total return equals the change in the market value of the Company s common stock from the beginning of the period, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan.
(6) Calculated using the average of the balance of net assets at the end of each month of the reporting period.
(7) As a business development company, the Company is generally required to maintain a ratio of at least 200% of total assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings.
(8) Asset coverage per unit is the ratio of the carrying value of the Company s total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per $1,000 of indebtedness.
(9) Amounts are annualized.
(10) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.
(11) Ratio of net expenses to average net assets is computed using total expenses net of credits to the management fee.

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

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

SEPTEMBER 30, 2009

(UNAUDITED)

NOTE 1. ORGANIZATION

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended March 31, 2009, as filed with the Securities and Exchange Commission (the SEC) on June 2, 2009.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all of the disclosures required by GAAP.

Reclassifications

Certain amounts in the prior year s financial statements have been reclassified to conform to the current year presentation with no effect to net increase (decrease) in net assets resulting from operations.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents. Items classified as cash equivalents include temporary investments in commercial paper, United States Treasury securities and money-market funds. Cash and cash equivalents are carried at cost, which approximates fair value.

Recent Accounting Pronouncements

On July 1, 2009, the Financial Accounting Standards Board (the FASB) issued FASB Statement The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, also known as FASB Accounting Standards Codification (ASC) 105-10, Generally Accepted Accounting Principles or (the Codification). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for SEC rules and interpretive releases, which are also authoritative GAAP for SEC registrants. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents have been superseded and all other accounting literature not included in the Codification is considered non-authoritative. The Codification was effective for the Company during its interim period ended September 30, 2009 and did not have an impact on its financial condition or results of operations. The Company has included the references to the Codification, as appropriate, in these condensed consolidated financial statements.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs) within ASC 845, Variable Interest Entities. The elimination of the concept of a QSPE, as discussed below, removes the exception from applying the consolidation guidance within this amendment. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise s involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise s financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. This amendment will not have a material impact on the Company s financial position, results of operations or liquidity.

ASC 860, Transfers and Servicing removes the concept of a qualifying special-purpose entity (QSPE) from ASC 860-10 and removes the exception from ASC 810, Consolidation. This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This statement is effective for fiscal years beginning after November 15, 2009. ASC 860 is effective for the Company s fiscal year beginning April 1, 2010. The Company is currently evaluating the impact of adopting this standard on the condensed consolidated financial statements.

ASC 855-10-50, Subsequent Events was initiated in an effort to incorporate accounting guidance that originated as auditing standards into the body of authoritative literature issued by the FASB. Moving the accounting requirements out of the auditing literature and into the accounting literature is consistent with the FASB s objective to codify all authoritative U.S. accounting guidance related to a particular topic in one place. It also provided an opportunity to consider international convergence issues. The FASB has established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that previously existed in the auditing standards. The new standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. The Company s adoption of this pronouncement did not have a material impact on the condensed consolidated financial statements.

ASC 320, Investments-Debt and Equity Securities was issued to make the guidance on other-than-temporary impairment more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. ASC 320-10 requires significant additional disclosures for both annual and interim periods, including the amortized cost basis of available-for-sale and held-to-maturity debt, the methodology and key imports used to measure the credit portion of other-than-temporary impairment, and a roll forward of amounts recognized in earnings for securities by major security type. ASC 320-10 requires that entities identify major security classes consistent with how the securities are managed based on the nature and risks of the security, and also expands, for disclosure purposes, the list of major security types identified in ASC 320. ASC 320-10 is effective for interim and annual reporting periods ending after June 15, 2009. The Company s adoption of this pronouncement did not have a material impact on the condensed consolidated financial statements.

ASC 820-10-35, Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly provides additional guidance for estimating fair value in accordance with ASC 820-10, Fair Value Measurements and Disclosures when the volume and level of activity for an asset or liability has significantly decreased and also provides guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820-10-35 amends ASC 820-10 to require entities to disclose in interim and annual periods the inputs and valuation techniques used to measure fair value together with any changes in valuation techniques and related inputs during the period. ASC 820-10-35 also requires reporting entities to define major categories for both debt and equity securities to be major security types as described in paragraph 19 of ASC 320. This requires entities to provide disclosures on a more disaggregated basis than previously had been required under ASC 820-10. ASC 820-10-35 is effective for interim and annual reporting periods ending after September 15, 2009, and shall be applied prospectively. The Company s adoption of this pronouncement did not have a material impact on its condensed consolidated financial statements.

Investment Valuation Policy

The Company carries its investments at market value to the extent that market quotations are readily available and reliable, and otherwise at fair value, as determined in good faith by its Board of Directors. In determining the fair value of the Company s investments, the Adviser has established an investment valuation policy (the Policy). The Policy is approved by the Company s Board of Directors and each quarter the Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether or not to accept the recommended valuation of the Company s investment portfolio.

The Company uses generally accepted valuation techniques to value its portfolio unless the Company has specific information about the value of an investment to determine otherwise. From time to time the Company may accept an appraisal of a business in which the Company holds securities. These appraisals are expensive and occur infrequently but provide a third-party valuation opinion that may differ in results, techniques and scopes used to value the Company s investments. When these specific third-party appraisals are engaged or accepted, the Company uses such appraisals to value the investment the Company has in that business if it is determined that the appraisals are the best estimate of fair value.

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

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

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

In the event these limited markets become illiquid such that market prices are no longer readily available, the Company will value its syndicated loans using estimated net present values of the future cash flows or discounted cash flows (DCF). The use of a DCF methodology follows that prescribed by ASC 820-10-35-15A, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs, such as quotes in active markets, are not available. When relevant observable market data does not exist, the alternative outlined in the ASC 820-10-35-15A is the use of valuing investments based on DCF. For the purposes of using DCF to provide fair value estimates, the Company considers multiple inputs such as a risk-adjusted discount rate that incorporates adjustments that market participants would make both for nonperformance and liquidity risks. As such, the Company develops a modified discount rate approach that incorporates risk premiums including, among others, increased probability of default, or higher loss given default, or increased liquidity risk. The DCF valuations are applied to the syndicated loans to provide an estimate of what the Company believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Company will apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

As of September 30, 2009, the Company assessed trading activity in its syndicated loan assets and determined that there had been a return to market liquidity and a better functioning secondary market for these assets. Thus, firm bid prices or indicative bids were used to fair value the Company s remaining syndicated loans at September 30, 2009. However, for those syndicated loans which were sold but not yet settled as of September 30, 2009, the Company used the respective sales prices to value those syndicated loans.

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

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

(2) Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The fair value of these investments is determined based on the total enterprise value of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820-10, Fair Value Measurements and Disclosures for the Company s Non-Public Debt Securities and equity or equity-like securities (e.g. preferred equity, equity, or other equity-like securities) that are purchased together as part of a package, where the Company has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the mergers and acquisition market as the principal market, generally through a sale or recapitalization of the portfolio company. In accordance with ASC 820-10, the Company applies the in-use premise of value which assumes the debt and equity securities are sold together. Under this liquidity waterfall approach, the Company first calculates the total enterprise value of the issuer by incorporating some or all of the following factors to determine the total enterprise value of the issuer:

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

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

(3) Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities: The Company values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which the Company does not control or cannot gain control as of the measurement date, using a hypothetical secondary market as the Company s principal market. In accordance with ASC 820-10, the Company determines its fair value of these debt securities of non-control investments assuming the sale of an individual debt security using the in-exchange premise of value (as defined in ASC 820-10). As such, the Company estimates the fair value of the debt component using estimates of value provided by SPSE and its own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. Subsequent to June 30, 2009, for equity or equity-like securities of investments for which the Company does not control or cannot gain control as of the measurement date, the Company estimates the fair value of the equity using the in-exchange premise of value based on factors such as the overall value of the issuer, the relative fair value of other units of account including debt, or other relative value approaches. Consideration also is given to capital structure and other contractual obligations that may impact the fair value of the equity. Further, the Company may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or its own assumptions in the absence of other observable market data and may also employ DCF valuation techniques.

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, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Company might reasonably expect to receive upon the current sale of the security in an arms-length transaction in the security s principal market.

Refer to Note 3 for additional information regarding fair value measurements and the Company s adoption of ASC 820-10.

Interest and Dividend Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs and for the accretion of discounts, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due or if the Company s qualitative assessment indicates that the debtor is unable to service its debt or other obligations, the Company will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, the Company remains contractually entitled to this interest. At September 30, 2009, one Control investment was on non-accrual with a fair value of approximately $1.6 million, or 0.8% of the fair value of all loans held in the Company s portfolio at September 30, 2009. At March 31, 2009, one Control investment was on non-accrual with a fair value of approximately $2.6 million, or 0.8% of the fair value of all loans held in the Company s portfolio at March 31, 2009.

Conditional interest, or a success fee, is recorded upon full repayment of a loan investment. To date, the Company has not recorded any conditional interest. Dividend income on preferred equity securities is accrued to the extent that such amounts are expected to be collected and that the Company has the option to collect such amounts in cash. To date, the Company has not accrued any dividend income.

NOTE 3. INVESTMENTS

The Company adopted ASC 820-10 on April 1, 2008. In part, ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The new standard 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. The standard 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 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 the Company s own assumptions that market participants would use to price the asset or liability based upon the best available information.

As of September 30, 2009, all of the Company s assets were valued using Level 3 inputs.

The following table presents the financial instruments carried at fair value as of September 30, 2009 and March 31, 2009, by caption on the accompanying condensed consolidated statements of assets and liabilities for each of the three levels of hierarchy established by ASC 820-10:

	As of September 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value Reported in Condensed Consolidated Statement of Assets and Liabilities**
Non-Control/Non-Affiliate investments	$	$	$ 25,004	$ 25,004
Control investments			132,399	132,399
Affiliate investments			46,900	46,900
Total investments at fair value	$	$	$ 204,303	$ 204,303

	As of March 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value Reported in Condensed Consolidated Statement of Assets and Liabilities**
Non-Control/Non-Affiliate investments	$	$	$ 94,740	$ 94,740
Control investments			166,163	166,163

Affiliate investments						53,027		53,027
Total investments at fair value	$		$		$	313,930	$	313,930

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide a roll-forward in the changes in fair value during the three and six months ended September 30, 2009 and 2008 for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources). Accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

Fair value measurements using unobservable data inputs (Level 3)

		Non-Control/ Non-Affiliate Investments		**Control Investments**		**Affiliate Investments**		**Total**
Six months ended September 30, 2009:								
Fair value as of March 31, 2009	$	94,740	$	166,163	$	53,027	$	313,930
Total realized/unrealized gains (losses) (a)		609		(26,381)		(6,119)		(31,891)
New investments, repayments, and settlements, net		(70,345)		(7,383)		(8)		(77,736)
Transfers in (out) of Level 3								
Fair value as of September 30, 2009	$	25,004	$	132,399	$	46,900	$	204,303
Three months ended September 30, 2009:								
Fair value as of June 30, 2009	$	26,961	$	149,509	$	50,539	$	227,009
Total realized/unrealized (losses) gains (a)		(1,514)		(14,900)				