GLADSTONE INVESTMENT CORPORATION\DE
Form 497
March 24, 2008

Use these links to rapidly review the document
TABLE OF CONTENTS
Financial Statements

Filed Pursuant to Rule 497
Registration No. 333-147185

PROSPECTUS SUPPLEMENT

(To Prospectus dated January 14, 2008)

GLADSTONE INVESTMENT CORPORATION

$300,000,000
COMMON STOCK
PREFERRED STOCK
SUBSCRIPTION RIGHTS
DEBT SECURITIES

This prospectus supplement supplements the prospectus dated January 14, 2008, relating to our offer, from time to time, of up to $300 million aggregate initial offering price of our common stock, $0.001 par value per share, preferred stock, $0.001 par value per share, subscription rights or debt securities, or a combination of these securities, which we refer to in this prospectus supplement collectively as our Securities, in one or more offerings, by providing certain information regarding our recent developments and our third quarter 2007 financial results.

Please read this prospectus supplement, and the accompanying prospectus, before investing, and keep it for future reference. The prospectus supplement and the accompanying prospectus contain information you should know before investing, including information about risks.

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Such reports, proxy statements and other information, as well as the registration statement and the amendments, exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained by calling the SEC at 1-202-551-8090. The SEC maintains a web site that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is *http://www.sec.gov*. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on The Nasdaq Global Select Market and our corporate website is located at *http://www.gladstoneinvestment.com*. The information contained on, or accessible through, our website is not a part of this prospectus supplement or the accompanying prospectus.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 8 of the accompanying prospectus.

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

The date of this prospectus supplement is March 24, 2008.

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus or any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or the accompanying prospectus supplement as if we had authorized it. This prospectus and any prospectus supplement do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus and any prospectus supplement is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.

TABLE OF CONTENTS

Prospectus Supplement

	Page
Interim Management's Discussion and Analysis of Financial Condition and Results of Operations	S-1
Interim Consolidated Financial Statements	S-22

Prospectus

	Page
Prospectus Summary	1
Additional Information	7
Risk Factors	8
Special Note Regarding Forward-Looking Statements	20
Use of Proceeds	20
Price Range of Common Stock and Distributions	20
Consolidated Selected Financial Data	22
Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Business	46
Portfolio Companies	58
Management	65
Control Persons and Principal Stockholders	78
Dividend Reinvestment Plan	79
Material U.S. Federal Income Tax Considerations	80
Regulation as a Business Development Company	83
Description of Our Securities	85
Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws	88
Share Repurchases	92
Plan of Distribution	92
Custodian, Transfer and Dividend Paying Agent and Registrar	93
Brokerage Allocation and Other Practices	94
Legal Matters	94
Experts	94
Financial Statements	F-1

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

All statements contained herein, 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," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) our future operating results as we are a company with a limited operating history; (2) the loss of one or more of our executive officers, in particular, David Gladstone, George Stelljes III, or Terry Lee Brubaker; (3) the impact of the investments that we make and the ability of these investments to achieve their objectives; (4) our contractual relationships with third parties; (5) the adequacy of our cash resources and working capital; (6) our ability to obtain future financing, if at all; and (7) those factors listed under the caption "Risk Factors" of this Quarterly Report on Form 10-Q. 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 Form 10-Q.

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto contained elsewhere in this report and our annual report on Form 10-K for the fiscal year ended March 31, 2007.

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 were primarily established for the purpose of investing in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. We also invest in senior secured loans and common stock and 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 ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act").

Our Investment Strategy

We seek to achieve returns from current income from senior, subordinated and mezzanine debt, and capital gains from preferred stock and warrants to purchase common stock that we acquire in connection with buyouts and recapitalizations of small and mid-sized companies with established management teams. Our investments generally range between $10 million and $30 million each, although this investment size may vary proportionately as the size of our capital base changes. We intend to invest either by ourselves or jointly with other buyout funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, then our investment is likely to be smaller than if we were investing alone.

We expect that our target portfolio over time will include mostly subordinated loans, mezzanine debt, preferred stock, and warrants to buy common stock. Structurally, subordinated loans and

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

Non-Control/Non-Affiliate Investments

We invested a substantial portion of the proceeds of our initial public offering in senior secured syndicated loans, since these investments typically may be originated more quickly than investments in companies undergoing a buyout or recapitalization. We employed this strategy in order to quickly invest our initial capital to generate current income, and have continued this strategy in order to build a portfolio that may be potentially securitized in the future to obtain financing to pay down borrowings and invest in additional buyout and recapitalization investments. At December 31, 2007, we had investments in 50 such syndicated loans. There can be no guarantee that we will be able to successfully securitize any loans in our portfolio.

Senior secured syndicated loans typically involve a number of banks or other financial institutions and are generally more marketable than loans that are not syndicated. In order to invest in certain senior secured syndicated loans, we may purchase these investments at a premium or discount. We amortize premiums and discounts over the contractual life of the investment. In the event that an investment is sold prior to its contractual maturity date, we recognize a loss on any unamortized premium or a gain on any unamortized discount.

At December 31, 2007 and March 31, 2007, we held investments in Non-Control/Non-Affiliates of approximately $185.1 million and $138.6 million, at cost, respectively. These investments were comprised primarily of syndicated loan participations of senior notes of both public and private companies as well as non-syndicated loan investments where we do not have a significant ownership interest in the portfolio company. We expect to continue purchasing syndicated loans using borrowings from our credit facility.

Control and Affiliate Investments

At December 31, 2007, we had investments of approximately $135.5 million, at cost, in revolving credit facilities, senior debt and subordinated debt of eight portfolio companies. In addition, at December 31, 2007, we had invested approximately $35.5 million in preferred and common equity of those companies. These investments are the result of buyout and recapitalization transactions and represent our primary investment focus.

Investment Concentrations

Approximately 75% of the aggregate fair value of our investment portfolio at December 31, 2007 was comprised of senior debt, approximately 11% was senior subordinated debt and approximately 14% was preferred and common equity securities. At December 31, 2007, we had approximately $356 million

invested in 59 portfolio companies. The following table outlines our investments by type at December 31, 2007 and March 31, 2007:

	December 31, 2007		March 31, 2007	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Senior Term Debt	$ 276,401,429	$ 265,095,613	$ 207,367,741	$ 206,981,112
Senior Subordinated Term Debt	43,458,184	38,689,248	24,485,760	24,467,635
Subordinated Term Debt	493,421	493,421	14,167,810	14,167,810
Preferred & Common Equity Securities	35,774,879	47,752,835	28,598,802	25,331,046
Total Investments	$ 356,127,913	$ 352,031,117	$ 274,620,113	$ 270,947,603

Investments at fair value consisted of the following industry classifications at December 31, 2007 and March 31, 2007:

	December 31, 2007			March 31, 2007		
		Percentage of			Percentage of	
	Fair Value	**Total Investments**	**Net Assets**	**Fair Value**	**Total Investments**	**Net Assets**
Automobile	$ 2,277,000	0.6%	1.0%	$ 8,504,666	3.1%	3.8%
Beverage, Food & Tobacco	3,790,950	1.1%	1.7%	3,413,874	1.3%	1.5%
Broadcasting & Entertainment	3,756,380	1.1%	1.7%			
Buildings & Real Estate	14,161,626	4.0%	6.4%	3,003,750	1.1%	1.3%
Cargo Transport	20,649,005	5.9%	9.4%	21,844,463	8.1%	9.8%
Chemicals, Plastics & Rubber	24,384,408	6.9%	11.1%	22,535,527	8.3%	10.1%
Containers, Packaging and Glass	26,624,335	7.6%	12.1%	999,975	0.4%	0.4%
Diversified/Conglomerate Manufacturing	53,362,744	15.2%	24.2%	32,563,400	12.0%	14.6%
Diversified/Conglomerate Service	37,677,977	10.7%	17.1%	27,374,081	10.1%	12.3%
Ecological	478,844	0.1%	0.2%			
Electronics	14,606,669	4.1%	6.6%	6,758,294	2.5%	3.0%
Healthcare, Education and Childcare	41,409,279	11.8%	18.8%	31,296,111	11.6%	14.0%
Home & Office Furnishings	17,224,898	4.9%	7.8%	17,105,808	6.3%	7.7%
Machinery	58,592,031	16.6%	26.6%	41,480,716	15.3%	18.6%
Oil & Gas				3,851,943	1.4%	1.7%
Personal, Non-durable Consumer Products	7,761,955	2.2%	3.5%	1,492,472	0.6%	0.7%
Personal, Food, & Miscellaneous Services	4,128,555	1.2%	1.9%	16,905,483	6.2%	7.6%
Printing & Publishing	7,737,043	2.2%	3.5%	18,590,084	6.9%	8.3%
Retail Stores	850,877	0.2%	0.4%	1,407,018	0.5%	0.6%
Telecommunications	12,556,541	3.5%	5.7%	9,246,854	3.4%	4.1%
Textiles & Leather				2,573,084	0.9%	1.2%
Total Investments	$ 352,031,117	100%		$ 270,947,603	100%	

The investments at fair value were included in the following geographic regions of the United States and Canada at December 31, 2007 and March 31, 2007:

	December 31, 2007			March 31, 2007		
		Percentage of			Percentage of	
	Fair Value	Total Investments	Net Assets	Fair Value	Total Investments	Net Assets
Mid-Atlantic	$ 142,295,775	40.4%	64.6%	$ 94,257,169	34.8%	42.3%
Midwest	103,158,224	29.3%	46.8%	88,508,725	32.7%	39.7%
Northeast	11,910,369	3.4%	5.4%	14,879,654	5.5%	6.7%
Southeast	50,935,445	14.5%	23.1%	36,357,555	13.4%	16.3%
West	40,250,029	11.4%	18.3%	36,944,500	13.6%	16.6%
Canada	3,481,275	1.0%	1.6%			
Total Investments	$ 352,031,117	100.0%		$ 270,947,603	100.0%	

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

Our Adviser and Administrator

Our Adviser is led by a management team which has extensive experience in our lines of business. Our Adviser also has a wholly-owned subsidiary, Gladstone Administration, LLC (the "Administrator"), which employs our chief financial officer, chief compliance officer, controller, treasurer and their respective staffs. All of our executive officers are officers or directors, or both, of our Adviser and our Administrator.

Our Adviser also provides investment advisory and administrative services to our affiliates Gladstone Commercial Corporation, a publicly traded real estate investment trust; Gladstone Capital Corporation, a publicly traded registered investment company; and Gladstone Land Corporation, an agricultural real estate company owned by Mr. Gladstone. All of our directors and executive officers serve as either directors or executive officers, or both, of Gladstone Commercial Corporation and Gladstone Capital Corporation. In the future, our Adviser may provide investment advisory and administrative services to other funds, both public and private, of which it is the sponsor.

We have been externally managed by our Adviser pursuant to an investment advisory and management agreement (the "Advisory Agreement") since our inception. Our Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the 1940 Act. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington, D.C., and also has offices in the states of New York, Illinois, Pennsylvania, New Jersey, Texas and Washington.

Investment Advisory and Management Agreement

Pursuant to 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 2.0%. The base management fee was initially 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 equivalent investments 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 assessed at an annual rate of 2.0% 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. This new calculation was originally scheduled to begin in periods after March 31, 2006; however, our Board of Directors accepted voluntary waivers from our Adviser that allowed the initial calculation of the base management fee to be effective through December 31, 2006.

On April 11, 2007, our Board of Directors accepted a voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations. This waiver remains in effect and was applied during the three and nine months ended December 31, 2007.

When our Adviser receives fees from our portfolio companies, such as investment banking fees, structuring fees or executive recruiting services fees, 50% of certain of these fees will voluntarily be credited against the base management fee that we would otherwise be required to pay to our Adviser.

In addition, our Adviser services the loans held by Gladstone Business Investment, LLC ("Business Investment"), in return for which the Adviser receives a 2.0% annual fee based on the monthly aggregate balance of loans held by Business Investment. Since we own these loans, all loan servicing fees paid to our Adviser are treated as reductions against the 2.0% base management fee. Overall, the base management fee due to our Adviser cannot exceed 2.0% 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 incentive fee. The income-based incentive fee rewards our 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 pay our Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

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

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

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

The second part of the incentive fee is a capital gains 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 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.

Administration Agreement

We have entered into an administration agreement with our Administrator (the "Administration Agreement") whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of our Administrator's overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent for employees of our Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, controller, chief compliance officer, treasurer and their respective staffs. Our allocable portion of expenses is derived by multiplying our Administrator's total allocable expenses by

the percentage of our average total assets (the total assets at the beginning and end of each quarter) in comparison to the average total assets of all companies managed by our Adviser under similar agreements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates. Our accounting policies are more fully described in the "Notes to Consolidated Financial Statements" contained elsewhere in this report. We have identified our investment valuation process as our most critical accounting policy.

Investment Valuation

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

General Valuation Policy: Using procedures established by our Board of Directors, we value our investment portfolio each quarter. We carry our investments at fair value, as determined in good faith by or under the direction of our Board of Directors. Securities that are publicly traded, if any, are valued at the closing price of the exchange or securities market on which they are listed on the valuation date. Securities that are not traded on a public exchange or securities market, but for which a limited market exists are valued at the indicative bid price offered by the respective originating syndication agent's desk on or near the valuation date.

Debt and equity securities that are not publicly traded and for which a limited market does not exist are valued at fair value as determined in good faith by or under the direction of our Board of Directors. In making the good faith determination of the value of these securities, we start with the cost basis of the security, which includes paid in kind ("PIK") interest, if any. We then apply the methods set out below in "Valuation Methods." Members of our Adviser's portfolio management team prepare the valuations of our investments in portfolio companies using the most recent portfolio company financial statements and forecasts. These individuals also consult with portfolio company senior management and ownership to obtain further updates on the portfolio company's performance, including information such as industry trends, new product development, and other operational issues. 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 we might reasonably expect to receive upon the current sale of the security.

At December 31, 2007, we engaged Standard and Poor's Securities Evaluations, Inc. ("SPSE") to submit opinions of value for our debt securities that are issued to portfolio companies where we have no equity, or equity-like securities. In addition, securities that are not traded on a public exchange or securities market, but for which a limited market exists and that have not been rated by a nationally recognized statistical rating organization, or NRSRO (such as certain participations in syndicated loans) are also submitted to SPSE for opinions of value, along with the indicative bid price offered by the syndication agent's desk on or near the valuation date. We submit non-NRSRO rated securities to

SPSE as part of our Board's further consideration of whether market quotations are readily available, valid and reliable and, if there are discrepancies between the indicative bid price offered by the syndication agent's desk and the opinion of value from SPSE, we determine whether it is more appropriate for the alternative method of valuation prescribed by the 1940 Act fair value as determined in good faith by the Board of Directors to be implemented. We request that SPSE also evaluate and assign values to success fees (conditional interest included in some loan securities) when we determine that the probability of receiving a success fee on a given loan is above 6-8%, a threshold of significance. We may also submit PIK interest to SPSE for valuation when it is determined the PIK interest is likely to be received. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and may decline to make requested evaluations for any reason at its sole discretion. Upon completing our collection of data with respect to the investments (including the information described under "Credit Information," the risk ratings of the loans described under "Loan Grading and Risk Rating" and the factors described under "Valuation Methods"), this valuation data is forwarded to SPSE for review and analysis. SPSE makes its independent assessment of the data that we have assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

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

SPSE opinions of value of our debt securities that are issued by portfolio companies where we have no equity, or equity-like securities are submitted to our Board of Directors along with our Adviser's supplemental assessment and recommendation regarding valuation of each of these investments. Our Adviser generally accepts the opinion of value given by SPSE, however, in certain limited circumstances, such as when our Adviser may learn new information regarding an investment between the time of submission to SPSE and the date of the Board assessment, our Adviser's conclusions as to value may differ from the opinion of value delivered by SPSE. Our Board of Directors then reviews whether our Adviser has followed its established procedures for determinations of fair value, and votes to accept or reject the recommended valuation of our investment portfolio. Our Adviser and our management recommended, and the Board of Directors voted to accept, the opinions of value delivered by SPSE on the loans in our portfolio as denoted on the Schedule of Investments as of December 31, 2007 included in our consolidated financial statements.

Because there is a delay between when we close an investment and when the investment can be evaluated by SPSE, new loans are not valued immediately by SPSE; rather, management makes its own determination about the value of these investments in accordance with our valuation policy. Because SPSE does not provide values for our equity securities, our Adviser determines the recommended fair value of these investments using valuation policies approved by our Board of Directors.

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

Loan Grading and Risk Rating: As part of our valuation procedures we risk rate all of our investments in debt securities. For syndicated loans that have been rated by a NRSRO (as defined in Rule 2a-7 under the 1940 Act), we use the NRSRO's risk rating for such security. For all other debt securities, we use a proprietary risk rating system. Our risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. This system is used to estimate the probability of default on debt securities and the probability of loss if there is a default. These types of systems are referred to as risk rating systems and are used by banks and rating agencies. The risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

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

Company's System	First NRSRO	Second NRSRO	Gladstone Investment's Description(a)
>10	Baa2	BBB	Probability of Default (PD) during the next ten years is 4% and the Expected Loss (EL) is 1% or less
10	Baa3	BBB-	PD is 5 and the EL is 1 to 2%
9	Ba1	BB+	PD is 10 and the EL is 2 to 3%
8	Ba2	BB	PD is 16 and the EL is 3 to 4%
7	Ba3	BB-	PD is 17.8 and the EL is 4 to 5%
6	B1	B+	PD is 22 and the EL is 5 to 6.5%
5	B2	B	PD is 25 and the EL is 6.5 to 8%
4	B3	B-	PD is 27 and the EL is 8 to 10%
3	Caa1	CCC+	PD is 30 and the EL is 10.0 to 13.3%
2	Caa2	CCC	PD is 35 and the EL is 13.3 to 16.7%
1	Caa3	CC	PD is 65 and the EL is 16.7 to 20%
0	N/a	D	PD is 85 or there is a Payment Default and the EL is greater than 20%

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

The above scale gives an indication of the probability of default and the magnitude of the loss if there is a default. Our policy is to stop accruing interest on an investment if we determine that interest

is no longer collectible. At December 31, 2007, one investment was on non-accrual and at March 31, 2007 there were no investments on non-accrual. Additionally, we do not risk rate our equity securities.

The following table lists the risk ratings for all non-syndicated loans in our portfolio at December 31, 2007 and March 31, 2007, representing approximately 46% and 44%, respectively, of all loans in our portfolio at the end of each period:

Rating	December 31, 2007	March 31, 2007
Highest	7.0	8.0
Average	5.4	5.7
Weighted Average	5.0	5.0
Lowest	1.0	2.0

The following table lists the risk ratings for syndicated loans in our portfolio that were not rated by an NRSRO at December 31, 2007 and March 31, 2007, representing approximately 14%, respectively, of all loans in our portfolio at the end of each period:

Rating	December 31, 2007	March 31, 2007
Highest	9.0	8.0
Average	7.0	7.2
Weighted Average	7.2	7.3
Lowest	1.0	6.0

For syndicated loans that are currently rated by an NRSRO, we risk rate such loans in accordance with the risk rating systems of major risk rating organizations, such as those provided by a NRSRO. The following table lists the risk ratings for all syndicated loans in our portfolio that were rated by an NRSRO at December 31, 2007 and March 31, 2007, representing approximately 40% and 42%, respectively, of all loans in our portfolio at the end of each period:

Rating	December 31, 2007	March 31, 2007
Highest	BB/Ba2	BB-/Ba2
Average	B+/B1	B+/B1
Weighted Average	B+/B1	B+/B1
Lowest	CCC+/B2	B/B2

Valuation Methods: We determine the value of publicly-traded debt securities based on the closing price for the security on the exchange or securities market on which it is listed on the valuation date. We value debt securities that are not publicly traded, but for which a limited market for the security exists, such as certain participations in syndicated loans, at the indicative bid price offered by the respective originating syndication agent's trading desk on or near the valuation date. At December 31, 2007, none of the debt securities in our portfolio were publicly traded and there was a limited market for 50 debt securities in our portfolio. At March 31, 2007, none of the debt securities in our portfolio were publicly traded and there was a limited market for 42 debt securities in our portfolio.

Debt securities that are issued by portfolio companies where we have an equity, or equity-like interest that are not publicly traded and for which there is no market are valued at cost, if there is adequate total enterprise value determined when valuing our equity holdings in the borrower. Fair values are discounted for any shortfall of total enterprise value over the total debt outstanding for the borrower.

Debt securities that are not publicly traded and that are issued by portfolio companies for which there is no market we determine the value of the security as if we currently intended to sell the security and consider some or all of the following factors:

- the risk rating of the security;
- the cost basis and the type of the security;
- the nature and realizable value of the collateral;
- the portfolio company's ability to make payments and discounted cash flow;
- reports from portfolio company senior management and board meetings;
- reported values of similar securities of the portfolio company or comparable companies; and
- changes in the economy affecting the portfolio company.

We value convertible debt, equity, success or exit fees or other equity-like securities for which there is a market based on the market prices for such securities, even if that market is not robust. At December 31, 2007 and March 31, 2007, there was no market for any of the equity securities we owned. To value convertible debt, equity, success or exit fees or other equity-like securities for which no market exists, we use the same information we would use for a debt security valuation described above, except risk-rating, as well as standard valuation techniques used by major valuation firms to value the equity securities of private companies. These valuation techniques also include discounted cash flow of the expected sale price in the future, valuation of the securities based on recent sales to third parties in comparable transactions, or a review of similar companies that are publicly traded and the market multiple of their equity securities. In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. At December 31, 2007 we had $35.8 million invested, at cost, in equity securities compared to our debt portfolio with a cost basis of $320.3 million. At March 31, 2007, we had $28.6 million invested, at cost, in equity securities compared to our debt portfolio with a cost basis of $246.0 million.

At December 31, 2007, we had total unrealized depreciation of approximately $4.1 million, which was primarily comprised of $11.1 million net unrealized depreciation of our Non-Control/Non-Affiliate investments, offset by approximately $7.0 million of net appreciation of our Control and Affiliate investments. The syndicated loan market continued to be extremely volatile during the quarter ended December 31, 2007 and, as a result, certain of our syndicated loan investments experienced significant declines in fair market value. At March 31, 2007, we had total unrealized depreciation of approximately $3.7 million, which was primarily comprised of net unrealized depreciation of our preferred and common stock in Chase II Holdings Corp.

Tax Status

Federal Income Taxes

We currently qualify and intend to continue to qualify for treatment as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Internal Revenue Code of 1986, as amended (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 are required to distribute to stockholders at least 90% of our investment company taxable income, as defined by the Code. It is our policy to pay out as a dividend up to 100% of those amounts.

In an effort to avoid certain excise taxes imposed on RICs, we currently intend to 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% of our capital gains in excess of capital losses for the one-year period ending on

October 31 of the calendar year, and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years.

Revenue Recognition

Interest and Dividend Income Recognition

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. We will stop accruing interest on investments when it is determined that interest is no longer collectible. At December 31, 2007, one Non-Control/Non-Affiliate investment was on non-accrual with a cost basis of approximately $2.9 million at December 31, 2007, or less than 1% of the cost basis of all loans in our portfolio. There were no accounts on non-accrual at March 31, 2007. Conditional interest, or a success fee, is recorded when earned upon full repayment of a loan investment. To date we have 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 we have the option to collect such amounts in cash. To date, we have not accrued any dividend income.

Services Provided to Portfolio Companies

As a business development company under the 1940 Act, we are required to make available significant managerial assistance to our portfolio companies. We provide these services through our Adviser, who provides these services on our behalf through its officers who are also our officers. Currently, neither we nor our Adviser charges a fee for managerial assistance, however, if our Adviser does receive fees for such managerial assistance, our Adviser will credit the managerial assistance fees to the base management fee due from us to our Adviser.

Our Adviser receives fees for the other services it provides to our portfolio companies. These other fees are typically non-recurring, are recognized as revenue when earned and are generally paid directly to our Adviser by the borrower or potential borrower upon the closing of the investment. The services our Adviser provides to our portfolio companies vary by investment, but generally include a broad array of services such as investment banking services, arranging bank and equity financing, structuring financing from multiple lenders and investors, reviewing existing credit facilities, restructuring existing investments, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. When our Adviser receives fees for these services, 50% of certain of those fees are voluntarily credited against the base management fee that we pay to our Adviser. Any services of this nature subsequent to the closing would typically generate a separate fee at the time of completion.

Our Adviser also receives fees for monitoring and reviewing portfolio company investments. These fees are recurring and are generally paid annually or quarterly in advance to our Adviser throughout the life of the investment. Fees of this nature are recorded as revenue by our Adviser when earned and are not credited against the base management fee.

We may receive fees for the origination and closing services we provide to portfolio companies through our Adviser. These fees are paid directly to us and are recognized as revenue upon closing of the originated investment and are reported as fee income in the consolidated statements of operations.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R) *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination.

SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* ("SFAS 160"). This Statement amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for interim periods beginning on or after December 15, 2008. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB 109"). SAB 109 provides guidance on the accounting for written loan commitments recorded at fair value under GAAP. Specifically, the SAB revises the Staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB 109, which supersedes SAB 105, *Application of Accounting Principles to Loan Commitments*, requires the expected net future cash flows related to the associated servicing of the loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 is effective in fiscal quarters beginning after December 15, 2007. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows entities to measure at fair value many financial instruments and certain other assets and liabilities that are not otherwise required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007 We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is required to adopt the provisions of SFAS 157 beginning with the fiscal year ended March 31, 2009. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

RESULTS OF OPERATIONS

Three months ended December 31, 2007 compared to the three months ended December 31, 2006

Investment Income

Investment income for the three months ended December 31, 2007 increased $3,244,633 to $7,544,001, compared to investment income of $4,299,368 for the three months ended December 31, 2006.

Interest income from Non-Control/Non-Affiliate investments increased $1,305,747 to $3,891,918 for the three months ended December 31, 2007, compared to $2,586,171 for the three months ended December 31, 2006. This increase was mainly the result of approximately $43 million of additional Non-Control/Non-Affiliate investments at December 31, 2007 compared to the prior year period.

Interest income from Control investments was $2,865,843 for the three months ended December 31, 2007, representing interest on our loan investments to our Control affiliates, compared

to interest income of $1,264,451 for the three months ended December 31, 2006. The increase of $1,601,392 is directly attributable to the addition of two Control investments compared to the prior year period.

Interest income from Affiliate investments was $700,494 for the three months ended December 31, 2007, representing interest on our loan investments to our Non-Control affiliates, compared to interest income of $114,668 for the three months ended December 31, 2006. The increase of $585,826 is mainly the result of recognizing a full quarter of interest income from our Affiliate investment that was purchased at the end of the prior year period, as well as the acquisition of another Affiliate investment.

Interest income from cash and equivalents decreased $253,084 to $79,502 for the three months ended December 31, 2007 from $332,586 for the three months ended December 31, 2006. This decrease was the result of the complete investment of the proceeds of our initial public offering in Control, Affiliate and Non-Control/Non-Affiliate investments. At December 31, 2007 we had no investments in treasury securities as all of the proceeds from our initial public offering had been invested

Other income for the three months ended December 31, 2007 was $6,244 compared to $1,492 for the three months ended December 31, 2006. Other income is primarily comprised of loan amendment fees that are received from portfolio companies and are amortized over the remaining life of the respective loans. The increase of $4,752 over the prior year quarter is primarily due to the receipt of additional amendment fees during the period.

The weighted average yield on our portfolio of investments, excluding cash and cash equivalents, was 9.05% for the three months ended December 31, 2007 and 9.41% for the three months ended December 31, 2006. This decrease is largely the result of declining interest rates due to the volatility in the lending marketplace.

Operating Expenses

Operating expenses for the three months ended December 31, 2007 were $3,797,775 compared to $1,401,300 for the three months ended December 31, 2006, representing an overall increase of $2,396,475.

For the three months ended December 31, 2007, we incurred a base management fee of $497,632, after reductions for loan servicing fees of $1,287,013, for a gross base management fee (including loan servicing fees) of $1,784,645. For the three months ended December 31, 2006, we incurred a base management fee of $551,235, after reductions for loan servicing fees of $508,691, for a gross base management fee (including loan servicing fees) of $1,059,926. The increase in our gross base management fee of $724,719 results from the growth of our portfolio from the prior year period. The base management fee is computed quarterly as described under " Investment Advisory and Management Agreement."

We also received aggregate credits against our base management fee of $1,045,881, which were comprised of $509,555 resulting from reduced fees on syndicated loan participations and $536,326 resulting from investment banking fees paid to our Adviser during three months ended December 31, 2007. We received aggregate credits of $375,225 against our base management fee for the three months ended December 31, 2006 resulting from investment banking fees paid to our Adviser during the quarter.

Loan servicing fees of $1,287,013 were incurred for the three months ended December 31, 2007. These fees were incurred in connection with a loan servicing agreement between Business Investment and our Adviser in connection with our credit facility established in October 2006, which is based on the size of the aggregate outstanding loan portfolio. These fees reduced the amount of the management fee due to our Adviser as noted above. The increase in loan servicing fees of $778,322

compared to the prior year quarter is the result of an increase in the portfolio of loans being serviced by our Adviser as well as the recognition of a full quarter of loan servicing fees in the current year, compared to a partial quarter in the prior year.

The administration fee payable to our Administrator was $211,159 for the three months ended December 31, 2007 compared to $124,101 for the three months ended December 31, 2006. This fee consists of our allocable portion of our Administrator's rent and other overhead expenses, and our allocable portion of the salaries and benefits of our chief financial officer, chief compliance officer, treasurer, controller and their respective staffs. Our allocable portion of expenses is derived by multiplying the percentage of our average assets (the assets at the beginning and ending of each quarter) in comparison to the average assets of all companies managed by our Adviser. The increase of $87,058 was mainly attributable to the personnel growth of our Administrator as well as an increase in the general overhead expenses incurred by our Administrator.

Interest expense for the three months ended December 31, 2007 was $2,381,227 compared to $68,748 of interest expense for the three months ended December 31, 2006. The increase resulted from greater borrowings outstanding on our credit facility during the quarter, compared to the prior year quarter. We established our credit facility in October 2006 and did not have any borrowings outstanding until December 2006, resulting in only one month of interest expense.

Deferred finance cost amortization for the three months ended December 31, 2007 was $169,329 compared to $91,392 for the three months ended December 31, 2006. The increase of $77,937 is primarily attributable to an extra month of amortization in the current quarter as the prior year quarter began amortizating these costs in November 2006. Further, the total deferred finance costs subject to amortization were greater in the current year due to amendment and renewal fees for the credit facility.

Professional fees for the three months ended December 31, 2007 were $90,255, a decrease of $96,282 over the professional fees for the three months ended December 31, 2006 of $186,537. Professional fees primarily consist of legal fees and audit and accounting fees. The decrease is mainly due to in the timing of audit fees billed, partially in connection with our compliance with Sarbanes-Oxley regulations incurred during the prior year period, partially offset by increased general legal fees for the quarter.

Stockholder related costs were $25,083 for the three months ended December 31, 2007, compared to $28,643 for the three months ended December 31, 2006. Stockholder related costs consist of the amortization of annual Nasdaq listing fees, transfer agent fees, annual report printing fees, Securities and Exchange Commission ("SEC") filing fees and press release costs.

Insurance expense for the three months ended December 31, 2007 was $46,719 compared to $60,696 for the three months ended December 31, 2006. Insurance expense consists of the amortization of the directors and officers insurance policy and professional liability policy premiums. The decrease is due to a reduction in the premiums for directors and officers insurance for the current policy period.

Directors' fees for the three months ended December 31, 2007 and 2006 were $54,709 and $54,800, respectively. Directors' fees consist of the amortization of the directors' annual stipend and individual meeting fees.

Taxes and licenses expense for the three months ended December 31, 2007 was $41,886 as compared to $41,550 for the three months ended December 31, 2006. Taxes and licenses expense primarily comprised of franchise taxes due to the state of Delaware and other fees surrounding state and regulatory licensing, registration and other corporate filing fees.

General and administrative expenses for the three months ended December 31, 2007 were $38,644 compared to $60,132 for the three months ended December 31, 2006. General and administrative

expenses consist primarily of direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies and backup servicer expenses. The overall decrease of $21,488 is mainly due to the decrease in direct investment expenses incurred on investments that were not funded. Typically when an investment funds, these direct expenses are reimbursed to us at closing by the portfolio company

Realized and Unrealized Loss on Investments

For the three months ended December 31, 2007, we recognized a net loss of $146,034 resulting from the partial sale of two of our syndicated loans at a discount during the three months ended December 31, 2007. We recorded net unrealized appreciation of investments in the aggregate amount of $1,503,727. The net unrealized appreciation of our investments for the three months ended December 31, 2007 was primarily related to the net appreciation of approximately $4.3 million of our Control investments, offset by a decline in market value of our syndicated loan portfolio of approximately $2.8 million from the previous quarter as the result of continued market volatility.

Net Increase in Net Assets from Operations

Overall, we realized a net increase in net assets resulting from operations of $5,108,919 for the three months ended December 31, 2007 as a result of the factors discussed above. Our net increase in net assets from operations per basic and diluted weighted average common share for the three months ended December 31, 2007 was $0.31 compared to a net increase in net assets resulting from operations per share of $0.16 for the three months ended December 31, 2006.

Nine months ended December 31, 2007 compared to the nine months ended December 31, 2006

Investment Income

Investment income for the nine months ended December 31, 2007 increased $8,623,365 to $21,000,099, compared to investment income of $12,376,734 for the nine months ended December 31, 2006.

Interest income from Non-Control/Non-Affiliate investments increased $4,282,441 to $11,220,467 for the nine months ended December 31, 2007, compared to $6,938,026 for the nine months ended December 31, 2006. This increase was mainly the result of approximately $43 million of additional Non-Control/Non-Affiliate investments at December 31, 2007 compared to the prior year period.

Interest income from Control investments was $8,043,247 for the nine months ended December 31, 2007, representing interest on our loan investments to our Control affiliates, compared to interest income of $3,711,056 for the nine months ended December 31, 2006. The increase of $4,332,191 is directly attributable to the addition of two Control investments compared to the prior year period.

Interest income from Affiliate investments was $1,501,944 for the nine months ended December 31, 2007, representing interest on our loan investments to our Non-Control affiliates, compared to interest income of $114,668 for the nine months ended December 31, 2007. The increase of $1,387,276 is mainly the result of recognizing nine months of interest income from our Affiliate investment that was purchased at the end of the prior year period and the purchase of another Affiliate investment during the nine months ended December 31, 2007, which also generated an increase in interest income from Affiliate investments.

Interest income from cash and equivalents decreased $1,416,893 to $193,613 for the nine months ended December 31, 2007 from $1,610,506 for the nine months ended December 31, 2006. This decrease was the result of the complete investment of the proceeds of our initial public offering in Control, Affiliate and Non-Control/Non-Affiliate investments. At December 31, 2007 we had no investments in treasury securities as all of the proceeds from our initial public offering had been invested.

Other income for the nine months ended December 31, 2007 was $40,828 compared to $2,478 for the three months ended December 31, 2006. Other income is primarily comprised of loan amendment fees that are received from portfolio companies and are amortized over the remaining life of the respective loans. The increase of $38,350 from the prior year period is primarily due to the repayment of two loans which resulted in the full recognition of the unamortized fees and the receipt of additional amendment fees during the period.

The weighted average yield on our portfolio of investments, excluding cash and cash equivalents, was 9.05% for the nine months ended December 31, 2007 and 10.03% for the nine months ended December 31, 2006. This decrease is largely the result of declining interest rates from the volatility in the lending marketplace.

Operating Expenses

Operating expenses for the nine months ended December 31, 2007 were $11,370,791, compared to $4,013,616 for the nine months ended December 31, 2006, representing an overall increase of $7,357,175.

For the nine months ended December 31, 2007, we incurred base management fees of $1,309,951, after reductions for loan servicing fees of $3,741,082, for a gross base management fee (including loan servicing fees) of $5,051,033. For the nine months ended December 31, 2006, we incurred base management fees of $2,214,437, after reductions for loan servicing fees of $508,691, for a gross base management fee (including loan servicing fees) of $2,723,128. The increase in our gross base management fee of $2,327,905 results from the growth of our portfolio from the respective prior year periods. The base management fee is computed quarterly as described under " Investment Advisory and Management Agreement."

We also received aggregate credits against our base management fee of $1,932,475 which were comprised of $1,244,024 resulting from reduced fees on syndicated loan participations and $688,451 resulting from investment banking fees paid to our Adviser during the nine months ended December 31, 2007. We received aggregate credits of $375,225 against our base management fee for the nine months ended December 31, 2006 resulting from investment banking fees paid to our Adviser during the quarter.

Loan servicing fees of $3,741,082 were incurred for the nine months ended December 31, 2007. These fees were incurred in connection with a loan servicing agreement between Business Investment and our Adviser in connection with our credit facility established in October 2006, which is based on the size of the aggregate outstanding loan portfolio. These fees reduced the amount of the management fee due to our Adviser as noted above. The increase in loan servicing fees of $3,232,391 compared to the prior year period is the result of an increase in the portfolio of loans being serviced by our Adviser as well as the recognition of a full quarter of loan servicing fees in the current year, compared to only two months in the prior year period.

The administration fee payable to our Administrator was $646,740 for the nine months ended December 31, 2007, compared to $364,351 for the nine months ended December 31, 2006. This fee consists of our allocable portion of our Administrator's rent and other overhead expenses, and our allocable portion of the salaries and benefits of our chief financial officer, chief compliance officer, treasurer, controller and their respective staffs. Our allocable portion of expenses is derived by multiplying the percentage of our average assets (the assets at the beginning and ending of each quarter) in comparison to the average assets of all companies managed by our Adviser that are under similar administration agreements with our Administrator. The increase $282,389 was mainly attributable to the personnel growth of our Administrator as well as an increase in the general overhead expenses incurred by our Administrator.

Interest expense for the nine months ended December 31, 2007 was $5,818,564, compared to $68,748 of interest expense for the nine months ended December 31, 2006. The increase resulted from greater borrowings outstanding on our credit facility during the period, compared to the prior year period. We established our credit facility in October 2006 and did not have any borrowings outstanding until December 2006, resulting in only one month of interest expense.

Deferred finance cost amortization for the nine months ended December 31, 2007 was $595,532 as compared to $91,392 for the nine months ended December 31, 2006. The increase of $504,140 is primarily attributable to nine months of amortization as the prior year period began amortizing these costs in November 2006.

Professional fees for the nine months ended December 31, 2007 were $356,176, compared to the professional fees for the nine months ended December 31, 2006 of $354,325. Professional fees primarily consist of legal fees and audit and accounting fees. Slight increases in our general legal fees were offset by decreases in our accounting and audit fees related to our compliance with Sarbanes-Oxley regulations incurred during the prior year period.

Stockholder related costs increased $32,803 for the nine months ended December 31, 2007 to $220,312 from $187,509 in the nine months ended December 31, 2006. Stockholder related costs consist of the amortization of annual Nasdaq listing fees, transfer agent fees, annual report printing fees, SEC filing fees and press release costs. The increase is primarily attributed to additional expenses incurred related to the solicitation of stockholder proxy votes for our annual meeting of stockholders in August 2007.

Insurance expense for the nine months ended December 31, 2007 was $182,789 compared to $200,933 for the nine months ended December 31, 2006. Insurance expense consists of the amortization of the directors and officers insurance policy and professional liability policy premiums. The decrease of $18,144 is due to a reduction in the premiums for directors and officers insurance for the current policy period.

Directors' fees for the nine months ended December 31, 2007 and 2006 were $176,981 and $154,300, respectively. Directors' fees consist of the amortization of the directors' annual stipend and individual meeting fees. The increase is due to fewer committee meetings held in the prior year period.

Taxes and licenses expense for the nine months ended December 31, 2007 was $125,018 and was primarily comprised of franchise taxes due to the state of Delaware and other fees surrounding state and regulatory licensing, registration and other corporate filing fees. The decrease of $14,976 compared to the prior year period expense of $139,994 was the result of the timing of the accruals of the franchise tax to the state of Delaware in the prior year.

General and administrative expenses for the nine months ended December 31, 2007 were $130,121 compared to $104,161 for the nine months ended December 31, 2006. General and administrative expenses consist primarily of direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies and backup servicer expenses. The overall increase of $25,960 is mainly due to the increase in direct expenses as the overall size of our investment portfolio grew from the prior year period.

Realized and Unrealized Loss on Investments

For the nine months ended December 31, 2007, we recognized a net loss on the sale of seven syndicated loan participations aggregating $197,712 and we recorded net unrealized depreciation of investments in the aggregate amount of $424,286. The net unrealized depreciation of our investments for the nine months ended December 31, 2007 was primarily related to a decrease in the fair market value of our syndicated loan portfolio of approximately $10.9 million offset by an increase in our Control and Affiliate investments of approximately $10.2 million, when compared to their respective

fair market values at March 31, 2007. Our non-syndicated Non-Control/Non-Affiliate investments also recognized unrealized gains of approximately $0.2 million during the nine months ended December 31, 2007.

Net Increase in Net Assets from Operations

Overall, we realized a net increase in net assets resulting from operations of $9,012,310 for the nine months ended December 31, 2007 as a result of the factors discussed above. Our net increase in net assets from operations per basic and diluted weighted average common share for the nine months ended December 31, 2007 was $0.54, compared to $0.41 for the nine months ended December 31, 2006.

We will continue to incur base management fees which are likely to increase as our investment portfolio grows, and we may begin to incur incentive fees. Our administrative expenses payable to our Administrator are also likely to grow during future periods as our average assets increase and as the expenses incurred by our Administrator to support our operations grow.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities for the nine months ended December 31, 2007 was approximately $63.1 million and consisted primarily of the purchase of investments and the net unrealized depreciation of our investments, offset by repayments and sales of existing portfolio investments and an increase in amounts due from custodian.

A summary of our investment activity for the nine months ended December 31, 2007 and December 31, 2006 is as follows:

Quarter Ended	New Investments	Principal Repayments	Investments Sold	Net Gain/(Loss) on Disposal
June 30, 2007	$ 72,601,227	$ 21,358,187	$ 5,809,471	$ (48,247)
September 30, 2007	41,182,856	16,947,989		(3,431)
December 31, 2007	43,550,667	21,417,073	9,887,170	(146,034)
Total fiscal year 2008	$ 157,334,750	$ 59,723,249	$ 15,696,641	$ (197,712)

Quarter Ended	New Investments	Principal Repayments	Investments Sold	Net Gain/(Loss) on Disposal
June 30, 2006	$ 33,665,549	$ 874,222	$ 15,551,727	$ 3,273
September 30, 2006	15,812,230	5,964,245	997,502	(1,934)
December 31, 2006	69,372,847	3,610,221	3,040,716	(2,283)
Total fiscal year 2007	$ 118,850,626	$ 10,448,688	$ 19,589,945	$ (944)

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

Fiscal Year Ended March 31,		Amount
2008	$	4,939,252
2009		11,970,117
2010		11,800,388
2011		49,713,185
2012		50,072,850
Thereafter		191,677,039
Total contractual repayments	$	320,172,831
Investments in equity securities	$	35,774,879
Unamortized premiums on debt securities		180,203
Total	$	356,127,913

Financing Activities

During the nine months ended December 31, 2007, we recorded net borrowings under our credit facility of $50.5 million, which were used to purchase new investments.

For the nine months ended December 31, 2007, our dividends paid of $11,426,469 exceeded our net investment income (including net realized losses) by $1,994,873. As a result, we estimate that $9,431,596, or $0.57 per share, of our dividends declared and paid to stockholders during the period were paid from ordinary income and $1,994,873, or $0.12 per share, of these dividends represented a return of capital to stockholders. We declared these dividends based on our estimates of net investment income for the fiscal year. Our investment pace continues to be slower than expected in our third year of operations and, consequently, our net investment income was lower than our original estimates.

We anticipate continuing to borrow funds and, from time to time, issuing securities to obtain additional capital in the future. The terms of the future equity issuances cannot be determined and there can be no assurances that the equity markets will be available to us on terms we deem favorable, if at all. To this end, we have an effective registration statement on file with the SEC that permits us to issue, through one or more transactions, up to an aggregate of $300 million in securities, which may consist of common stock, preferred stock, subscription rights and/or debt securities. To date we have incurred approximately $358,000 of costs in connection with this registration statement.

Revolving Credit Facility

On October 19, 2006, through our wholly-owned subsidiary, Business Investment, we initially obtained a $100 million revolving credit facility (the "Credit Facility"). On October 19, 2006, we executed a purchase and sale agreement pursuant to which we agreed to sell certain loans to Business Investment in consideration for a membership interest therein. Simultaneously, Business Investment executed a credit agreement (the "Credit Agreement") with Deutsche Bank AG, New York Branch ("Deutsche Bank"), as administrative agent, and others, pursuant to which Business Investment pledged the loans purchased from us to secure future advances by certain institutional lenders. Availability under the Credit Facility was originally scheduled to terminate on October 18, 2007, however, on that date we amended and extended the Credit Facility such that availability under the Credit Facility will terminate on October 16, 2008, unless extended in the discretion of the lenders at the request of Business Investment. Interest is payable monthly during the term of the Credit Facility and principal is payable out of collections on loans purchased from us during the period following the date of which availability for advances has terminated through maturity. The Credit Facility will mature two years

following the date on which availability for advances has terminated and on such date, all principal, interest and other amounts owing under the Credit Facility will be due and payable. Interest rates charged on the advances under the facility are based on the rate paid by the lenders on commercial paper notes issued by such lenders to fund some or all of the advances, the London Interbank Offered Rate ("LIBOR"), the Prime Rate or the Federal Funds Rate, depending on market conditions, and adjusts periodically. On March 29, 2007, we increased our borrowing capacity under the Credit Facility from $100 million to $200 million. As of December 31, 2007, there was an outstanding principal balance of $150.5 million under the Credit Facility at an interest rate of approximately 5.36%. Available borrowings are subject to various constraints imposed under the Credit Agreement, based on the aggregate loan balance pledged by Business Investment, which varies as loans are added and repaid, regardless of whether such repayments are early prepayment or are made as contractually required. At December 31, 2007, the remaining borrowing capacity available under the Credit Facility was approximately $49.5 million.

The Credit Facility contains covenants that require Business Investment to maintain its status as a separate entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions); and restrict material changes to our credit and collection policies. The facility also restricts some of the terms and provisions (including interest rates, terms to maturity and payments schedules) and limits the borrower and industry concentrations of loans that are eligible to secure advances. As of December 31, 2007, Business Investment was in compliance with all of the facility covenants. We currently intend to securitize some or all of the loans held by Business Investment and if we are able to do so, we will use the proceeds from the securitization to pay down any amounts then outstanding under the revolving credit facility.

The administrative agent also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into lockbox accounts controlled by Deutsche Bank. Once a month, Deutsche Bank remits the collected funds to the Company after payment of any interest and expenses provided for under the Credit Agreement.

Our Adviser services the loans pledged under the Credit Facility. As a condition to this servicing arrangement, we executed a performance guaranty pursuant to which we guaranteed that our Adviser would comply fully with all of its obligations under the Credit Facility. The performance guaranty requires us to maintain a minimum net worth of $100 million and to maintain "asset coverage" with respect to "senior securities representing indebtedness" of at least 200%, in accordance with Section 18 of the 1940 Act. As of December 31, 2007, we were in compliance with our covenants under the performance guaranty.

Dividends

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Code, to distribute at least 90% of our

ordinary income and realized net short-term capital gains to our stockholders on an annual basis. In accordance with these requirements, we declared the following dividends:

Declaration Date	Record Date	Payment Date	Dividend per Share	
January 8, 2008	March 21, 2008	March 31, 2008	$	0.08
January 8, 2008	February 21, 2008	February 29, 2008	$	0.08
January 8, 2008	January 23, 2008	January 31, 2008	$	0.08
October 9, 2007	December 20, 2007	December 31, 2007	$	0.08
October 9, 2007	November 21, 2007	November 30, 2007	$	0.08
October 9, 2007	October 23, 2007	October 31, 2007	$	0.08
July 10, 2007	September 20, 2007	September 28, 2007	$	0.075
July 10, 2007	August 23, 2007	August 31, 2007	$	0.075
July 10, 2007	July 23, 2007	July 31, 2007	$	0.075
April 11, 2007	June 21, 2007	June 29, 2007	$	0.075
April 11, 2007	May 22, 2007	May 31, 2007	$	0.075
April 11, 2007	April 20, 2007	April 30, 2007	$	0.075
January 10, 2007	March 22, 2007	March 30, 2007	$	0.075
January 10, 2007	February 20, 2007	February 28, 2007	$	0.075
January 10, 2007	January 23, 2007	January 31, 2007	$	0.075
October 10, 2006	December 20, 2006	December 29, 2006	$	0.07
October 10, 2006	November 21, 2006	November 30, 2006	$	0.07
October 10, 2006	October 23, 2006	October 31, 2006	$	0.07
July 11, 2006	September 21, 2006	September 29, 2006	$	0.07
July 11, 2006	August 21, 2006	August 31, 2006	$	0.07
July 11, 2006	July 19, 2006	July 31, 2006	$	0.07
April 11, 2006	June 22, 2006	June 30, 2006	$	0.07
April 11, 2006	May 22, 2006	May 31, 2006	$	0.07
April 11, 2006	April 20, 2006	April 28, 2006	$	0.07

Contractual Obligations and Off-Balance Sheet Arrangements

As of December 31, 2007, we were a party to a signed and non-binding term sheet for a buyout investment of approximately $23 million. The future scheduled contractual payments at December 31, 2007 were as follows:

			Payment Due by Period						
Contractual Obligations	Total		Less than 1 Year		1-3 Years		3-5 Years		More than 5 Years
Investments		23,000,000		23,000,000	$		$		$
Total	$	23,000,000	$	23,000,000	$		$		$

As of January 30, 2008, the above investment had not yet funded.

We did not have any significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K as of December 31, 2007.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(UNAUDITED)

	December 31, 2007	March 31, 2007
ASSETS		
Non-Control/Non-Affiliate investments (Cost 12/31/07: $185,137,185; 3/31/07: $138,567,741)	$ 174,066,264	$ 138,168,612
Control investments (Cost 12/31/07: $136,536,484; 3/31/07: $116,302,372)	143,192,123	113,016,491
Affiliate investments (Cost 12/31/07: $34,454,244; 3/31/07: $19,750,000)	34,772,730	19,762,500
Total investments at fair value (Cost 12/31/07: $356,127,913; 3/31/07: $274,620,113)	352,031,117	270,947,603
Cash and cash equivalents	13,288,669	37,788,941
Interest receivable	1,965,776	1,306,090
Prepaid insurance	123,943	83,819
Deferred finance costs	462,210	627,960
Due from Custodian	3,412,644	12,694,985
Due from Adviser (Refer to Note 4)	253,684	20,383
Other assets	490,463	120,434
TOTAL ASSETS	$ 372,028,506	$ 323,590,215
LIABILITIES		
Due to Administrator (Refer to Note 4)	$ 211,159	$ 162,244
Borrowings under line of credit	150,462,500	100,000,000
Accrued expenses	910,800	523,698
Other liabilities	71,205	85,764
Total Liabilities	151,655,664	100,771,706
NET ASSETS	$ 220,372,842	$ 222,818,509
ANALYSIS OF NET ASSETS:		
Common stock, $0.001 par value, 100,000,000 shares authorized and 16,560,100 shares issued and outstanding	$ 16,560	$ 16,560
Capital in excess of par value	230,065,064	230,096,572
Net unrealized depreciation of investment portfolio	(4,096,797)	(3,672,510)
Net unrealized appreciation of derivative	5,000	
Distributions in excess of net investment income	(5,616,985)	(3,622,113)
Total Net Assets	$ 220,372,842	$ 222,818,509
Net assets per share	$ 13.31	$ 13.46

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

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

Company(1)	Industry	Investment(2)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS				
Syndicated Loans:				
Activant Solutions, Inc.	Service enterprise software and services	Senior Term Debt (7.0%, Due 5/2013)(3)	$ 3,742,795	$ 3,490,866
Advanced Homecare Holdings, Inc.	Service home health nursing services	Senior Term Debt (8.6%, Due 8/2014)(3)	2,985,000	2,895,450
Aeroflex, Inc.	Service provider of highly specialized electronic equipment	Senior Term Debt (8.1%, Due 8/2014)(3)	1,904,784	1,920,000
American Safety Razor Company Inc.	Manufacturing razors and blades	Senior Term Debt (7.4%, Due 7/2013)(3)	1,479,619	1,433,175
Aspect Software, Inc.	Service call center software	Senior Term Debt (7.9%, Due 7/2011)(3)	2,655,159	2,559,330
Brock Holdings II, Inc.	Service industrial specialty maintenance	Senior Term Debt (7.1%, Due 8/2013)(3)(5)	2,979,524	2,880,731
Compsych Investments Corp.	Service employee assistance programs	Senior Term Debt (7.6%, Due 2/2012)(3)(5)	3,505,231	3,343,939
CRC Health Group, Inc.	Service substance abuse treatment	Senior Term Debt (7.4%, Due 2/2012)(3)	9,906,751	9,369,254
Critical Homecare Solutions, Inc.	Service home therapy and respiratory treatment	Senior Term Debt (8.2%, Due 1/2012)(3)(5)	4,534,045	4,486,680
CST Industries Acquisition, Inc.	Manufacturing metal storage units	Senior Term Debt (7.9%, Due 8/2013)(3)	989,216	957,875
Dealer Computer Services, Inc.	Manufacturing & Service systems for automotive retailers	Senior Term Debt (6.8%, Due 9/2013)(3)	1,860,095	1,783,560
Generac Acquisition Corp.	Manufacturing standby power products	Senior Term Debt (7.7%, Due 11/2013)(3)(5)	6,944,412	6,185,500
Graham Packaging Holdings Company	Manufacturing plastic containers	Senior Term Debt (7.5%, Due 10/2011)(3)	5,433,813	5,216,460
Hargray Communications Group, Inc.	Service triple-play (cable, phone, internet) provider	Senior Term Debt (7.1%, Due 6/2014)(3)	963,258	932,542
HMTBP Acquisition II Corp.	Service aboveground storage tanks	Senior Term Debt (7.1%, Due 5/2014)(3)(5)	3,905,000	3,748,120
Hudson Products Holdings, Inc.	Manufacturing heat transfer solutions	Senior Term Debt (7.9%, Due 12/2013)(3)	6,036,234	5,837,641
Huish Detergents, Inc.	Manufacturing household cleaning products	Senior Term Debt (6.8%, Due 4/2014)(3)	1,991,129	1,721,350

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

Hyland Software, Inc.	Service provider of enterprise content management software	Senior Term Debt (7.7%, Due 7/2013)(3)	3,953,747	3,870,300
Interstate Fibernet, Inc.	Service provider of voice and data telecommunications services	Senior Term Debt (8.8%, Due 7/2013)(3)	9,954,851	9,700,000
J. Crew Operating Corp.	Retail apparel	Senior Term Debt (6.8%, Due 5/2013)(3)	879,372	850,877
KIK Custom Products, Inc.	Manufacturing consumer products	Senior Term Debt (7.1%, Due 5/2014)(3)	3,990,934	3,481,275
Kronos, Inc.	Service workforce management solutions	Senior Term Debt (7.1%, Due 6/2014)(3)	1,975,714	1,847,293
Lexicon Marketing USA, Inc.	Service marketing to Hispanic community	Senior Term Debt (non accrual)(3)(5)	2,947,515	1,384,397
Local TV Finance, LLC	Service television station operator	Senior Term Debt (7.3%, Due 5/2013)(3)	997,651	927,838
LVI Services, Inc.	Service asbestos and mold remediation	Senior Term Debt (9.6%, Due 11/2010)(3)(5)	6,387,074	5,987,800
MedAssets, Inc.	Service pharmaceuticals and healthcare GPO	Senior Term Debt (7.4%, Due 10/2013)(3)(5)	4,014,447	3,872,112
MediMedia USA, LLC	Service healthcare and pharmaceutical marketing	Senior Term Debt (7.2%, Due 10/2013)(3)	2,235,580	2,133,000
Mitchell International, Inc.	Service automobile insurance claims processing	Senior Term Debt (6.8%, Due 3/2014)(3)(5)	995,046	913,100
National Mentor Holdings, Inc.	Service home health care	Senior Term Debt (6.7%, Due 6/2013)(3)	1,972,709	1,848,422
Network Solutions, LLC	Service internet domain solutions	Senior Term Debt (7.3%, Due 3/2014)(3)	9,195,640	8,619,417
NPC International Inc.	Service Pizza Hut franchisee	Senior Term Debt (6.6%, Due 5/2013)(3)	2,895,543	2,695,380
Open Solutions, Inc.	Service software outsourcing for financial institutions	Senior Term Debt (7.3%, Due 1/2014)(3)	2,691,994	2,488,408
Ozburn-Hessey Holding Co. LLC	Service third party logistics	Senior Term Debt (8.4%, Due 8/2012)(3)	7,655,938	6,909,764
Pinnacle Foods Finance, LLC	Manufacturing branded food products	Senior Term Debt (7.9%, Due 4/2014)(3)	3,981,220	3,790,950
PTS Acquisition Corp.	Manufacturing drug delivery and packaging technologies	Senior Term Debt (7.1%, Due 4/2014)(3)	6,965,000	6,477,450
QTC Acquisition, Inc.	Service outsourced disability evaluations	Senior Term Debt (7.1%, Due 11/2012)(3)	1,992,830	1,835,775

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

Radio Systems Corporation	Service design electronic pet containment products	Senior Term Debt (7.7%, Due 9/2013)(3)	1,974,524	1,935,500
Rally Parts, Inc.	Manufacturing aftermarket motorcycle parts and accessories	Senior Term Debt (7.3%, Due 11/2013)(3)	2,492,563	2,277,000
RPG Holdings, Inc.	Manufacturing and design greeting cards	Senior Term Debt (8.7%, Due 12/2011)(3)	4,553,010	4,051,354
SafeNet, Inc.	Service chip encryption products	Senior Term Debt (7.7%, Due 4/2014)(3)	2,987,284	2,716,350
SGS International, Inc.	Service digital imaging and graphics	Senior Term Debt (7.2%, Due 12/2011)(3)	1,598,592	1,552,689
Specialized Technology Resources, Inc.	Service & Manufacturing consumer product quality assurance	Senior Term Debt (7.3%, Due 6/2014)(3)	1,493,535	1,436,530
Stolle Machinery Company	Manufacturing can-making equipment and parts	Senior Term Debt (7.9%, Due 9/2012)(3)	496,693	485,100
Survey Sampling, LLC	Service telecommunications-based sampling	Senior Term Debt (7.3%, Due 5/2011)(3)(5)	3,036,046	2,856,541
Synagro Technologies, Inc.	Service waste treatment and recycling	Senior Term Debt (6.9%, Due 3/2014)(3)	499,675	478,844
Triad Laboratory Alliance, LLC	Service regional medical laboratories	Senior Term Debt (8.1%, Due 12/2011)(3)(5)	4,913,475	4,655,000
United Surgical Partners International, Inc.	Service outpatient surgical provider	Senior Term Debt (7.3%, Due 4/2014)(3)	1,320,000	1,240,800
Wastequip, Inc.	Service process and transport waste materials	Senior Term Debt (7.4%, Due 2/2013)(3)	2,929,215	2,753,462
WaveDivision Holdings, LLC	Service cable	Senior Term Debt (7.6%, Due 6/2014)(3)(5)	1,924,897	1,896,000
West Corporation	Service business process outsourcing	Senior Term Debt (6.9%, Due 10/2013)(3)	6,372,806	6,054,168
Subtotal Syndicated Loans			$ 174,091,185	$ 162,785,369
Non-syndicated Loans				
B-Dry, LLC	Service basement waterproofer	Revolving Credit Facility (9.5%, Due 10/2008)(12)		
		Senior Term Debt (10.1%, Due 5/2014)	10,746,000	10,746,000
		Common Stock Warrants(4)	300,000	534,895
			11,046,000	11,280,895
			$ 185,137,185	**$ 174,066,264**

Total Non-Control/Non-Affiliate Investments		

CONTROL INVESTMENTS

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

A. Stucki Holding Corp.	Manufacturing railroad freight car products	Senior Term Debt (9.7% Due 3/2012)	$ 13,927,500	$ 13,927,500
		Senior Term Debt (12.0% Due 3/2012)(6)	11,000,000	11,000,000
		Senior Subordinated Term Debt (13% Due 3/2014)	5,485,760	5,485,760
		Preferred Stock(4)	4,386,686	4,660,704
		Common Stock(4)	129,956	9,573,296
			34,929,902	44,647,260
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5% Due 3/2013)	14,500,000	14,500,000
		Redeemable Preferred Stock(4)	6,983,785	7,619,468
		Common Stock(4)	1,045,181	2,122,761
		Common Stock Warrants(4)	24,686	142,179
			22,553,652	24,384,408
ASH Holdings Corp.	Retail and Service school buses and parts	Senior Subordinated Term Debt (12.0%, Due 1/2012)	4,768,936	
		Preferred Stock(4)	2,500,000	
		Common Stock Warrants(4)	3,680	
			7,272,616	
Cavert II Holding Corp.	Manufacturing bailing wire	Revolving Credit Facility (9.2%, Due 10/2010)(10)(14)	2,100,000	2,100,000
		Senior Term Debt (9.5%, Due 10/2012)(14)	6,500,000	6,500,000
		Senior Term Debt (11.2%, Due 10/2012)(6)(14)	3,000,000	3,000,000
		Senior Subordinated Term Debt (13%, Due 10/2014)(14)	4,670,678	4,670,678
		Preferred Stock(4)(14)	4,110,196	4,110,196
		Common Stock(4)(14)	69,126	69,126
			20,450,000	20,450,000
Chase II Holdings Corp.	Manufacturing traffic doors	Revolving Credit Facility (9.2% Due 3/2008)(7)	2,280,000	2,280,000
		Senior Term Debt (9.7%, Due 3/2011)	10,175,000	10,175,000
		Senior Term Debt (12.0% Due 3/2011)(6)	7,880,000	7,880,000
		Subordinated Term Debt (13.0% Due 3/2013)	6,167,810	6,167,810
		Redeemable Preferred Stock(4)	6,960,806	8,263,144
		Common Stock(4)	61,384	1,719,603
			33,525,000	36,485,557
Quench Holdings Corp.	Service sales, installation and service of water coolers	Revolving Credit Facility (9.2%, Due 3/2009)(8)	1,500,000	1,500,000
		Senior Term Debt (9.2%, Due 3/2011)	4,500,000	4,500,000

S-26

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

		Senior Subordinated Term Debt (11.5%, Due 3/2011)	7,865,000	7,865,000
		Equipment Line Note(13)	493,421	493,421
		Common Stock(4)	3,446,893	2,866,477
			17,805,314	17,224,898
Total Control Investments			**$ 136,536,484**	**$ 143,192,123**
AFFILIATE INVESTMENTS				
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility (9.2%, Due 10/2010)(14)	$	$
		Senior Term Debt (9.3%, Due 10/2012)(14)	5,775,000	5,775,000
		Senior Term Debt (11.5%, Due 4/2013)(14)	8,599,687	8,599,687
		Redeemable Preferred Stock(4)(14)	2,500,000	2,500,000
		Common Stock Warrants(4)(14)	2,500	2,500
			16,877,187	16,877,187
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Revolving Credit Facility (9.2%, Due 12/2009)(9)	900,000	900,000
		Senior Term Debt (9.2%, Due 12/2011)	6,427,058	6,427,057
		Senior Term Debt (11.2% Due 3/2011)(6)	7,000,000	7,000,000
		Preferred Stock(4)	1,750,000	2,012,500
		Common Stock(4)	1,500,000	1,555,986
			17,577,058	17,895,543
Total Affiliate Investments			**$ 34,454,244**	**$ 34,772,730**
Total Investments			**$ 356,127,913**	**$ 352,031,117**

(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 December 31, 2007 and due date represents the contractual maturity date.

(3) Marketable securities are valued based on the indicative bid price, as of December 31, 2007, from the respective syndication agent's trading desk.

(4) Security is non-income producing.

(5)

Valued using Standard & Poor's Securities Evaluations, Inc. opinions of value at December 31, 2007.

(6) Last out tranche of senior debt, meaning if the portfolio company is liquidated then the holder of the last out tranche is paid after the senior debt.

(7) Total available under the revolving credit facility is $3,500,000, of which $1,220,000 remains undrawn at December 31, 2007.

(8) Total available under the revolving credit facility is $1,500,000 which was fully drawn at December 31, 2007.

(9) Total available under the revolving credit facility is $2,000,000, of which $1,100,000 remains undrawn at December 31, 2007.

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

(10) Total available under the revolving credit facility is $3,000,000, of which $900,000 remains undrawn at December 31, 2007.

(11) Total available under the revolving credit facility is $3,000,000, which remains undrawn at December 31, 2007.

(12) Total available under the revolving credit facility is $750,000, which remains undrawn at December 31, 2007.

(13) Total available for future borrowing for the purposes of purchasing equipment is $1,500,000. The undrawn amount of $1,006,579 may be drawn to purchase additional equipment through 10/24/2010. The interest rate on all amounts drawn on the equipment line note is 12% except for one draw of $188,181 whose interest rate is 15%. Each draw on the equipment line note is subject to its own amortization and maturity, typically over a period of 20-24 months. At December 31, 2007, the last amortization payment due under current amounts drawn under the equipment line note is 11/2009.

(14) Valued at cost due to recent acquisition.

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

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2007

(UNAUDITED)

Company(1)	Industry	Investment(2)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS				
ACS Media, LLC	Service directory advertising	Senior Term Debt (7.9%, Due 11/2013)(3)	$ 4,857,421	$ 4,857,822
Activant	Service enterprise software and services	Senior Term Debt (7.4%, Due 5/2013)(3)	3,745,496	3,714,281
American Safety Razor Company Inc.	Manufacturing razors and blades	Senior Term Debt (7.9%, Due 7/2013)(3)	1,491,154	1,492,472
Aramark Corp.	Service vending services	Senior Term Debt (7.5%, Due 1/2014)(10)	921,289	925,895
		Letter of Credit (5.3%, Due 1/2014)(10)	65,841	66,170
Aspect Software, Inc.	Service call center software	Senior Term Debt (8.4%, Due 7/2011)(3)	2,988,647	2,999,925
Brock Holdings II, Inc.	Service industrial specialty maintenance	Senior Term Debt (7.3%, Due 8/2013)(3)(5)	3,000,000	3,003,750
Compsych Investments Corp.	Service independent employee assistance programs	Senior Term Debt (8.1%, Due 2/2012)(3)(5)	3,875,254	3,879,300
CRC Health Group, Inc.	Service substance abuse treatment	Senior Term Debt (7.9%, Due 2/2012)(3)	9,993,754	10,010,307
Critical Homecare Solutions, Inc.	Service home therapy and respiratory treatment	Senior Term Debt (8.6%, Due 1/2012)(3)(5)	2,000,000	2,000,000
CST Industries Acquisition, Inc.	Manufacturing metal storage units	Senior Term Debt (8.5%, Due 8/2013)(3)	996,946	999,975
Dealer Computer Services, Inc.	Manufacturing & Service systems for automotive retailers	Senior Term Debt (7.4%, Due 9/2013)(3)	1,042,760	1,044,063
Dresser Holdings, Inc.	Manufacturing oilfield & energy products	Senior Term Debt (8.1%, Due 10/2013)(3)	3,868,905	3,851,943
Generac Acquisition Corp.	Manufacturing standby power products	Senior Term Debt (7.9%, Due 11/2013)(5)	2,593,800	2,611,957
Hudson Products Holdings, Inc.	Manufacturing heat transfer solutions	Senior Term Debt (8.1%, Due 12/2013)(3)	2,358,550	2,363,866
IPC Information Systems, LLC	Manufacturing specialized telephony systems	Senior Term Debt (7.9%, Due 9/2013)(3)	263,045	262,319
J. Crew Operating Corp.	Retail apparel	Senior Term Debt (7.2%, Due 5/2013)(3)	1,405,990	1,407,018
Latham Manufacturing Corp.	Manufacturing swimming pool components accessories	Senior Term Debt (8.5%, Due 6/2012)(3)	2,427,162	2,375,520

Company(1)	Industry	Investment(2)	Cost	Fair Value
Lexicon Marketing USA, Inc.	Service marketing to Hispanic community	Senior Term Debt (7.8%, Due 5/2012)(3)(5)	2,971,543	3,006,325

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2007

(UNAUDITED)

LVI Services, Inc.	Service asbestos and mold remediation	Senior Term Debt (10.3%, Due 11/2010)(3)(5)	6,440,352	6,330,492
Madison River Capital LLC	Service communications and information	Senior Term Debt (7.6%, Due 7/2012)(3)	5,727,708	5,702,357
Maidenform, Inc.	Manufacturing intimate apparel	Senior Term Debt (7.1%, Due 5/2010)(3)	2,569,252	2,573,084
MedAssets, Inc.	Service pharmaceuticals and healthcare GPO	Senior Term Debt (7.8%, Due 10/2013)(3)(5)	3,493,734	3,504,342
MediMedia USA, LLC	Service healthcare and pharmaceutical marketing	Senior Term Debt (7.9%, Due 10/2013)(3)	1,185,613	1,180,462
National Mentor Holdings, Inc.	Service home health care	Senior Term Debt (7.4%, Due 6/2013)(3)	1,987,027	1,985,825
NPC International Inc.	Service Pizza Hut franchisee	Senior Term Debt (7.1%, Due 5/2013)(3)	3,017,479	2,995,367
Nutro Products, Inc.	Manufacturing pet food	Senior Term Debt (7.4%, Due 4/2012)(3)	2,442,961	2,421,809
Open Solutions, Inc.	Service software outsourcing for financial institutions	Senior Term Debt (7.5%, Due 1/2014)(3)	2,518,294	2,506,250
Ozburn-Hessey Holding Co. LLC	Service third party logistics	Senior Term Debt (8.6%, Due 8/2012)(3)	7,764,943	7,711,178
Patriot Media & Communications CNJ, LLC	Service telecommunications	Senior Term Debt (7.4%, Due 3/2013)(3)	4,147,228	4,105,476
QTC Acquisition, Inc.	Service outsourced disability evaluations	Senior Term Debt (8.1%, Due 11/2012)(3)	1,996,592	1,997,199
Radio Systems Corporation	Service design electronic pet containment products	Senior Term Debt (8.1%, Due 9/2013)(3)	1,989,421	1,999,950
Rally Parts, Inc.	Manufacturing aftermarket motorcycle parts and accessories	Senior Term Debt (7.9%, Due 11/2013)(3)	1,313,285	1,319,792
RPG Holdings, Inc.	Manufacturing and design greeting cards	Senior Term Debt (8.9%, Due 12/2011)(3)	5,001,100	4,900,000
SGS International, Inc.	Service digital imaging and graphics	Senior Term Debt (7.9%, Due 12/2011)(3)	1,611,921	1,616,724
Stolle Machinery Company	Manufacturing can-making equipment and parts	Senior Term Debt (7.9%, Due 9/2012)(3)	500,100	502,491
Survey Sampling, LLC	Service telecommunications-based sampling	Senior Term Debt (7.9%, Due 5/2011)(3)	3,309,714	3,282,178
Triad Laboratory Alliance, LLC	Service regional medical laboratories	Senior Term Debt (8.6%, Due 12/2011)(3)(5)	4,953,549	4,912,813
US Investigative Services, Inc.	Service background investigations	Senior Term Debt (7.9%, Due 9/2012)(3)	10,923,253	10,910,191

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2007

(UNAUDITED)

Wastequip, Inc.	Service process and transport waste materials	Senior Term Debt (7.6%, Due 2/2013)(3)	2,066,465	2,081,963
WaveDivision Holdings, LLC	Service cable	Senior Term Debt (7.8%, Due 6/2014)(3)	1,925,440	1,929,600
West Corporation	Service business process outsourcing	Senior Term Debt (7.8%, Due 10/2013)(3)	10,814,753	10,826,161
Total Non-Control/Non-Affiliate Investments			**$ 138,567,741**	**$ 138,168,612**
CONTROL INVESTMENTS				
A. Stucki Company	Manufacturing railroad cars and accessories	Senior Term Debt (9.8% Due 3/2012)(6)	$ 15,000,000	$ 15,000,000
		Senior Term Debt (12.1% Due 3/2012)(6)(11)	11,000,000	11,000,000
		Senior Subordinated Term Debt (13% Due 3/2014)(6)	5,485,760	5,485,760
		Preferred Stock(4)(6)	4,386,686	4,386,686
		Common Stock(4)(6)	129,956	129,956
			36,002,402	36,002,402
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5% Due 3/2013)(5)(6)	14,500,000	14,481,875
		Redeemable Preferred Stock(4)(6)	6,983,785	6,983,785
		Common Stock(4)(6)	1,045,181	1,045,181
		Common Stock Warrants(4)(6)	24,686	24,686
			22,553,652	22,535,527
Chase II Holdings Corp.	Manufacturing traffic doors	Revolving Credit Facility (9.8% Due 3/2008)(7)	1,900,000	1,900,000
		Senior Term Debt (9.8%, Due 3/2011)(5)	11,000,000	11,000,000
		Senior Term Debt (12.0% Due 3/2011)(5)(11)	8,000,000	8,000,000
		Subordinated Term Debt (13% Due 3/2013)(5)	6,167,810	6,167,810
		Redeemable Preferred Stock(4)	6,960,806	3,120,070
		Common Stock(4)	61,384	
			34,090,000	30,187,880
Hailey Transport Corporation	Retail and Service school buses and parts	Senior Subordinated Term Debt (12.0%, Due 1/2012)(5)	4,000,000	4,000,000
		Preferred Stock(4)	2,500,000	3,184,874
			6,500,000	7,184,874

S-31

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2007

(UNAUDITED)

Quench Holdings Corp.	Service sales, installation and service of water coolers	Revolving Credit Facility (9.3%, Due 3/2009)(5)(8)	1,900,000	1,900,000
		Senior Term Debt (9.3%, Due 3/2011)(5)	4,000,000	4,000,000
		Subordinated Term Debt (11.5%, Due 3/2011)(5)	8,000,000	8,000,000
		Common Stock(4)	3,256,318	3,205,808
			17,156,318	17,105,808
Total Control Investments			**$ 116,302,372**	**$ 113,016,491**
AFFILIATE INVESTMENTS				
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Revolving Credit Facility (9.3%, Due 12/2009)(5)(9)	$ 2,000,000	$ 1,995,000
		Senior Term Debt (9.3%, Due 12/2011)(5)(6)	7,000,000	7,008,750
		Senior Term Debt (11.3% Due 3/2011)(5)(6)(11)	7,000,000	7,008,750
		Senior Subordinated Term Debt (12.3% Due 8/2007)(5)(6)	500,000	500,000
		Preferred Stock(4)(6)	1,750,000	1,750,000
		Common Stock(4)(6)	1,500,000	1,500,000
			19,750,000	19,762,500
Total Affiliate Investments			**$ 19,750,000**	**$ 19,762,500**
Total Investments			**$ 274,620,113**	**$ 270,947,603**

(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, 2007 and due date represents the contractual maturity date.

(3) Marketable securities are valued based on the indicative bid price, as of March 31, 2007, from the respective originating syndication agent's trading desk.

(4) Security is non-income producing.

(5) Valued using Standard & Poor's Securities Evaluations, Inc. opinions of value at March 31, 2007.

(6) Fair value is equal to cost due to recent acquisition.

(7) Total available under the revolving credit facility is $3,500,000 of which $1,600,000 remains undrawn as of March 31, 2007.

(8) Total available under the revolving credit facility is $2,000,000, of which $100,000 remains undrawn at March 31, 2007.

(9) Total available under the revolving credit facility is $2,000,000, which was fully drawn at March 31, 2007.

(10) Subsequent to March 31, 2007, the investment in the portfolio company was sold at the fair value reflected herein.

(11) Last out tranche of senior debt, meaning if the portfolio company is liquidated then the holder of the last out tranche is paid after the senior debt.

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

GLADSTONE INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended December 31, 2007	Three months ended December 31, 2006
INVESTMENT INCOME		
Interest income		
Non-Control/Non-Affiliate investments	$ 3,891,918	$ 2,586,171
Control investments	2,865,843	1,264,451
Affiliate investments	700,494	114,668
Cash and cash equivalents	79,502	332,586
Total interest income	7,537,757	4,297,876
Other income	6,244	1,492
Total investment income	7,544,001	4,299,368
EXPENSES		
Base management fee (Refer to Note 4)	497,632	551,235
Loan servicing fee (Refer to Note 4)	1,287,013	508,691
Administration fee (Refer to Note 4)	211,159	124,101
Interest expense	2,381,227	68,748
Amortization of deferred finance costs	169,329	91,392
Professional fees	90,255	186,537
Stockholder related costs	25,083	28,643
Insurance expense	46,719	60,696
Directors fees	54,709	54,800
Taxes and licenses	41,886	41,550
General and administrative expenses	38,644	60,132
Expenses before credit from Adviser	4,843,656	1,776,525
Credits to base management fee (Refer to Note 4)	(1,045,881)	(375,225)
Total expenses net of credit to base management fee	3,797,775	1,401,300
NET INVESTMENT INCOME	3,746,226	