GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
November 02, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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

COMMISSION FILE NUMBER: 000-51233

GLADSTONE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

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

1521 WESTBRANCH DRIVE, SUITE 200
MCLEAN, VIRGINIA 22102
(Address of principal executive office)
(703) 287-5800
(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares of the issuer s Common Stock, $0.001 par value per share, outstanding as of November 1, 2010 was 22,080,133.

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

	September 30, 2010	March 31, 2010
ASSETS		
Cash and cash equivalents	**$ 64,299**	$ 87,717
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of **$15,332** and $22,674, respectively)	**14,060**	20,946
Control investments (Cost of **$126,153** and $152,166, respectively)	**95,050**	148,248
Affiliate investments (Cost of **$45,928** and $52,727, respectively)	**32,504**	37,664
Total investments (Cost of **$187,413** and $227,567, respectively)	**141,614**	206,858
Interest receivable	**969**	1,234
Due from Custodian	**1,323**	935
Deferred financing fees	**559**	83
Prepaid assets	**457**	221
Other assets	**4,088**	113
TOTAL ASSETS	**$ 213,309**	$ 297,161
LIABILITIES		
Borrowings at fair value		
Short-term loan (Cost of **$25,000** and $75,000, respectively)	**$ 25,000**	$ 75,000
Line of credit (Cost of **$0** and $27,800, respectively)		27,812
Total borrowings (Cost of **$25,000** and $102,800, respectively)	**25,000**	102,812
Accounts payable and accrued expenses	**203**	206
Fee due to Administrator[1]	**261**	149
Fees due to Adviser[1]	**395**	721
Other liabilities	**1,253**	295
TOTAL LIABILITIES	**27,112**	104,183
NET ASSETS	**$ 186,197**	$ 192,978
ANALYSIS OF NET ASSETS:		
Common stock, $0.001 par value per share, 100,000,000 shares authorized, 22,080,133 shares issued and outstanding at September 30, 2010 and March 31, 2010	**$ 22**	$ 22
Capital in excess of par value	**257,216**	257,206
Net unrealized depreciation of investment portfolio	**(45,799)**	(20,710)

Net unrealized depreciation of derivatives		**(77)**		(39)
Net unrealized appreciation of borrowings				(12)
Accumulated net realized investment loss		**(25,165)**		(43,489)
TOTAL NET ASSETS	**$**	**186,197**	$	192,978
NET ASSETS PER SHARE	**$**	**8.43**	$	8.74

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

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	**$ 380**	$ 619	**$ 784**	$ 1,436
Control investments	**2,124**	2,870	**5,144**	5,741
Affiliate investments	**978**	1,453	**2,061**	2,934
Cash and cash equivalents	**14**	1	**15**	1
Total interest income	**3,496**	4,943	**8,004**	10,012
Other income	**805**		**3,546**	
Total investment income	**4,301**	4,943	**11,550**	10,112
EXPENSES				
Loan servicing fee(1)	**666**	938	**1,490**	2,006
Base management fee(1)	**303**	164	**503**	477
Incentive fee(1)			**1,052**	
Administration fee(1)	**261**	198	**439**	371
Interest expense	**149**	552	**423**	1,255
Amortization of deferred financing fees	**103**	438	**267**	751
Professional fees	**98**	118	**222**	320
Stockholder related costs	**115**	146	**220**	227
Insurance expense	**72**	62	**144**	119
Directors fees	**59**	48	**109**	99
Other expenses	**95**	73	**214**	137
Expenses before credits from Adviser	**1,921**	2,737	**5,083**	5,762
Credits to fees from Adviser(1)	**(61)**	(165)	**(180)**	(466)
Total expenses net of credits to fees	**1,860**	2,572	**4,903**	5,296
NET INVESTMENT INCOME	**2,441**	2,371	**6,647**	4,816
REALIZED AND UNREALIZED GAIN (LOSS) ON:				
Realized gain (loss) on sale of investments			**16,976**	(34,605)
Realized loss on termination of derivative				(53)
Net unrealized appreciation (depreciation) of				
Non-Control/Non-Affiliate investments	**31**	(1,514)	**456**	35,214

Net unrealized depreciation of Control investments		**(9,723)**		(14,900)		**(27,184)**		(26,381)
Net unrealized appreciation (depreciation) of Affiliate investments		**401**		(3,853)		**1,639**		(6,119)
Net unrealized (depreciation) appreciation of derivatives		**(9)**		(16)		**(38)**		26
Net unrealized (depreciation) appreciation of borrowings				(178)		**12**		(178)
Net loss on investments, derivatives and borrowings		**(9,300)**		(20,461)		**(8,139)**		(32,096)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**(6,859)**	$	(18,090)	**$**	**(1,492)**	$	(27,280)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:								
Basic and diluted	**$**	**(0.31)**	$	(0.82)	**$**	**(0.07)**	$	(1.24)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:								
Basic and diluted weighted average shares		**22,080,133**		22,080,133		**22,080,133**		22,080,133

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

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

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GLADSTONE INVESTMENT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

	Six Months Ended September 30,	
	2010	**2009**
Operations:		
Net investment income	**$ 6,647**	$ 4,816
Realized gain (loss) on sale of investments	**16,976**	(34,605)
Realized loss on termination of derivative		(53)
Net unrealized (depreciation) appreciation of investment portfolio	**(25,089)**	2,714
Unrealized (depreciation) appreciation of derivatives	**(38)**	26
Unrealized appreciation (depreciation) of borrowings	**12**	(178)
Net decrease in net assets from operations	**(1,492)**	(27,280)
Capital transactions:		
Shelf offering registration costs	**10**	(178)
Distributions to stockholders	**(5,299)**	(5,299)
Net decrease in net assets from capital transactions	**(5,289)**	(5,477)
Total decrease in net assets	**(6,781)**	(32,757)
Net assets at beginning of period	**192,978**	214,802
Net assets at end of period	**$ 186,197**	$ 182,045

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

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GLADSTONE INVESTMENT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

	Six Months Ended September 30,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net decrease in net assets resulting from operations	**$ (1,492)**	$ (27,280)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Purchase of investments	**(4,994)**	(968)
Principal repayments of investments	**40,646**	9,482
Proceeds from sales of investments	**21,474**	69,222
Net realized (gain) loss on sales of investments	**(16,976)**	34,605
Net realized loss on termination of derivative		53
Net unrealized depreciation (appreciation) of investment portfolio	**25,089**	(2,714)
Net unrealized depreciation (appreciation) of derivatives	**38**	(26)
Net unrealized (depreciation) appreciation of borrowings	**(12)**	178
Net amortization of premiums and discounts	**5**	
Amortization of deferred financing fees	**267**	751
Decrease in interest receivable	**265**	288
(Increase) decrease in due from custodian	**(388)**	1,774
Increase in prepaid assets	**(236)**	(273)
Increase in other assets	**(3,972)**	(40)
Decrease in accounts payable and accrued expenses		(823)
Increase in administration fee payable to Administrator(1)	**112**	19
Increase in base management fee payable to Adviser(1)	**226**	113
Decrease in incentive fee payable to Adviser(1)	**(486)**	
Decrease in loan servicing fee payable to Adviser(1)	**(66)**	(79)
Increase in other liabilities	**958**	21
Net cash provided by operating activities	**60,458**	84,303
CASH FLOWS FROM FINANCING ACTIVITIES		
Shelf offering registration costs	**10**	(178)
Borrowings from line of credit	**16,000**	79,000
Repayments of line of credit	**(43,800)**	(153,165)
Proceeds from short-term borrowings	**100,000**	140,000
Repayments on short-term borrowings	**(150,000)**	(65,000)
Purchase of derivatives	**(41)**	(39)
Deferred financing fees	**(746)**	(547)
Distributions paid	**(5,299)**	(5,299)
Net cash used in financing activities	**(83,876)**	(5,228)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(23,418)**	79,075

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**87,717**		7,236
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**64,299**	$	86,311
NON-CASH ACTIVITIES[2]	**$**	**515**	$	850

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

(2) 2010: Non- cash activities represent real property distributed to shareholders of A. Stucki Holding Corp. prior to its sale in June 2010. This property is included in the Company s Schedule of Investments under Neville Limited at September 30, 2010, and its fair market value was recognized as other income during the quarter ended June 30, 2010.

2009: Non-cash activities represent an investment disbursement to Cavert II Holding Corp. on its revolving line of credit, which proceeds were used to make the next four quarterly payments due under normal amortization for both its senior term A and senior term B loans in a non-cash transaction.

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

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GLADSTONE INVESTMENT CORPORATION
CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company[(1)]	Industry	Investment[(2)]	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS:				
Senior Syndicated Loans:				
Survey Sampling, LLC	Service telecommunications-based sampling	Senior Term Debt (9.5%, Due 5/2011)[(3)]	$ 2,340	$ 1,494
Subtotal Syndicated Loans			2,340	1,494
Non-syndicated Loans:				
American Greetings Corporation	Manufacturing and design greeting cards	Senior Notes (7.4%, Due 6/2016)[(3)]	3,043	2,838
B-Dry, LLC	Service basement waterproofer	Senior Term Debt (10.5%, Due 5/2014)[(5)]	6,579	6,579
		Senior Term Debt (10.5%, Due 5/2014)[(5)]	3,070	3,070
		Common Stock Warrants[(4)]	300	79
			9,949	9,728
Total Non-Control/Non-Affiliate Investments (represents 9.9% of total investments at fair value)			**$ 15,332**	**$ 14,060**
CONTROL INVESTMENTS:				
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2012)	$ 14,500	$ 14,500
		Senior Subordinated Term Debt (12.5%, Due 12/2011)	415	415
		Preferred Stock[(4)]	6,984	179
		Common Stock[(4)]	1,045	
		Common Stock Warrants[(4)]	25	
			22,969	15,094

ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, $127 available (non-accrual, Due 3/2013) (4) (5)	1,831	375
		Senior Subordinated Term Debt (non-accrual, Due 3/2013) (4) (5)	6,060	1,250
		Preferred Stock(4)	2,500	
		Common Stock Warrants(4)	4	
		Guaranty ($750)		
			10,395	1,625
Cavert II Holding Corp.	Manufacturing bailing wire	Senior Term Debt (10.0%, Due 10/2012)(6)	2,650	2,650
		Senior Subordinated Term Debt (13.0%, Due 10/2014)	4,671	4,671
		Preferred Stock(4)	4,110	5,150
		Common Stock(4)	69	5,597
			11,500	18,068
Chase II Holding Corp.	Manufacturing traffic doors	Senior Term Debt (8.8%, Due 3/2011)	7,150	7,150
		Senior Term Debt (12.0%, Due 3/2011)(6)	7,440	7,440
		Senior Subordinated Term Debt (13.0%, Due 3/2013)	6,168	6,168
		Preferred Stock(4)	6,961	10,741
		Common Stock(4)	61	724
			27,780	32,223
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (16.6%, Due 11/2014)(5)	7,000	6,825
		Preferred Stock(4)	3,725	
		Guaranty ($3,751)		
			10,725	6,825

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GLADSTONE INVESTMENT CORPORATION
CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company[(1)]	Industry	Investment[(2)]	Cost	Fair Value
CONTROL INVESTMENTS *(Continued)*:				
Galaxy Tool Holding Corp.	Manufacturing aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)	$ 5,220	$ 5,220
		Preferred Stock[(4)]	19,658	147
		Common Stock[(4)]	48	
			24,926	5,367
Neville Limited [(8)]	Real Estate investments	Common Stock[(4)]	610	550
			610	550
Mathey Investments, Inc.	Manufacturing pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $718 available (10.0%, Due 3/2011)[(5)]	1,032	1,017
		Senior Term Debt (10.0%, Due 3/2013)[(5)]	2,375	2,333
		Senior Term Debt (7.4%, Due 3/2014)[(5) (6)]	7,227	7,010
		Common Stock[(4)]	500	
		Common Stock Warrants[(4)]	277	
			11,411	10,360
Tread Corp. [(7)]	Manufacturing storage and transport equipment	Senior Subordinated Term Debt (12.5%, Due 5/2013)[(5)]	5,000	4,938
		Preferred Stock[(4)]	833	
		Common Stock[(4)]	1	
		Preferred Stock & Debt Warrants[(4)]	3	
			5,837	4,938
Total Control Investments (represents 67.1% of total investments at fair value)			**$ 126,153**	**$ 95,050**

AFFILIATE INVESTMENTS:

Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, $600 available (10.0%, Due 10/2010)(5) (9)	$ 900	$ 898
		Senior Term Debt (10.0%, Due 10/2012)(5)	3,563	3,553
		Senior Term Debt (12.5%, Due 4/2013)(5)	9,007	8,962
		Preferred Stock(4)	2,500	143
		Common Stock Warrants(4)	2	
			15,972	13,556
Noble Logistics, Inc.	Service aftermarket auto parts delivery	Revolving Credit Facility, $400 available (4.3%, Due 12/2010)(5)	1,600	1,040
		Senior Term Debt (9.3%, Due 12/2011)(5)	6,227	4,048
		Senior Term Debt (10.5%, Due 12/2011)(5) (6)	7,300	4,745
		Preferred Stock(4)	1,750	
		Common Stock(4)	1,682	
			18,559	9,833
Quench Holdings Corp.	Service sales, installation and service of water coolers	Senior Subordinated Term Debt (10.0%, Due 8/2013)(5)	8,000	6,120
		Preferred Stock(4)	2,950	2,995
		Common Stock(4)	447	
			11,397	9,115
Total Affiliate Investments (represents 23.0% of total investments at fair value)			**$ 45,928**	**$ 32,504**
TOTAL INVESTMENTS			**$ 187,413**	**$ 141,614**

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

(2) Percentage represents the weighted

average interest rates in effect at September 30, 2010, and due date represents the contractual maturity date.

(3) Valued based on the indicative bid price on or near September 30, 2010, offered by the respective syndication agent s trading desk or secondary desk.

(4) Security is non-income producing.

(5) Fair value based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at September 30, 2010.

(6) Last Out Tranche (LOT) of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the other senior debt and before the senior subordinated debt.

(7)

In June 2010, an additional equity investment increased the Company s fully-diluted ownership percentage above 25%, resulting in the investment being reclassified Control during the quarter ended June 30, 2010.

(8) In July 2010, Gladstone Neville Corp. changed its name to Neville Limited.

(9) In October 2010, the revolver maturity date was extended to October 2011.

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

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GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULES OF INVESTMENTS
MARCH 31, 2010
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company[(1)]	Industry	Investment[(2)]	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS:				
Senior Syndicated Loans:				
Interstate FiberNet, Inc.	Service provider of voice and data telecommunications services	Senior Term Debt (4.3%, Due 7/2013)[(8)]	$ 6,743	$ 6,762
Survey Sampling, LLC	Service telecommunications-based sampling	Senior Term Debt (9.5%, Due 5/2011)[(3)]	2,385	1,069
Subtotal Syndicated Loans			$ 9,128	$ 7,831
Non-syndicated Loans:				
American Greetings Corporation	Manufacturing and design greeting cards	Senior Notes (7.4%, Due 6/2016)[(3)]	$ 3,043	$ 2,895
B-Dry, LLC	Service basement waterproofer	Senior Term Debt (10.5%, Due 5/2014)[(5)]	6,613	6,596
		Senior Term Debt (10.5%, Due 5/2014)[(5)]	3,590	3,581
		Common Stock Warrants[(4)]	300	43
			10,503	10,220
Total Non-Control/Non-Affiliate Investments (represents 10.1% of total investments at fair value)			**$ 22,674**	**$ 20,946**
CONTROL INVESTMENTS:				
A. Stucki Holding Corp.	Manufacturing railroad freight car products	Senior Term Debt (4.7%, Due 3/2012)	$ 9,101	$ 9,101
		Senior Term Debt (7.0%, Due 3/2012)[(6)]	9,900	9,900
		Senior Subordinated Term Debt (13.0%, Due 3/2014)	9,456	9,456
		Preferred Stock	4,387	4,529
		Common Stock[(4)]	130	17,393
			32,974	50,379

Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2012)	14,500	13,585
		Preferred Stock[4]	6,984	
		Common Stock[4]	1,045	
		Common Stock Warrants[4]	24	
			22,553	13,585
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, $496 available (non-accrual, Due 3/2013)[5]	1,504	421
		Senior Subordinated Term Debt (non-accrual, Due 3/2013)[5]	6,250	1,750
		Preferred Stock[4]	2,500	
		Common Stock Warrants[4]	4	
		Guaranty ($250)		
			10,258	2,171
Cavert II Holding Corp.	Manufacturing bailing wire	Senior Term Debt (8.3%, Due 10/2012)[10]	2,875	2,875
		Senior Term Debt (10.0%, Due 10/2012)[6]	2,700	2,700
		Senior Subordinated Term Debt (13.0%, Due 10/2014)	4,671	4,671
		Preferred Stock[4]	4,110	4,959
		Common Stock[4]	69	3,526
			14,425	18,731
Chase II Holding Corp.	Manufacturing traffic doors	Senior Term Debt (8.8%, Due 3/2011)	7,700	7,700
		Senior Term Debt (12.0%, Due 3/2011)[6]	7,520	7,520
		Senior Subordinated Term Debt (13.0%, Due 3/2013)	6,168	6,168
		Preferred Stock[4]	6,961	7,713
		Common Stock[4]	61	
			28,410	29,101
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (16.6%, Due 11/2014)[5]	7,000	6,869
		Preferred Stock[4]	3,725	
		Guaranty ($2,000)		

	10,725	6,869

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GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)
MARCH 31, 2010
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company[1]	Industry	Investment[2]	Cost	Fair Value
CONTROL INVESTMENTS *(Continued)*:				
Galaxy Tool Holding Corp.	Manufacturing aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)[5]	$ 17,250	$ 17,099
		Preferred Stock[4]	4,112	
		Common Stock[4]	48	
			21,410	17,099
Mathey Investments, Inc. [7]	Manufacturing pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $718 available (10.0%, Due 3/2011)[5]	1,032	1,011
		Senior Term Debt (10.0%, Due 3/2013)[5]	2,375	2,328
		Senior Term Debt (17.0%, Due 3/2014)[5] [6] [9]	7,227	6,974
		Common Stock[4]	500	
		Common Stock Warrants[4]	277	
			11,411	10,313
Total Control Investments (represents 71.7% of total investments at fair value)			**$ 152,166**	**$ 148,248**
AFFILIATE INVESTMENTS:				
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, $600 available (10.0%, Due 10/2010)[5]	$ 900	$ 893
		Senior Term Debt (10.0%, Due 10/2012)[5]	4,163	4,131
		Senior Term Debt (12.5%, Due 4/2013)[5]	9,053	8,929
		Preferred Stock[4]	2,500	
		Common Stock Warrants[4]	2	
			16,618	13,953
Noble Logistics, Inc.			2,000	1,210

	Service aftermarket auto parts delivery	Revolving Credit Facility, $0 available (4.2%, Due 5/2010)(5)		
		Senior Term Debt (9.3%, Due 12/2011)(5)	6,227	3,767
		Senior Term Debt (10.5%, Due 12/2011)(5) (6)	7,300	4,417
		Preferred Stock(4)	1,750	
		Common Stock(4)	1,682	
			18,959	9,394
Quench Holdings Corp.	Service sales, installation and service of water coolers	Senior Subordinated Term Debt (10.0%, Due 8/2013)(5)	8,000	6,150
		Preferred Stock(4)	2,950	3,224
		Common Stock(4)	447	
			11,397	9,374
Tread Corp.	Manufacturing storage and transport equipment	Senior Subordinated Term Debt (12.5%, Due 5/2013)(5)	5,000	4,943
		Preferred Stock(4)	750	
		Common Stock & Debt Warrants(4)	3	
			5,753	4,943
Total Affiliate Investments (represents 18.2% of total investments at fair value)			**$ 52,727**	**$ 37,664**
TOTAL INVESTMENTS			**$ 227,567**	**$ 206,858**

(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, 2010,

and due date represents the contractual maturity date.

(3) Valued based on the indicative bid price on or near March 31, 2010, offered by the respective syndication agent s trading desk or secondary desk.

(4) Security is non-income producing.

(5) Fair value based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at March 31, 2010.

(6) LOT of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the other senior debt and before the senior subordinated debt.

(7) Restructured in December 2009, resulting in the Company owning 100% of Mathey Investments, Inc. and thus reclassifying it

as a Control investment.

(8) Security was paid off, at par, subsequent to March 31, 2010 and was valued based on the pay off.

(9) Loan was restructured into two separate term loans with face values of \$3.7 million and \$3.5 million effective February 2010.

(10) Loan was repaid, in full, subsequent to March 31, 2010.

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

GLADSTONE INVESTMENT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA OR UNLESS OTHERWISE INDICATED)

Note 1. Organization

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

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

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

Note 2. Summary of Significant Accounting Policies

Unaudited Interim Financial Statements and Basis of Presentation

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933, as amended (the Securities Act). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X under the Securities Act, and the authoritative accounting guidance provided by the AICPA Audit and Accounting Guide for Investment Companies, the Company is not permitted to consolidate any portfolio company investments, including those in which the Company has a controlling interest. In the opinion of the Company s management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended March 31, 2010, as filed with the Securities and Exchange Commission (the SEC) on May 24, 2010.

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

Reclassifications

Certain amounts in the prior period s financial statements have been reclassified to conform to the presentation for the periods ended September 30, 2010 with no effect to net decrease in net assets resulting from operations.

Investment Valuation Policy

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

The Company uses generally accepted valuation techniques to value its portfolio unless the Company has specific information about the value of an investment to determine otherwise. From time to time, the Company may accept an appraisal of a business in which the Company holds securities. These appraisals are expensive and occur infrequently but provide a third-party valuation opinion that may differ in results, techniques and scopes used to value the Company s investments. When these specific third-party appraisals are engaged or accepted, the Company uses estimates of value provided by such appraisals and its own assumptions, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date, to value the investment the Company has in that business.

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

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

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

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

As of September 30, 2010, the Company assessed trading activity in its syndicated loan assets and determined that there continued to be market liquidity and a secondary market for these assets. Thus, firm bid prices, or IBPs, were used to fair value the Company s syndicated loans as of September 30, 2010.

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

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

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

the issuer s ability to make payments;

the earnings of the issuer;

recent sales to third parties of similar securities;

the comparison to publicly traded securities; and